



Industry Trends Pharmaceuticals

Focus on sector business
performance and credit risk

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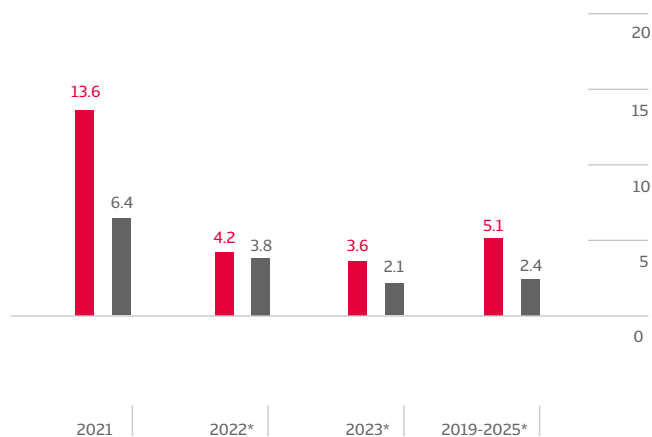
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Pharmaceuticals – performance at a glance

Global pharmaceuticals and health care value added output

Vaccine production will drive pharmaceuticals output in the coming years

y-on-y, % change



*forecast

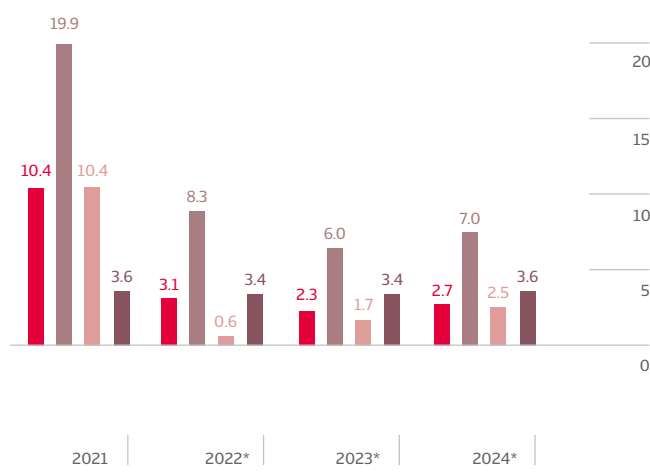
Source: Oxford Economics

■ Pharmaceuticals ■ Health care

Pharmaceuticals value added output per region

Asia-Pacific with highest growth rates compared to other regions

y-on-y, % change



*forecast

Source: Oxford Economics

■ Americas ■ Asia-Pacific ■ Europe ■ Middle East and Africa

Global Pharmaceuticals

Growth drivers

- Covid-19 vaccine production is likely to remain high in the coming years, as a large share of the global population has not yet been vaccinated. Any emergence of new virus variants would require additional rounds of booster vaccinations.
- An ageing population in many developed markets will create increasing demand for over-the-counter (OTC) medicines, generics and brand-name pharmaceutical products. In particular, demand for chronic disease medicines will grow in the mid- and long-term.
- Pharmaceuticals demand in emerging markets is set to increase due to improvements in healthcare systems and growing disposable household incomes. Generics and OTC drug producers will be the first to benefit from this development.
- Pharmaceutical producers and biotech businesses generally enjoy good access to external financing from banks and investors, which helps sustain high R&D expenditures.

Constraints

- The top 15 blockbuster patents expire over the next decade. Producers of brand-name drugs will likely increase their R&D spending. Profits could decline if they are unable to reduce costs or introduce alternative products to increase gross margins.
- Increasing healthcare regulatory requirements for clinical trials and launch of products.
- Governments efforts to contain or to cut public healthcare costs (e.g. price controls) due to budget constraints. This is putting pressure on sales prices and could impact investments, given the high costs of developing new drugs.
- Plans by the US and the EU to re-shore production in order to safeguard supply of medicines, in particular for active pharmaceutical ingredients (APIs). Trading barriers and regulations could negatively affect existing supply chains, and raise costs for businesses and end-consumers alike.
- Rising pressure from environmental activists due to increasing speculations that pharmaceutical residues are contaminating water and soil.

Belgium

Sharp output growth in 2021 due to vaccine production



Belgium is one of Europe's largest producers and a major export hub of pharmaceuticals. In 2019 (i.e. prior to the Covid-19 pandemic spread), the small country accounted for 13% of the EU's pharmaceutical exports and 10% of pharmaceutical R&D investment. Belgium has become a major producer of Covid-19 vaccines, which led to a whopping 83% pharmaceuticals value added output increase in 2021, while pharmaceuticals exports accounted for 15% of total Belgian exports.

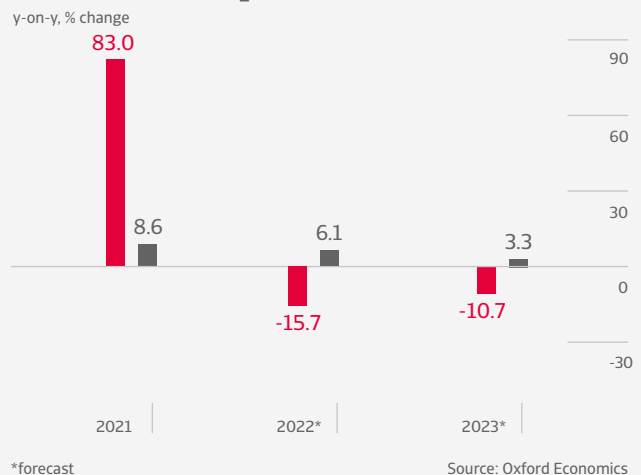
The health crisis has highlighted the strength of Belgian pharmaceutical companies, which were able to accelerate their R&D in record time and to provide several therapeutic solutions. Additionally, the sector has benefited from pent-up demand for non-Covid-19 related medical treatments and healthcare spending since last year.

