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Demography Special

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Pharmaceutical market: Run on lifestyle drugs boosted by demographic trend

- International pharmaceutical companies have been pushing the lucrative lifestyle drugs segment since the late 1990s. Both younger and older customers are prepared to dig deep into their pockets for these products. Lifestyle drugs do not cure any life-threatening illnesses, but are "primarily" intended to boost the well-being and appearance of consumers.
- This opens up a billion euro business for manufacturers and thus also an opportunity to offset the more stringent cost restrictions in the healthcare systems of many industrial countries.
- At present the purely quantitative significance of the lifestyle drug sector within the pharma industry is still relatively small. These drugs currently constitute 5% of the global pharma market. According to our projections, however, sales of lifestyle drugs should rise up to 10% each year until 2010 to over USD 40 billion compared with EUR 20 billion in 2001.
- This means the sector will grow much faster than the rest of the pharma industry, where we estimate global sales will increase by an average of 5% until the end of the decade, to USD 590 billion. The pharma market as a whole should expand by 6% p.a. to USD 630 billion.
- The individual lifestyle segments of anti-wrinkle treatments, weight-loss drugs and impotence treatments should post growth of between 10% and nearly 30% p.a. until 2010, whereas for anti-depressives, hair-loss treatments and contraceptives we forecast increases of between 5% and 10%.
- In the medium term the pharma industry will open up new areas for lifestyle products (e.g. dental products). A vision for the future is a drug tailored to each individual patient, as efficacy and tolerability of a drug differ from person to person due to genetic differences.

Uwe Perlitz, +49 69 910-31875 (uwe.perlitz@db.com)

**Editor**

Hans-Joachim Frank
+49 69 910-31879
hans-joachim.frank@db.com

Publication Assistant

Astrid Petter
+49 69 910-31755
astrid.petter@db.com

Deutsche Bank Research

Frankfurt am Main
Germany
Internet: www.dbresearch.com
E-mail: marketing.dbr@db.com
Fax: +49 69 910-31877

Managing Director

Norbert Walter

Pharmaceutical market

Run on lifestyle drugs boosted by demographic trend

The international pharma market is in transition, triggered by the trend towards cost-cutting in the healthcare system. An increasingly elderly population and ever more expensive medical equipment and treatment methods are causing sharp rises in expenditure for health insurance institutions in many countries. Although drugs account for only a small proportion of healthcare expenditure by health insurance schemes, they have already been the focus of cost-saving measures in the past. This is due to the fact that pharmaceuticals constitute a distinct and easy to monitor cost item. The current discussion about a reform of the healthcare system in Germany shows that the financing problems are still far from solved and that the growth tendencies of the drugs market will also be limited in the future due to cost-cutting measures.

The pharma industry reacted to the tougher market conditions with a range of differing strategies including diversification into non-prescription or OTC (over-the-counter) products and generics. For a number of years pharma companies have been aggressively targeting the lucrative lifestyle drug segment, since both younger and older consumers are prepared to dig deep into their pockets for these products. Lifestyle products do not cure life-threatening illnesses, but are solely intended to improve the well-being and appearance of consumers. For the international pharma companies this opens up a billion euro business and thus also an opportunity to offset the more stringent cost restrictions in the healthcare systems of many industrial countries.

In the US "wellness" already became the motto of a movement some 25 years ago signifying a different type of health consciousness focusing on physical and psychological well-being. It represents a strategy of changing one's habits to improving one's own health. The pharma industry soon sought and found alternatives to the activity-focused concept of fitness.

The market for lifestyle drugs is determined by factors both endogenous and exogenous to the market. Demographic changes, changes in national healthcare systems and disposable household incomes have a major influence on the structure and growth of the international pharma market. These basic conditions, which are largely given and cannot be influenced by the pharma industry, have in turn a negative impact on internal market factors such as demand and supply for pharmaceuticals.

