Interview: Fergal Egan, Commercial Director, IMS Health Ireland

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Mr. Egan, what path led you to IMS Health?

My original background is in science—I received a PhD in medical microbiology, and worked for some time as a post-doctoral researcher for a Swedish biotech company that was contracting research services here in Ireland. I have since hung up my lab coat and put on a suit. Even as a researcher, I also studied business, and I have always had an eye on the space where science and business meet.

I started with Servier Labs as a medical sales representative, moving through various roles within the organization. I then joined UCB Pharma, where, after a number of years, I became the General Manager of UCB Pharma Ireland. After UCB, I spent some time with Ashfield Healthcare as General Manager of their operation in Ireland.

I have recently joined IMS Health as Commercial Director Ireland and have been in this role for a little over a month. I was attracted to this company because it is at the centre of the pharmaceutical industry, and a key player in terms of analytics and advice. By the time I joined the team in Ireland, I already knew the company and the local staff very well from having worked with them over many years.

How is IMS Health positioned in Ireland?

The Irish team is comprised of seven full-time individuals, including myself. Relatively speaking, we are a rather small, but very important subsidiary for the group. However, because IMS Health is

such a large organization, with presence in over a hundred countries, we are able to tap into that larger network to offer the full strength of IMS Health to our Irish clients. Our Regional base is in the London, and we work very closely with our colleagues there.

In Ireland, as in other countries, we offer clients both market analytics and consulting. Consulting is a relatively small business for us in Ireland compared with our other markets at the moment, but is an area where we anticipate growth. In the U.S., for instance, IMS Health works not only with individual pharmaceutical companies, but also with pharmaceutical bodies, with insurance companies, with healthcare providers, and with government—we are present across the entire healthcare spectrum. While a model with that kind of breadth may not be suitable in Ireland, we are open and we are trying to engage the market as much as possible.

In analytics, we have a leading position in the country. Practically all of the sales that happen in Ireland are channeled through IMS Health. In a typical day, we record two hundred thousand wholesaler-to-pharmacy sales—whether it's the sale of a single box or a large order.

How have you seen the Irish pharma market evolve over the last five years, given the recession and the resultant environment of austerity and drug price cuts?

Over the last five years, the Irish market has gone through an absolutely phenomenal flux. With the arrival of the recession in 2008, change has been dramatic—because, as was widely publicized at the time, the health bill is the government's largest expenditure, and an obvious area to target for austerity. Pharmaceutical exports are the biggest driver of Ireland's GDP, but nonetheless officials have begun to increasingly decouple their policies toward pharmaceutical manufacturing from their policies toward the local drugs spend.

Following recent agreements between the representative innovators' association, IPHA, and the state, there have been numerous, significant price cuts in the market. These cuts have had a major impact on how companies approach their portfolio. The 2006 agreement was already quite a significant game-changer, but subsequent deals—notably the agreement signed between IPHA and the government in October 2012—have been even more impactful.

At one point last year, it became very difficult to bring new medicines to the market. Many companies had products that had gone through EMA approval, but were stuck in limbo in Ireland. Fortunately, with the October deal, those days are over, and there is a defined path to the market for innovative medicines. But companies have also changed their business models: because of the impact austerity has had on existing drug prices, innovators are becoming much more focused on market access for their new drugs. They are reducing sales teams and bolstering their medical and

government affairs teams. Companies with strong R&D functions have the winning formula today—and while many individual organizations are experiencing negative growth, those with a strong pipeline are looking towards a brighter future.

While we have seen continued growth in medicine usage—approximately 1.9-5% growth in unit-buys year over year in the last five years—the total market sales figures for on-patent brands, generics, and nutritional supplements show that retail spend in the pharmacies is completely flat. In fact, in 2011, the figure decreased. Pharmacy spend has hovered around 1.7Bn EUR for the last five years, as price cuts have counteracted growth in volume. The combined retail and hospital market has similarly hovered around 2.1Bn EUR. At IMS Health, we believe that we will continue to see that divergence in the market. Although an aging population leads naturally to more drug usage in areas like cardiovascular and diabetes, the steady erosion of price prevents the value of the market from growing in step.

Meanwhile, the generics market has ramped up considerably. Successive Ministers of Health have sought to expand generic penetration in Ireland, and have been very proactive in pushing a generics agenda. The biggest changes in the market will be the introduction of compulsory generic switching, and reference pricing—and both are due to come to law quite soon. The generic drug association in Ireland, APMI, has also concluded a recent agreement with government that has seen significant structural changes in drug prices and these will be implemented with the introduction of new legislation.

There has been a great deal of uncertainty in the Irish market over these last years. Companies have had a hard time discerning what will come next—and they have hence had a difficult time in planning and forming their strategies. Not only has the market experienced a great deal of change, but change has also come very, very rapidly. Only once generic switching and generic reference pricing are implemented will we be able to understand the true impact of the round of cuts in Ireland.