For Belgian pharmaceutical producers, competition is strong with their European peer businesses, and Belgian companies will have to continue with high spending in R&D in order to stay ahead, i.e. by launching new patented drugs. In the domestic market, pharmaceutical wholesalers and distributors face increasing pressure on margins, as competition is getting fiercer. Distributors from abroad (e.g. France) have entered the Belgian market, and there has been a sharp rise in e-commerce sales by so-called "para-

pharmacies". Those mainly sell over-the-counter drugs and health care products with no need for medical prescription.

Demand for external financing in the sector is high, in particular from those producers with high R&D expenses. Most pharmaceutical businesses have good access to bank financing, even if they are highly geared. Payment duration in the industry is 30 days on average, and payment behaviour has been good over the past two years. The amount of both payment delays and insolvencies has been low over the past 12 months, and we expect no deterioration of the good credit risk situation in 2022. Therefore, and due to the robust demand situation our underwriting stance remains open for pharmaceutical businesses across all segments.

Belgium pharmaceuticals & health care value added output



Performance forecast along subsectors



Source: Atradius

Belgium pharmaceuticals sector - credit risk assessment

Good



Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? high	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance high	Non-payments over the next 12 months
	Willingness of banks to provide credit high	+ Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

Brazil

Stable profit margins despite inflationary pressures



Brazil has the sixth largest generics industry worldwide, and the biggest in Latin America. In 2022 pharmaceuticals value added output is expected to level off, but is forecast to grow 4.5% in 2023. Brazil's pharmaceutical production relies heavily on commodities from China and India (more than 90%). Supply chain shortages due to the pandemic and depreciation of the real have made those imports more expensive, leading to higher input prices for drug producers. However, pharmaceutical retailers reported a 12% increase in drug sales in 2021, with further growth expected this year. Despite current inflationary pressures, we expect profit margins of pharmaceutical producers, wholesalers and distributors to remain stable this year.

In 2022 and 2023, demand for drugs is likely to be stronger in the private sector, given current constraints in public sector spending. Pharmaceutical producers will benefit from ongoing demand for Covid-19 vaccines. Wholesalers and retailers have tapped into cosmetics as an additional growth segment. Pharmacies and drugstores benefit from increased demand for all drug segments (branded, generic, OTC), with a growing share of e-commerce.

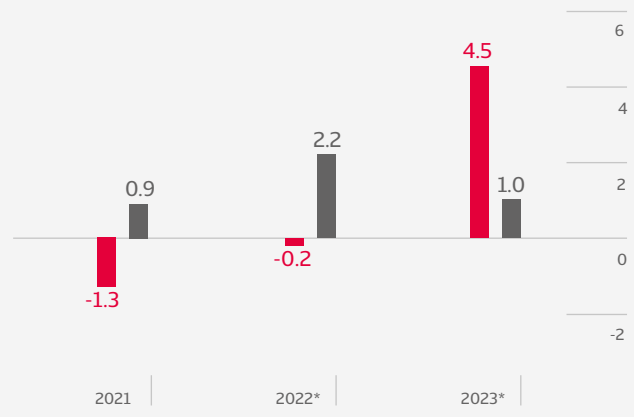
Brazil's pharmaceuticals and healthcare sector will see robust demand in the mid- and long-term, due to a rapid change in

demographics (the share of population aged 60 years or older is forecast to reach 19% in 2030). The number of chronic diseases like diabetes is rising, which will spur demand for more complex medical treatments. However, producers of brand-name drugs face the issue that public healthcare is obliged to favour the purchase of generics, even when sales prices are comparable.

Most pharmaceutical businesses have good access to bank financing. During the pandemic, larger drugstore chains used bank loans to reinforce their cash position and liquidity. Payment duration in the sector is 90 days on average, and payment behaviour has been good over the past two years. The amount of both payment delays and insolvencies has been low over the past 12 months, and we expect no major change in 2022.

Brazil pharmaceuticals & health care value added output

y-on-y, % change



*forecast

Source: Oxford Economics

■ Pharmaceuticals
■ Health care

Performance forecast along subsectors



Source: Atradius

Brazil pharmaceuticals sector - credit risk assessment

Good



Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance average	Non-payments over the next 12 months
	Willingness of banks to provide credit high	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

China

A vast market with growing sales opportunities



Strong growth is forecast for Chinese pharmaceuticals and health care value added output in 2022 and 2023. In the 2019-2025 period, annual growth of 9.4% is expected. With the Volume-based Procurement (VBP) policy and the National Reimbursement Drug List (NRDL), China has overhauled its health-care system. The main aim is to provide the population with broader access to quality drugs at lower prices. Global and domestic drug producers have to compete to sell their products in bulk to public hospitals. By winning a bulk purchase bid, drug producers have to accept substantial sales price cuts, which at first sight squeeze their profit margins. However, it also provides them with a major share of the Chinese market and high sales volume opportunities. Rising consumer wealth will increase demand for higher quality drugs, while the Chinese population will be rapidly ageing in the coming years.

Currently local producers still focus on generics, and R&D investments are rather low. However, the government emphasizes higher output of patented drugs and more innovations. We expect Chinese producers to increase both R&D investments and product quality in the coming years. To support this, the authorities seek to consolidate the industry and to increase the average size of businesses.

The Chinese pharmaceuticals distribution market has grown steadily over the past couple of years, and a concentration process is ongoing. Competition is fierce in the pharmacies/drugstores segment, and online shops are growing. Profit margins in this subsector are slim, but also stable.