1. Factors influencing demand for lifestyle drugs

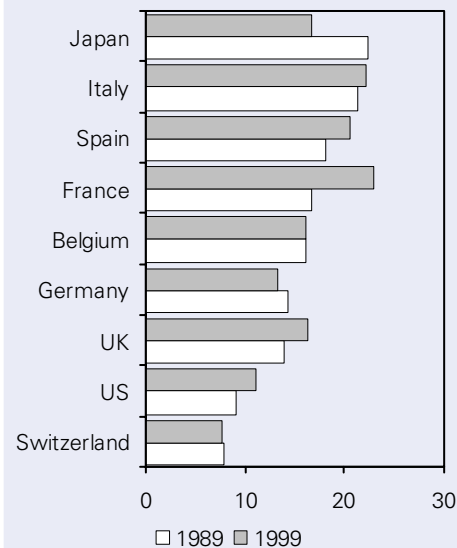
Population trends and structure are important external factors. The type of state-run healthcare system also plays a part. Only in certain countries (such as Britain, Norway and Greece) are the costs of lifestyle drugs reimbursed by the statutory health systems.

Demographic trends are a driver

According to United Nations projections, the global population will increase by around 3 billion to 9.3 billion by 2050. The sharpest increase should come in the newly industrialising countries (NIC) and developing countries of Africa and Asia, whereas in eastern European states, for example, the population should decline. In 2050 the total population of the NIC and developing countries should come to about 8.4 billion, compared with 5.2 billion in 2000 (+61%). There is no general trend in

Drug expenditure

as % of healthcare spending



Source: VFA

Market for lifestyle drugs

Exogenous factors

- ♦ Demographic trends
- ♦ Statutory regulations
- ♦ Disposable income

Endogenous factors

- ♦ Product innovation
- ♦ Zeitgeist

Sources: IVBL, DB Research

the industrialised world; the rising US population contrasts with the sharply falling populations of Japan and EU. The largest declines during the forecast period within the EU can probably be expected in Italy (-25%), Spain (-22%), Austria (-20%), Greece (-15%) and Germany (-14%). The population in industrialised countries is forecast to rise by only 75 million (+9%) between 2000 and 2050.

Age structure is particularly important

Even more important than the absolute increase in the population is the changing age structure. By 2050 the share of the population over 60 is expected to grow from 8% to nearly 20% in the NIC and developing countries and from nearly 20% to over 30% in industrialised nations. The highest proportions of over-60s in 2050 are expected in Spain (44%), Japan and Italy (42% each) and Austria (41%); in Germany the over-60s are projected to represent 38% of the population (compared with 27% in the US). For the pharma market this means that in future there will be increased demand for products to tackle age-related illnesses – e.g. products to treat cardiovascular disease, metabolic disorders and rheumatism, as well as a range of lifestyle drugs such as anti-wrinkle treatments. In addition, technical advances will enable more and more illnesses to be treated in the medium term. The resulting positive impact on life expectancy will further boost drug consumption.

By 2050 average life expectancy is forecast to have climbed from the present level of 79 years to 84 years in industrialised countries, and from nearly 66 years to 75 years in the developing countries and NIC. The way that age is dealt with is also changing, not least because of the increase in life expectancy. The signs of ageing that elderly people used to regard as “normal” are no longer simply accepted as inevitable – especially in industrialised countries. This opens up a huge market for “lifestyle drugs” to combat age-related physical “inconveniences”. In Germany, for example, a 70-year-old spends five times as much on medicines as a 45-year-old.

Restrictions in EU member states

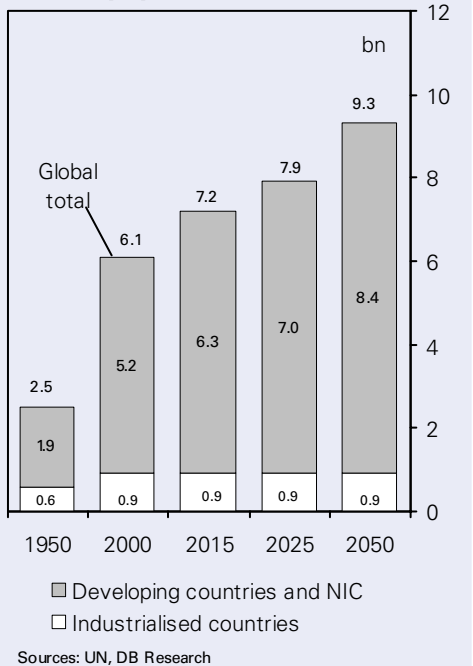
In European countries drug expenditure is usually determined by the volume of contributions to healthcare schemes and/or the efficiency of the state-operated or heavily state-regulated healthcare systems. They are organised either as state systems financed from tax receipts or as compulsory insurance schemes subject to state intervention. There are also major differences between the level of care, which ranges from a state-administered basic level that can be topped up with a supplementary private insurance policy to a comprehensive level of care provided by the state.