The overriding factor, for both generic companies and innovators, is that spend is decreasing. If a patient walks into a pharmacy, they will see lower prices. In this way, the patient, and the taxpayer, is winning. Ireland is going through a difficult time, and it is human nature to resist change—but there are many positive elements coming out of the flux in the market.

David Gallagher, head of Pfizer's local marketing and sales unit, said last year that further price cuts would be "untenable" for the industry. He made the comment prior to the latest IPHA agreement with the state—and as we know, that agreement lead to the largest round of

cuts yet—what some have noted as the largest per-capita drug deal in European history. Is this agreement 'tenable' for innovators?

The recent agreement has certainly been difficult for innovator companies in terms of price cuts. A lot of companies were used to a global model wherein when one of their drugs went off patent, they could still look to receive some revenues from that product, helping to pay for the R&D that generates new products. The fact that those formerly reliable revenue streams are decreasing Europe-wide, coupled with the escalating costs of developing new medicines has meant a challenge for these innovator companies. However, the real positive that has come from the new IPHA agreement in late 2012 has been that new medicines are now being made available in the Irish market, where there is a defined pathway for drug assessment and pricing approval in Ireland. A version of process was in place before this agreement, but had stalled for a long period. We now see the benefit of the new agreement already, where several new medicines have been agreed and are being made available to patients in Ireland.

What do you believe affects an innovator more—price cuts or lack of new products?

In the short term, price cuts have the biggest impact today—because they are happening so rapidly and right across Europe. We see that internationally, pharma CEOs are saying that Europe has gone into stalemate. We have repeated price cuts, and challenges in bringing new medicines to the market.

However, when we look at the long-term, a lack of new products will ultimately have the bigger impact. This is the sword that innovative companies live and die by. Moreover, the windows of opportunity that allow an innovative company to generate a return on its investment are decreasing. It is taking longer to get medicines to market, and from a regulatory perspective, standards are getting tougher—meaning we see more late-stage failures. For instance, the number of products failing in Phase III has increased quite considerably in recent years, and even products that have gone to market are increasingly being withdrawn by regulators. As a consumer, strict standards are obviously very positive, but as a pharmaceutical company, it is difficult to find returns from what is an increasingly costly investment.

For generic companies, the challenges faced by innovators are opportunities. Their penetration into the off-patent space is growing. However, the competition in that space is very stiff, and increasingly, only companies with a very strong business model will succeed. A number of years ago, there were relatively few generic competitors in Ireland, and all of them had a branded generic model. Today, however, there has been a massive influx of generic companies into the country, and it will be interesting to see how the market will look when the dust has settled.

What overall growth rate does the IMS Health expect in the Irish pharmaceutical market over the next three years?

Because we do not yet know the full impact of the latest agreements with government, and because we have not yet seen the exact mechanism of action for generic substitution or generic reference pricing, I must begin by saying that we should look at any forecast with a pinch of salt. We do not yet have the details. However, considering these variables we estimate that the total market should decline by approximately 5% year over year in the next two years in terms of value, and should then return to 1% growth.

While uncertainties remain, the great thing about our position today is that the industry is starting to get greater clarity on what the market will look like in the future. We now know what we're dealing with, and this certainty in the market is very motivating for Irish companies. It is also highly positive that the industry is able to enjoy a strong dialogue with the government. Both parties understand each other's position, and both are engaging at an earlier stage in a drug development cycle to better understand the pharmacoeconomic arguments behind new medicines.

Furthermore, the new business model that companies have adopted in Ireland has made their operations resemble their European colleagues' operations much more. Of course, there are caveats specific to the Irish market—and from what we can see, those caveats will endure, as they do in every country—but the market is now settling into an environment where generic companies will dominate the off-patent space, and innovators look to their new products to sustain their businesses.

How has IMS Health Ireland performed as a business in these last years? Do companies need your offer more than ever in this challenging time?

Overall our business has remained relatively stable as the austerity measures have hit our clients this has had a negative impact on the sales of some of our offerings. However, as many companies have had to refocus their business model we have seen an increase in the use of our consulting products.

What advice are you giving clients, as consultants?

We are telling them to be more focused in how they use their investment. What worked five years ago certainly does not work anymore. Prior to 2008, the Irish pharmaceutical industry had successfully bucked the trends of the international industry—but not anymore. Companies have to

be much more strategic about how they invest their money and efforts.

We also advise clients to engage earlier in a product life cycle than they traditionally would have done with key parties for their business. For example, companies need to use pharmacoeconomics effectively to bring their medicines to the market. That work could start as early as late Phase II—because the early launch phase for a product is critical. The patient pool for any product is inherently limited, and companies need to reach as many of those patients as they can, as early as they can. Companies have to be careful in how they invest their rep time, their marketing spend, and etc. Bringing to bear our expertise and knowledge in other countries, we can help guide our clients in Ireland.

What is your final message to our readers?

Within the Irish market, IMS Health offers its traditional leadership as a data service provider. However, we want to emphasize that we can also help businesses decide what to do with that data, by capitalizing on our knowledge and decades of experience across the whole healthcare system internationally.

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