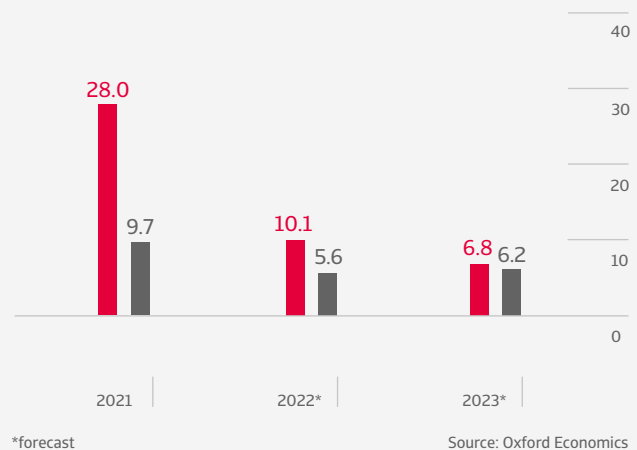
Given the robust growth outlook and government support, banks are willing to provide credit to Chinese pharmaceutical businesses. Payments in the sector take 60-90 days on average, and payment behaviour has been good over the past two years. However, sometimes hospitals protract their payments to distributors. We expect that both payment delays and insolvencies will remain at a low level in 2022. Our underwriting stance for the sector is generally open, in particular for state-owned enterprises.

Performance forecast along subsectors



China pharmaceuticals & health care value added output

y-on-y, % change



China pharmaceuticals sector - credit risk assessment

Good

Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
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	Willingness of banks to provide credit high	Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

France

Healthy profit margins despite public pressure to lower sales prices



In 2020, France accounted for 3.1% of global pharmaceuticals production. French pharmaceuticals value added output is forecast to level off in 2022, following increases of 4% in 2020 and 3% in 2021. French pharmaceutical producers are highly export-oriented, and sales abroad of brand-name drugs mainly sustain their margins. In this segment, ongoing large R&D investments are key to sustaining a competitive edge, and to generating future revenues.

The French domestic market for pharmaceuticals is highly regulated, in particular for reimbursable drugs, which account for about 30% of sales. Brand-name drug producers face strong competition from the generics segment. Additionally, there is continued pressure from the French public health authorities to lower sales costs of drugs and medicines for end-consumers. Regulatory constraints also affect profits of pharmaceutical wholesalers, distributors and pharmacies. However, their margins improved in 2021, as sales of medicines and disinfectants/detergents have sharply increased during the pandemic.

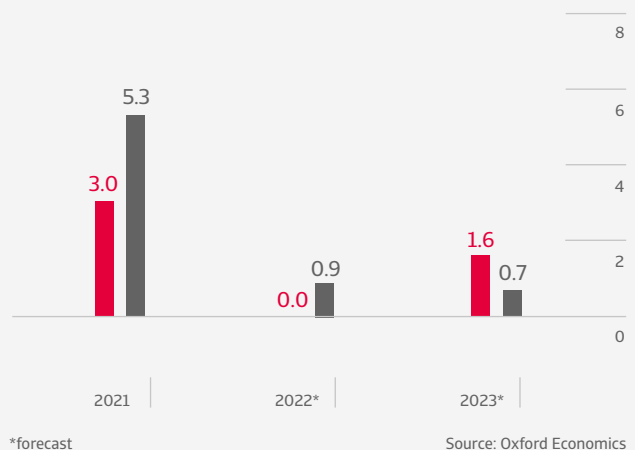
In 2020 and early 2021 there was a temporary import shortage of active pharmaceutical ingredients (API) and other drugs from China and India. This has raised concerns in the French government about the high dependency (about 80% of feedstock and medicines have to be imported from Asia). However, no

concrete plans have materialised to support reshoring or nearshoring of production plants.

External financing requirements of pharmaceutical producers are high, due to large capital expenditure and high R&D investment. While many businesses are highly geared, in general, they generate healthy margins, and banks are willing to provide loans to the industry. Payments take 30-60 days on average, and payment behaviour in the sector has been good over the past two years, with no notable payment delays. We expect that insolvencies of pharmaceutical businesses will remain at a very low level in 2022. Due to the benign credit risk situation of most businesses and good growth prospects, our underwriting stance is open for producers, wholesalers/distributors and pharmacies/drugstores alike.

France pharmaceuticals & health care value added output

y-on-y, % change



Performance forecast along subsectors



France pharmaceuticals sector - credit risk assessment

Good

Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? high	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance high	Non-payments over the next 12 months
	Willingness of banks to provide credit very high	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase
 increase
 stable
 decrease
 big decrease

Source: Atradius

Germany

Robust output growth expected in 2022



In 2020, Germany accounted for 4.5% of global pharmaceuticals production. Pharmaceuticals value added output is forecast to grow by 4% in 2022 and by more than 2% in 2023, after increasing 5.2% in 2021. Health care growth remains robust this year, expected to increase by more than 4%.

Covid-19 vaccines have mainly driven demand, while at the same time producers of cold medicines have recorded lower sales, as physical distancing and mask wearing reduced the number of related diseases. There is still a backlog of non-Covid related medical treatments and spending on drugs. However, a rebound is underway, and non-Covid related pharmaceuticals output will benefit this year and in 2023.

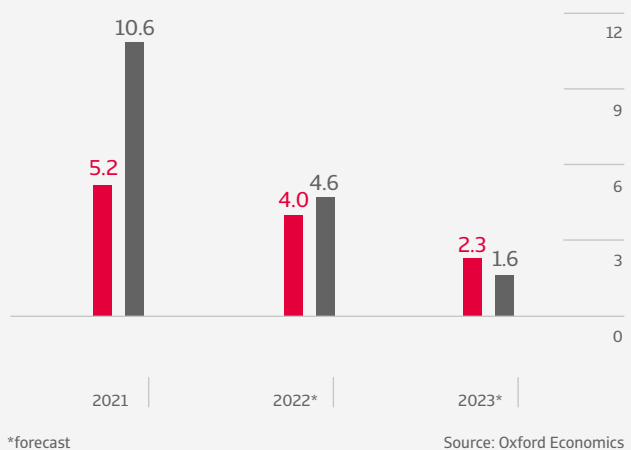
Mid- and long-term demand for pharmaceuticals will be driven by demographic developments. The progressive ageing of Germany's population will require an increase in medical treatments, in particular for chronic diseases. This will mainly benefit producers of speciality products, but also manufacturers of generic drugs. The German healthcare market is highly regulated, and the legislative pressure on pharmaceutical businesses to lower their sales prices of drugs for end-consumers is not overly high.