In a number of European countries the use of lifestyle drugs is leading to reimbursement problems for the statutory health insurance schemes. On the one hand, the drugs can cure illnesses, but on the other “wellness” is not necessarily the job of a state healthcare system based on the principle of solidarity. This is illustrated by the difference between reimbursement regimes: for example, the costs of Xenical, the obesity treatment, are reimbursed in the UK but not in France, Norway or Sweden.

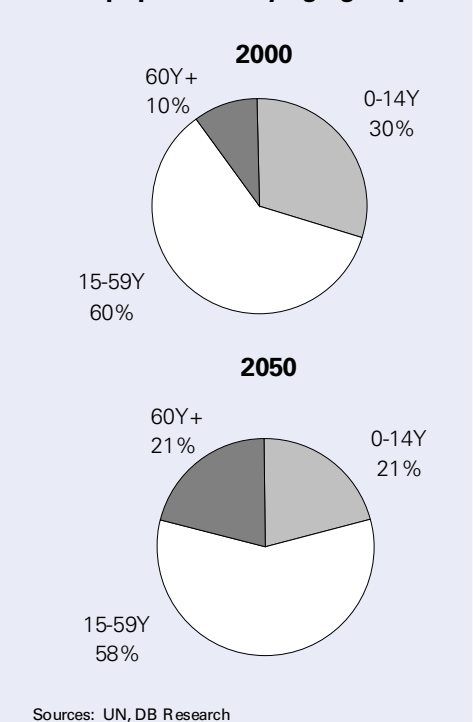
Greater individual initiative in the US

The US, by contrast, has a healthcare system in which most of the population has private insurance. State-financed healthcare is only available to the elderly (Medicare) and the poor (Medicaid). The state regulation of drug prices practised in European countries has never

Global population trend



Global population by age group



been tried in the US. Given the higher price of drugs in the US it is not surprising that Europe's major pharma groups are focusing more of their activities on the US. The US market is the biggest in the world and last year's sales growth of 20% was around twice as much as in Western Europe. The US also offers a more favourable research environment – for example with close ties between industry and science. According to the German Association of Researching Drug Manufacturers (VFA), of the world's 130 research facilities operated by the 30 leading pharma companies 52 are located in the US, 21 in Japan, 16 in the UK and just 10 each in France and Germany. Around two-thirds of all new drugs are developed in the US compared with only one-fifth in Europe.

On top of this, the US market is subject to far fewer legal constraints than is the case in Europe. In Germany alone there are some 60 laws, ordinances and guidelines that form the legal basis for the manufacturing and handling of drugs. Drugs are also subject to the full VAT rate of 16%. This high level of taxation is only exceeded within the EU by Denmark (25%) and Ireland (20%). In other countries (e.g. the UK, Sweden, Austria, France and Italy) the sales tax is either much lower or not even levied, at least on drugs whose costs are reimbursed. The maker of a drug receives an average of 55% of the chemist's selling price in Germany. The wholesaler's cut is currently 4%; the pharmacy retains 27% of the selling price and the state receives 14%. Healthcare expenditure in Germany is equivalent to nearly 11% of gross domestic product, compared with around 13% in the US.

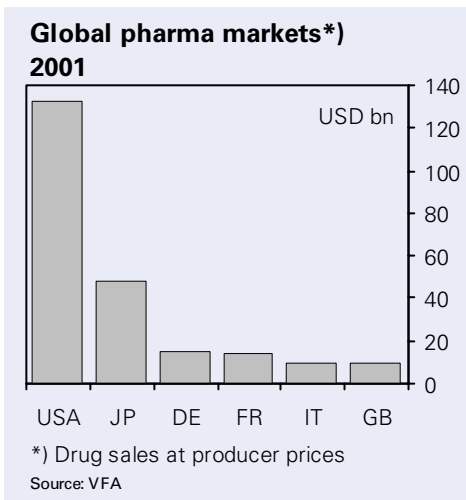
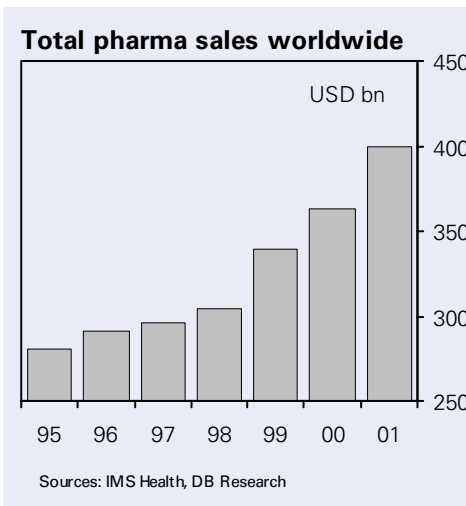
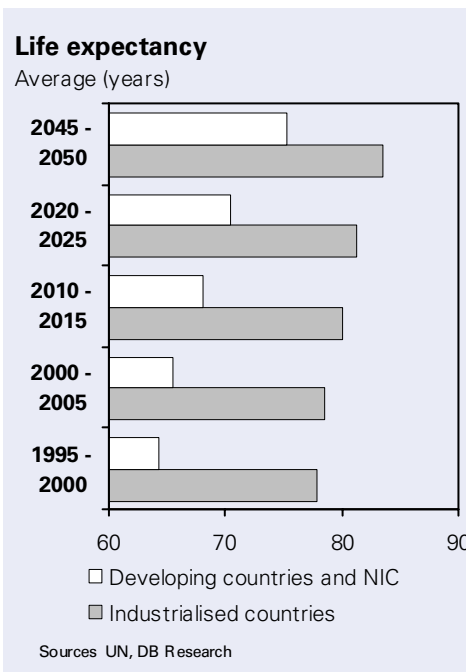
The EU is still a long way from having a single pharmaceuticals market. On the one hand, the drug licensing procedures, which have been in force since 1995, have made it easier to introduce drugs in individual member states. On the other hand, however, there are differing rules regarding pricing and reimbursement of drugs by the health insurance schemes. In order to bolster the Europeans' competitiveness relative to the US, every opportunity for deregulation in the EU needs to be exploited. Otherwise, there is reason to fear that the European pharma industry will fall behind. This would be fatal because the business affected would be a growth sector that has expanded much faster than industry over the last ten years.

Disposable income is a key determinant

The development of disposable income and drug consumption is closely linked – especially in industrialised countries. On the one hand, rising prosperity creates the conditions for higher healthcare expenditure, and on the other rising prosperity increases the risk of illness resulting from higher consumption of semi-luxury goods and tobacco and unhealthy nutrition. The development of disposable income directly impacts the sale of over-the counter drugs, but only has a limited impact on the Statutory Health Insurance (SHI) market – via the copayments that the patient has to make.

2. Lifestyle drugs make the breakthrough

Although competition on the supply side of the international pharma market is largely unfettered, on the demand side there is a highly regulated health system. The market comprises both patented pharmaceuticals as well as generics, which will also play an increasingly important role in the lifestyle segment in the medium term.



Increased supply of lifestyle drugs

The research intensity of the pharma sector is virtually unparalleled and is a high-risk activity. As a rule pharma groups invest about one-fifth of sales in research and development. According to the VFA, the research and development of a new drug costs an average of USD 800m. More than half of this amount is spent on statutory clinical trials. This is particularly relevant given that in drug research only around one out of 5,000 substances makes it onto the market.

The desire for “wellness – right away” has in the meantime permeated the healthcare sector. The pharma companies’ portfolios now contain antidepressives, contraceptives and impotence treatments, weight-loss drugs, anti-hair loss, smoking cessation products, and anti-wrinkle treatments. In Germany nearly all of these are prescription drugs because this is automatically the case for such new treatments or because their use is predicated on consultation with a doctor and thus can only be supplied long term on prescription.