Profit margins of both producers and pharmacies have increased in 2021, while pharmaceutical wholesalers/distributors continue to work with low margins. With a potential abatement or even an end of the pandemic we expect profit margins of producers and pharmacies will likely flatten.

In general, German pharmaceutical businesses have robust equity, solvency and liquidity. Payments take 30-60 days on average. Compared with other German industries, the sector's payment behaviour has always been better than average, with no notable payment delays. The insolvency environment is stable, and we expect business failures to remain at a low level. Due to the benign credit risk situation of most businesses and the good growth prospects in the coming years, our underwriting stance is open for producers, wholesalers/distributors and pharmacies/drugstores.

Germany pharmaceuticals & health care value added output

y-on-y, % change



Performance forecast along subsectors



Germany pharmaceuticals sector - credit risk assessment

Good



Business conditions	Financing conditions	Default assessment
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Profit margins: trend over the next 12 months	Dependence on bank finance low	Non-payments over the next 12 months
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		Insolvencies over the next 12 months



Source: Atradius

India

Increase in production of primary products planned to lower reliance on China



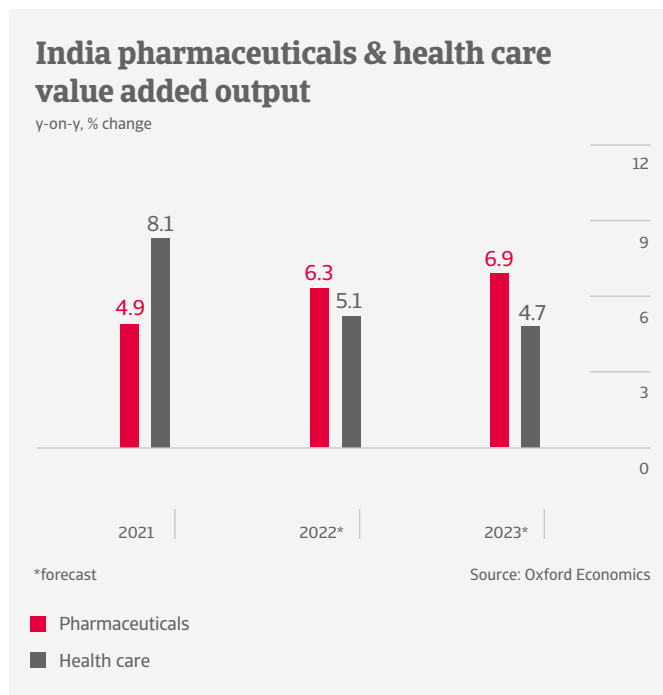
Indian pharmaceuticals value added output is forecast to grow more than 6% annually in 2022 and in 2023, due to the ongoing rollout of Covid-19 vaccinations, a rebound in non-Covid related medical treatments and a surge in generic drug exports. However, in H1 of 2022 drug producers still face pressure on gross margins, due to high commodity and transport costs. Domestic wholesalers and pharmacies continue to generate low, but stable margins.

While generic drugs still account for about 70% of output, the pandemic has spurred Indian drug producers to substantially increase their R&D spending. Due to a serious supply disruption in 2020, Indian drug producers intend to increase local production of Active Pharmaceutical Ingredients (APIs) in order to reduce their reliance on Chinese deliveries. Those imports have meanwhile rebounded, but are not yet back to pre-pandemic levels. The government has announced a large incentive scheme (e.g. with tax exemptions) to boost local API production, which will last until 2030.

The industry is highly export-oriented, being one of the leading suppliers of generic drugs to the US. Exports could be impacted by resumption of US Food and Drug Administration (USFDA) inspections of Indian production plants. Failures to meet required quality standards could lead to lower sales to the US, and could have a negative effect on margins.

We expect the domestic drug market to grow steadily in the coming years, due to demographic trends and rising household income. The growing middle class can increasingly afford high quality drugs, while demand for treatments (and related drugs) of cardiovascular diseases and other chronic diseases will increase.

The balance sheets of most Indian pharmaceutical businesses and their capacity to generate cash are strong. Both gearing and dependence on bank finance are low. Payment behaviour has been good over the past two years, and we expect the number of protracted payments and business failures to remain low in 2022. Given the benign credit risk situation of most businesses and good growth prospects in the coming years, our underwriting stance is open for all segments.



Performance forecast along subsectors

Pharmaceutical producers	Wholesalers and distributors	Pharmacies/ drugstores

Source: Atradius

India pharmaceuticals sector - credit risk assessment

Good

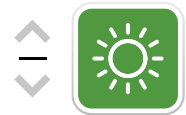
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		Insolvencies over the next 12 months

big increase
 increase
 stable
 decrease
 big decrease

Source: Atradius

Ireland

A major drug production hub with good growth prospects



The small country accounts for more than 5% of global pharmaceuticals production, and recorded a whopping 25% increase in value added output in 2021. The highly export-driven Irish pharmaceuticals sector benefits from ongoing vaccine production and the global rebound in non-Covid related healthcare spending.