As with any other drug the “new pharmaceuticals” can also cause major side-effects if they are administered improperly – in the case of the impotence treatment Viagra these are headache and visual impairments. However, this seems to bother only a few people. Total sales of lifestyle drugs climbed from around USD 15 bn in 1998 to some USD 20 bn in 2001.

Tablet design is very important

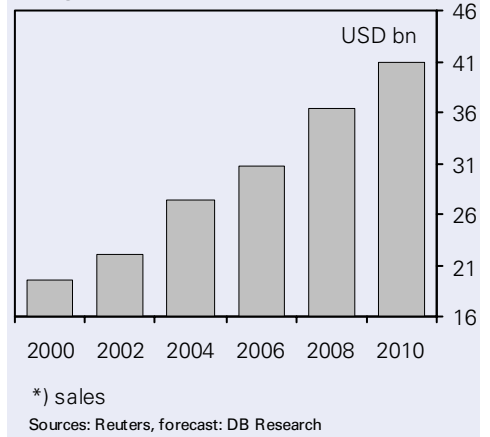
Suppliers are paying more attention to the design of their pills in order to achieve the ideal positioning of a drug in the battle for customers. Colour, shape and logo play an important role in this respect. In the US in particular the “in” lifestyle drugs are, for example, two-tone capsules, sweet-like drops and asymmetric shapes. Where colour is concerned psychology is a factor. That is why antidepressives are given pastel shades and contraceptives are lavender or pink. As with other consumer goods, product styling boosts recall potential, helps to build the brand and thus increases sales. Galenists perform the harmonising of form and function. They are responsible for the physicochemical properties of active ingredients, fillers, glazings and industrial manufacturing.

Market development of special products

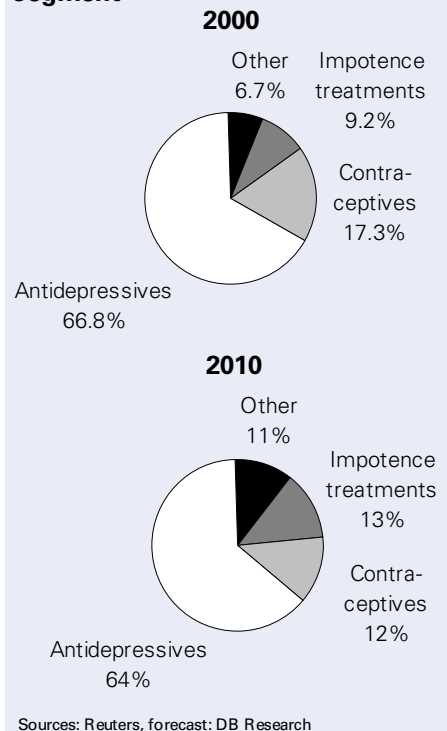
In the vanguard of this new generation of drugs came the impotence treatment Viagra – which not only paid off for the US pharma giant Pfizer. The drug had barely been launched in the US before American physicians were writing out 40,000 prescriptions per day. So it is not surprising that the company’s share price more than doubled in the first twelve months after launch. In Germany, too, pharmacies reported a plethora of pre-orders before the drug was licensed in October 1998 – a lucrative business at prices of EUR 10 per pill. The drug is now licensed in some 100 countries and has been prescribed over 45 million times. In 2001 Pfizer booked Viagra sales of nearly USD 2 bn. (1998: about USD 1 bn); in 2005 sales are forecast to be around 40% higher. The drug is now as well known as Coca-Cola or McDonalds. The drug is thus a blockbuster, i.e. Viagra has sales potential of over USD 1 billion and delivers high margins.

The weight-loss drug Xenical from Roche also demonstrates how additional growth can be generated. The development of this drug may have cost the company a lot of money, but the investment is likely to pay off, for around 25% of the US population and 20% of Europeans are overweight. The advantage for the manufacturer is that the drug has to be taken permanently, because the patient’s body fat starts to

Trend in market for lifestyle drugs*)



Breakdown of lifestyle drug segment



increase again as soon as consumption of the drug is stopped. In 2001 the company booked sales of nearly USD 600 m with this drug; by 2005 sales are projected to rise to USD 1,400 m.

The most lucrative area of the entire lifestyle sector to date has been the booming antidepressives segment. The number of persons suffering from depression in Western industrialised countries reached nearly 80 million in the year 2000 (1990: around 60 million) and is set to continue rising in the coming years. Global sales in this segment currently top USD 13 bn. By 2005 sales could rise to nearly USD 19 bn (an increase of roughly 50%). Eli Lilly of the US generated sales of over USD 2 bn with its drug Prozac in 2001. The drug is now off-patent and competitors are rushing into the market with cheaper generics. They include – following years of litigation involving the maker of the original drug – the US pharma company Barr, which sells its products one-third cheaper than Eli Lilly. This substantially boosts demand for antidepressives – especially among consumers who were hitherto unable to afford the expensive original product. Competition looks set to be equally intense in the coming years for other lifestyle drugmakers. As soon as medicines go off-patent and find themselves competing with keenly priced generics, sales of the original drug fall sharply and the companies have to replace them by launching new products. In the Western European drug market Germany currently has the highest generics market share of 20%. In the US it is roughly twice as high.

Managed Care – the catalyst

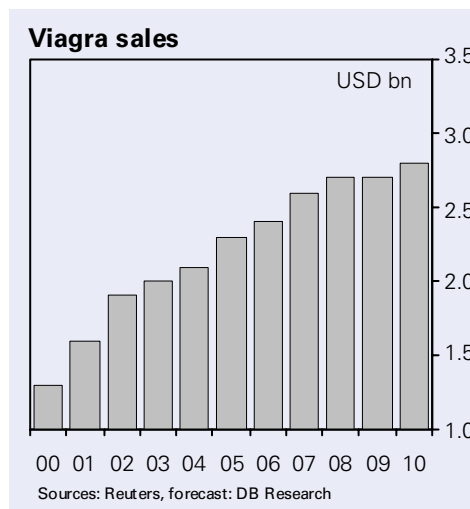
The marketing of the anti-wrinkle treatment Botox by the US pharma manufacturer Allergan at ‘Tupperware parties’ is a typical example of the deployment of Managed Care (total patient care and the formation of “networks” by service providers). At these parties where canapés and champagne are served, participants can also have a Botox treatment administered. Given that the drug has to be injected into the problem skin zone the treatment is surprisingly popular. The average price charged by doctors for one treatment of USD 400 is very high. Those who wish to be largely “wrinkle-free” for a whole year face a bill of USD 1,200, as the effect of a single treatment lasts for only around four months. The company estimates that only 1% of the target group of nearly 6 million people use the drug in the US as of yet.

Given the bright outlook for Managed Care, the international hotel business is also investing heavily, because wellness, combined with medical offerings, is attracting great interest in industrialised countries.

Lifestyle management is also becoming increasingly important. It was conceived in the US and has established itself in Europe’s big cities. The “manager” supervises an individual treatment programme using a variety of specialists and lifestyle pharmaceuticals. This system is another tool for providing improved marketing of special pharmaceuticals.

Programmed for high growth

With their origins in the fitness trend the wellness- and health-related sectors are increasingly market-oriented and are thus generating a plethora of new products and services. The high R&D spending and the attention that many companies are paying to the lifestyle segment show that it has considerable growth potential. The purely quantitative significance of the lifestyle drug sector within the pharma industry is still small. Lifestyle drugs currently account for just 5% of the global pharma market. Nevertheless we forecast that by 2010 sales will have risen up to 10% p.a. to over USD 40 bn, compared with USD 20 bn in



Trends in the lifestyle drugs market

	2000	2005	2010
	- USD bn -		
Antidepressives	13.1	18.7	26.0
Contraceptives	3.4	4.2	5.1
Impotence treatment	1.8	3.2	5.5
Weight-loss products	0.7	1.5	2.2
Hair-loss treatments	0.3	0.4	0.6
Smoking cessation products	0.2	0.4	0.5
Anti-wrinkle treatments	0.1	0.5	1.1
Total	19.6	28.9	41.0

Sources: Reuters, forecast: DB Research

2001. Their share of the global market should already have risen to 7% by then. This means that the segment would be growing much faster than the rest of pharma industry, for which we forecast an annual increase of 5% to USD 590 bn. The pharma market as a whole should grow by 6% p.a. to about USD 630 bn. The growth rate is slightly lower than the average for the 1990s because of the dearth of trailblazing drugs.