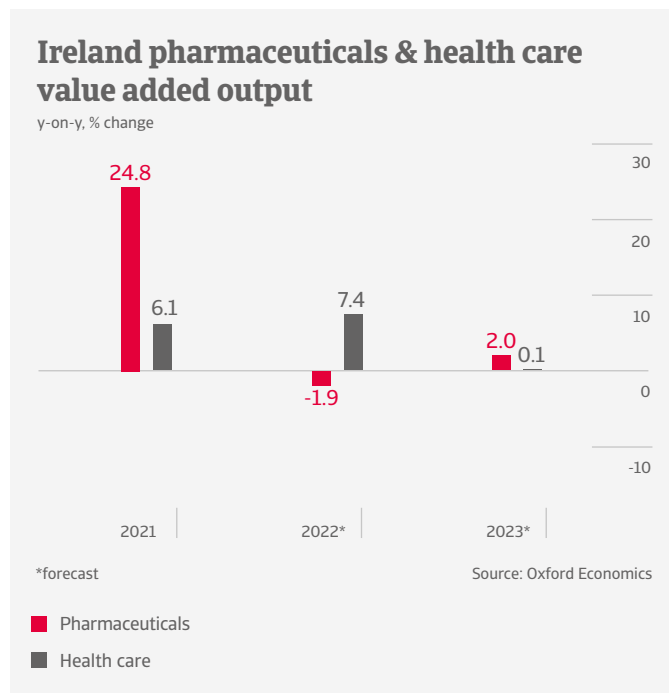
Drug production is very profitable, and increased turnover has led to higher net profits for wholesalers and distributors. However, pharmacies and drugstores suffered in 2020 and 2021 due lower footfall, as sales of higher margin goods (cosmetics, perfumes etc.) declined. Due to the pandemic, there is still a significant backlog for consultant appointments and non-urgent operations in the domestic healthcare market.

As of 2023, multinational pharmaceutical businesses with operations in Ireland and revenues of more than EUR 750 million (USD 840 million) will face an increase of the corporate tax rate from 12.5% to 15%. Additionally, a growing shortage of qualified staff is leading to wage inflation. However, as Ireland is a major drug production hub, multinational producers will benefit from growing overseas demand in the coming years.

Financing of pharmaceutical producers is mainly driven by foreign direct investment made by parent companies. Banks are very willing to provide loans to smaller businesses, and private

equity funding is also available. Payments in the industry take 60 days on average, and payment behaviour has been very good over the past two years. Compared to other Irish industries the insolvency level is very low.

Due to the low credit risk and the financial strength of most businesses, our underwriting stance is very open for pharmaceutical producers. The same accounts for the wholesalers/distributors segment, where recent mergers and takeovers have reduced the number of players in the market. However, we are restrictive for pharmacies/drug stores, as sales have not yet recovered to pre-pandemic levels. Competition in this segment is fierce and margins are very low, and an increase in business failures in 2022 cannot be ruled out.



Performance forecast along subsectors

Subsector	Forecast
Pharmaceutical producers	High (Sun icon)
Wholesalers and distributors	High (Sun icon)
Pharmacies/drugstores	Low (Cloud with rain icon)

Source: Atradius

Ireland pharmaceuticals sector - credit risk assessment

Excellent

Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? high	+ Non-payments over the last 12 months
+ Profit margins: trend over the next 12 months	Dependence on bank finance high	+ Non-payments over the next 12 months
	Willingness of banks to provide credit very high	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase
 increase
 stable
 decrease
 big decrease

Source: Atradius

Italy

High days sales outstanding in the wholesalers segment



Italy's pharmaceuticals industry accounts for about 2% of global production, with 85% of production exported. In general, Italian drug producers record high margins, but since H2 of 2021 they are being affected by a sharp increase in energy prices. Margins of wholesalers and distributors are generally tight, due to high transport costs, discounts to customers and outstanding receivables. On top, there is a 3% margin cap for sales of prescription drugs in the Italian market. Pharmacies try to compensate this with sales of supplements and cosmetic products.

In Italy, public healthcare expenditure per capita amounts to EUR 280, 30% less than the EU average. While healthcare spending growth will be rather modest in 2022 and 2023, mid-and long-term demand will be driven by demographic developments. The ageing population in Italy will trigger an increase in medical treatments, in particular for chronic diseases.

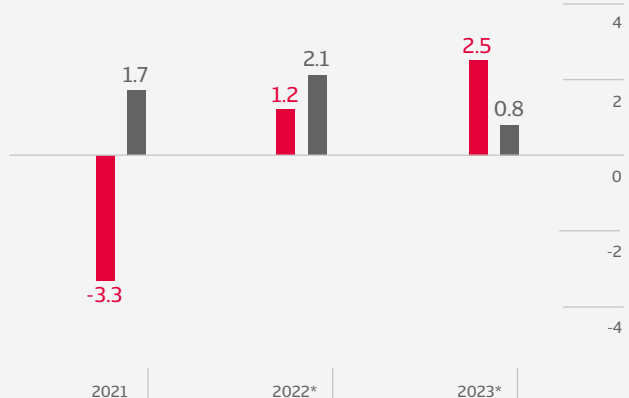
In general, pharmaceutical producers are well capitalised and not highly geared. In contrast, capitalisation of wholesalers is often low and coupled with high indebtedness, high working capital requirements and steady investments in warehouses across the country, and related logistics. In this segment days sales outstanding (DSO) and days of inventory outstanding (DIO) are rather high and businesses require bank loans in order to compensate slow payments

from their customers. It helps that banks are generally willing to provide loans to all subsectors, including this segment. The main reason is that pharmaceuticals is performing better than other Italian industries, with a history of low default rates. We expect that both non-payment notifications and insolvencies will remain low in 2022.

Our underwriting stance is very open for drug producers, due to low gearing, high margins and strong export performance. We have a prudent approach for wholesalers/distributors, in particular for businesses in cooperatives, as their solvency is dependent on the timely payment of their affiliates (pharmacies). The same accounts for pharmacies, due to strong competition from hospitals and para-pharmacies, which puts pressure on their margins.

Italy pharmaceuticals & health care value added output

y-on-y, % change



*forecast

Source: Oxford Economics

■ Pharmaceuticals
■ Health care

Performance forecast along subsectors



Source: Atradius

Italy pharmaceuticals sector - credit risk assessment

Good



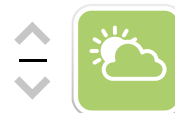
Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance average	Non-payments over the next 12 months
	Willingness of banks to provide credit very high	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Japan

Growing share of generics could affect local producers



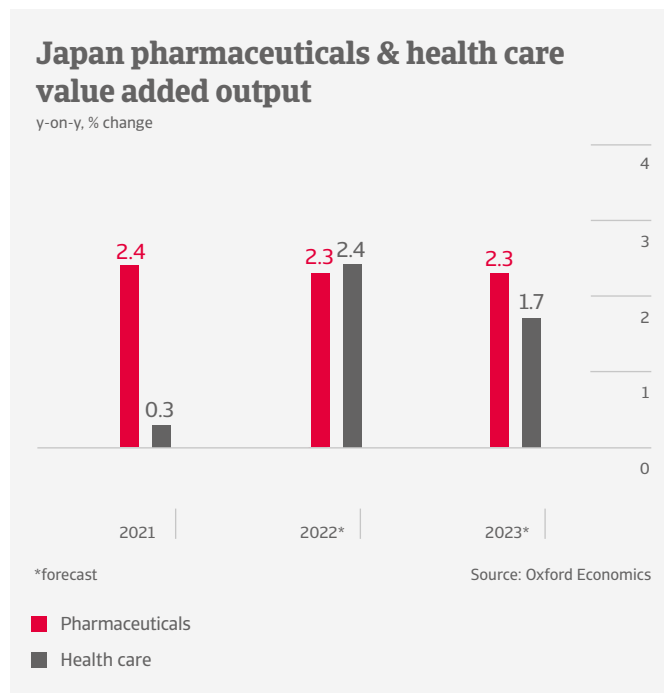
Japanese pharmaceuticals producers are mainly doing business in the domestic market, with a rather low share of export sales. Large global companies and well-established domestic businesses dominate the Japanese market. The demand situation is good, and the backlog of non-Covid related medical care, spending and treatments has decreased since mid-2021, after the 'state of emergency' was lifted in major cities. At the height of the pandemic pharmacies suffered from deteriorating drug sales due to low footfall, while drugstores benefited from strong demand for sanitary goods.

Japanese brand-name drug producers face annual rising R&D expenses, as the expiry of patents requires additional investment in the development of new medicines. Additionally, the yen depreciation has a negative impact. However, several Japanese pharmaceutical producers are in the final stages to get approval for Covid-19 vaccine production as of 2023, which supports their growth prospects. As Japan has a very high share of elderly population, demand for pharmaceuticals will increase in the coming years, in particular for special drugs to treat chronic diseases.

Despite good demand prospects there are challenges ahead, which could affect sales and margins of domestic producers and distributors in the mid-term. In order to curb public healthcare spending costs, the government revises drug prices biannually,

and actively promotes the distribution of generics in the market. Currently generics sales amount to 47% in volume terms, but the government aims to increase this share to 80%. While more imports of generics would reduce healthcare costs, it would also dampen domestic drug production.

Most pharmaceutical businesses have strong balance sheets and good access to bank financing. The payment duration varies from 60-120 days, and payment behaviour has been very good over the past two years. The amount of both payment delays and insolvencies has been very low over the past 12 months, and we do not expect an increase in 2022. Due to the low credit risk and financial strength of most businesses, our underwriting stance remains open for the Japanese pharmaceuticals sector.



Performance forecast along subsectors

Pharmaceutical producers	Wholesalers and distributors	Pharmacies/ drugstores

Source: Atradius

Japan pharmaceuticals sector - credit risk assessment

Good

Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance average	Non-payments over the next 12 months
	Willingness of banks to provide credit willing	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Spain

Good growth prospects, but also constraints due to lower public healthcare spend



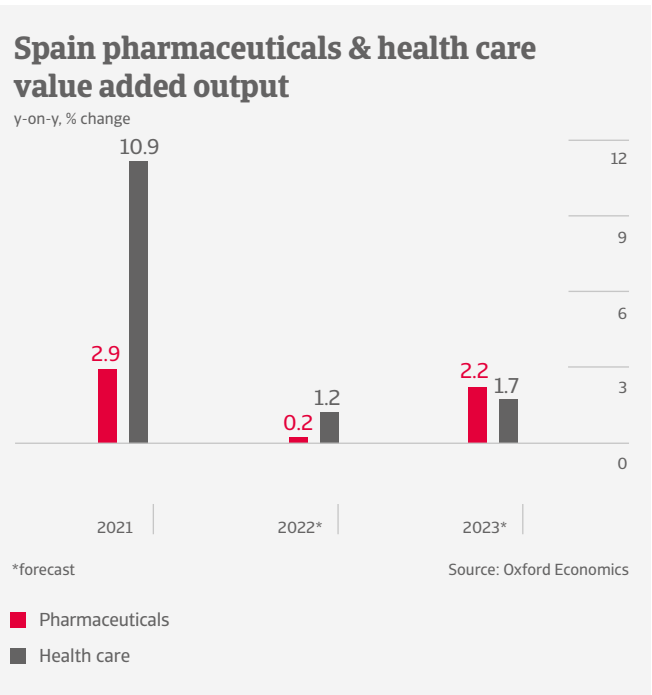
In Spain, demand for pharmaceuticals will continue to grow in 2022, in particular for vaccinations. At the same time, non-Covid related medical treatments and spending on drugs have rebounded since 2021, and will increase further this year.

In 2021, profit margins of Spanish pharmaceuticals producers increased. Those of wholesalers and distributors remained stable, but were also thin. Smaller pharmacies (usually run by self-employed business owners) recorded a slight decrease. We expect that profit margins will remain stable across all segments in 2022.

As in many other European countries, the ageing Spanish population will support growth of pharmaceuticals demand in the mid- and long-term, in particular for special products. However, in the short-term high public debt will have an adverse impact on government spending, also putting constraints on expenditures made by the national health system. Public health authorities are known as tough negotiators with the pharmaceuticals industry, trying to reach large and comprehensive agreements in order to reduce total costs.

Most pharmaceutical wholesalers are concentrated in large cooperatives, and mainly financed by their own cooperative partners (pharmacies), while producers and laboratories are

more dependent on bank loans. The average payment duration of 75 days is shorter than in most other Spanish industries. The payment behaviour is generally good, due to the sector's low dependence on the economic cycle, a high export share and good access to external financing. We expect the number of payment delays and insolvencies to remain low in 2022. Due to that, and the financial strength of most businesses, our underwriting stance is open across all segments. However, there are potential challenges ahead that need to be monitored, in particular any supply chain constraints in the future. As revenues of pharmaceutical businesses are highly dependent on public health budgets, we closely monitor related political developments and regulatory changes in the health system.



Performance forecast along subsectors

Pharmaceutical producers	Wholesalers and distributors	Pharmacies/ drugstores

Source: Atradius

Spain pharmaceuticals sector - credit risk assessment

Good

Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance average	Non-payments over the next 12 months
	Willingness of banks to provide credit average	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase
 increase
 stable
 decrease
 big decrease

Source: Atradius

Switzerland

Business margins expected to increase again in 2022



Pharmaceuticals is one of the Switzerland's major industries, accounting for about 7% of GDP, 35% of manufacturing and more than 8% of global production. In terms of production value, R&D expenditure in new drugs and healthcare technologies, in recent years, the Swiss pharmaceuticals business has been atop the rankings in Europe.

The highly export-dependent sector benefits from ongoing robust global demand, and pharmaceuticals value added output is forecast to grow more than 5% in 2022 and more than 4.5% in 2023. Margins of Swiss pharmaceutical businesses have increased in 2021, and we expect them to grow further this year. To date, supply chain disruptions (e.g. import of commodities and drug ingredients) have not been an issue. Many producers and suppliers of ingredients are an integral part of the supply chain for Covid-19 vaccines, tests, and disinfectants. In the domestic market, wholesalers and pharmacies benefit from ongoing demand for vaccinations and tests.

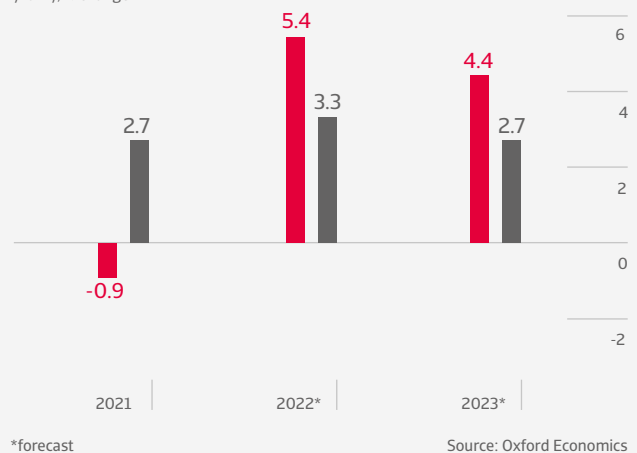
Increasing patent expiries will have an impact on margins of drug producers with high R&D expenses. However, this is somewhat mitigated by growing global demand for brand name

drugs and new healthcare technologies. In the domestic market, Swiss consumers still prefer brand name to generic drugs, despite substantial price differences.

Most Swiss pharmaceutical businesses have good access to external financing sources, and show low gearing and robust financials. The payment duration is 90-120 days on average, but payment behaviour has been very good over the past two years. The number of both payment delays and insolvencies has been low over the past 12 months, and we do not expect an increase in 2022. Due to low credit risk, the robust demand situation and the financial strength of most businesses, our underwriting stance remains open for all segments.

Switzerland pharmaceuticals & health care value added output

y-on-y, % change



Performance forecast along subsectors



Switzerland pharmaceuticals sector - credit risk assessment

Good



Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? low	Non-payments over the last 12 months
+ Profit margins: trend over the next 12 months	Dependence on bank finance average	Non-payments over the next 12 months
	Willingness of banks to provide credit very willing	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

United Kingdom

Large backlog of medical treatments to sustain growth in the coming years



Pharmaceuticals value added output in the UK levelled off in 2021 after a strong 13.6% increase in 2020, which still leaves it 13% above the 2019 pre-pandemic level. The vaccination rollout and demand for pandemic-related drugs (e.g. medications to treat fever, drugs for intensive care) has driven growth, resulting in high profit margin increases for producers, and to a lesser extent for wholesalers and pharmacies. However, for some businesses border checks and regulatory burdens, due to Brexit, have raised costs and has delayed delivery of goods. Some businesses moved their operations to other European countries in order to retain easier market access in the EU.

There is still a large backlog of non-Covid related medical and elective care hospital treatments. The government and the NHS recently announced they would address this with a major catch-up programme over the next three years. This should sustain ongoing demand for pharmaceuticals. Another growth driver in the mid- and long-term will be ageing of population. This will in particular spur demand for speciality drugs related to chronic diseases. However, despite higher public healthcare spending in the short-term, cost constraints will remain an issue in the long-term, and there will be pressure by the government and public health authorities on pharmaceutical businesses to lower sales costs of drugs. Rising imports of cheaper generics could be an outcome of cost pressures in the health system.

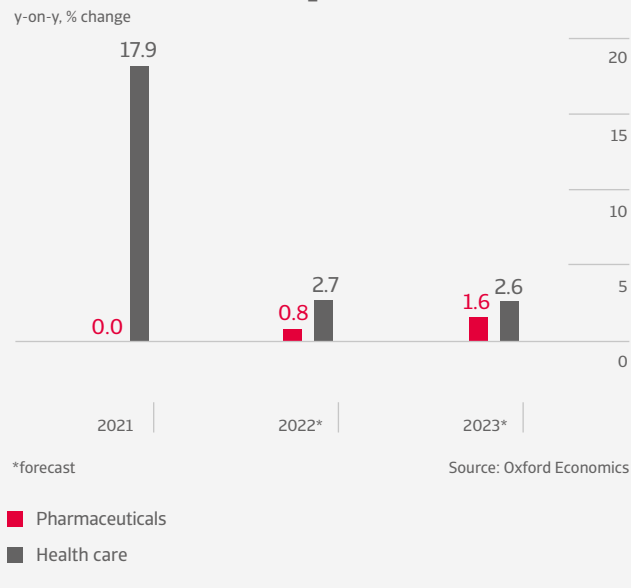
Payments in the industry take about 60 days on average, but longer payment terms imposed by the NHS are common. Payment behaviour has been very good over the past two years, and the number of both payment delays and insolvencies has been extraordinarily low in 2021. With the expiry of large pandemic-related government support measures both payment delays and insolvencies could increase slightly year-on-year in 2022. However, this would only mean a reversion to the already low and stable levels seen in the years prior to the pandemic. Due to low credit risk, the robust demand situation and the financial strength of most businesses, our underwriting stance remains open across all segments.

Performance forecast along subsectors



Source: Atradius

United Kingdom pharmaceuticals & health care value added output



United Kingdom pharmaceuticals sector - credit risk assessment

Good

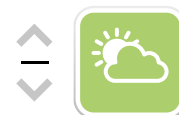
Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
+ Profit margins: trend over the next 12 months	Dependence on bank finance low	- Non-payments over the next 12 months
	Willingness of banks to provide credit high	+ Insolvencies over the last 12 months
		- Insolvencies over the next 12 months



Source: Atradius

United States

Robust growth expected in 2022



The US accounts for about 45% of the global pharmaceutical market and 22% of global production. US pharmaceuticals output and sales remain robust in 2022, driven by the ongoing global vaccination rollout and pent-up demand for essential and non-essential medical treatments. Margins of brand name drug producers have soared in 2021, resulting in strong cash flow. However, wholesalers/distributors still trade on thin margins, despite growing sales. Some of them still have payments to make in connection with opioid-related lawsuits and litigations.

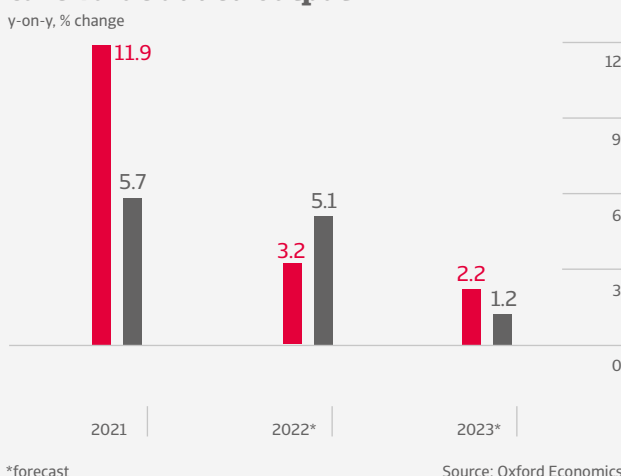
While sector growth in 2022 and 2023 will be mainly driven by vaccinations, the ageing population will spur drug demand in the mid- and long-term. The decision of the Supreme Court to uphold the Affordable Care Act (Obamacare) also supports future growth prospects of the industry. However, pressure from legislature to reduce healthcare costs could rise again once the pandemic ends. This could affect investments, given the high R&D costs for producers.

Several pharmaceutical producers and distributors have taken advantage of historically low lending rates in order to pursue debt-financed acquisitions. Most of them used their strong cash flow to deleverage after larger takeovers, thereby maintaining their credit ratings. Payment duration in the industry can vary between 30 and 150 days. Major drug producers often use their leverage

against suppliers to achieve longer payment terms and build cash flow. While non-payments are generally low in the industry, non-payment notifications have increased in the segment of small community-based pharmacies. Those businesses often compete against larger chains and face reimbursement pressures from public payers (e.g. Medicaid and Medicare).

Due to a government crackdown on opioids, a number of producers, distributors, and pharmacies heavily exposed to sales of such drugs were forced to close their businesses and/or file for bankruptcy between 2017 and 2020. Since then, business failures have returned to a very low level. Our underwriting stance is open for drug producers and distributors, while we are restrictive for small pharmacies due to increased payment delays.

United States pharmaceuticals & health care value added output



Performance forecast along subsectors



Source: Atradius

United States pharmaceuticals sector - credit risk assessment

Good



Business conditions		Financing conditions		Default assessment	
+	Demand situation (sales)	Overall indebtedness of the sector?	low		Non-payments over the last 12 months
+	Profit margins: trend over the next 12 months	Dependence on bank finance	low		Non-payments over the next 12 months
		Willingness of banks to provide credit	very high	+	Insolvencies over the last 12 months
					Insolvencies over the next 12 months



Source: Atradius

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