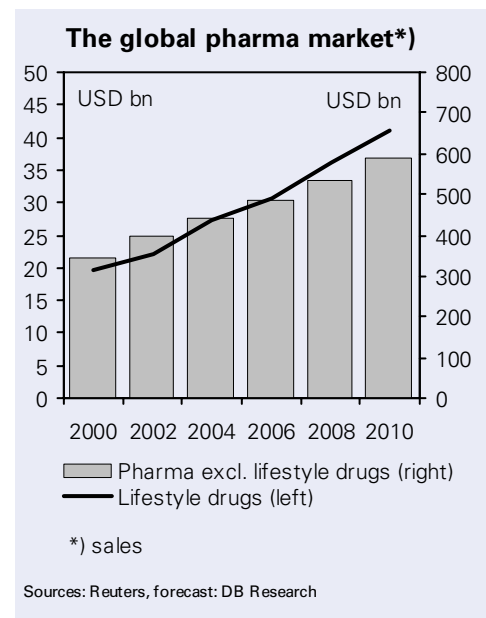
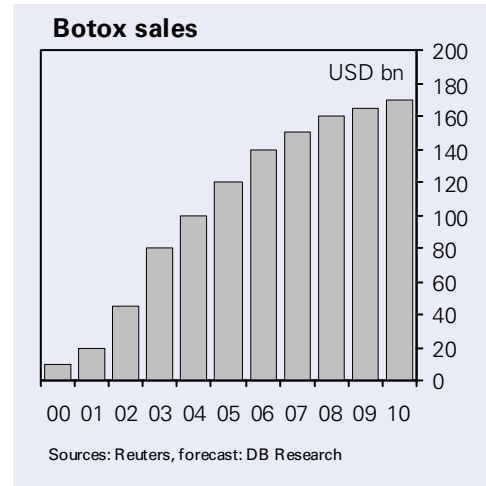
The individual lifestyle segments of anti-wrinkle treatments, weight-loss products, impotence treatments and smoking cessation products are likely to grow by between 10% and nearly 30% p.a. until 2010. We forecast single-digit annual growth of between nearly 5% and less than 10% for the antidepressives, anti-hair loss treatments and contraceptives segments.

3. Outlook

The pharmaceutical industry should remain one of the growth sectors of the 21st century – in light of the unfolding demographic trend. The potential is huge as only 10,000 of the 30,000 known diseases can be treated adequately today. The increase in cost-saving measures in many of the healthcare systems of industrialised nations cannot reverse this trend. These measures do, however, restrict the room for manoeuvre of all those involved in the drugs market.

In the coming years several strong-selling lifestyle drugs will go off-patent so a large number of generics are likely to come onto the market in this segment. They will cost far less than the original treatments – as is the case with traditional medicines. This should help to generate additional demand. In the medium term the pharma industry will open up new areas for lifestyle drugs. For example, research is being carried out on active ingredients for the dental sector, because the companies know that specialising early in lucrative segments is the only way to realise first mover advantages. The objective of US and European pharma companies is to create a broader base and a larger share for the lifestyle drug segment, which offers the tantalising prospect of growth rates and earnings expectations above the average for the overall pharma industry, because even in times of weak consumer spending money is easily found to purchase lifestyle products. A vision for the future is a drug that is tailored to the individual patient, as the efficacy and tolerability of a drug differs from patient to patient due to genetic differences.

Uwe Perlitz, +49 69 910-31875 (uwe.perlitz@db.com)



Topic: pension provision

Old-age security systems in Europe are facing major challenges. One in particular results from demographic trends: the task of ensuring that the claims of growing numbers of pensioners on GDP can be met. The large EU states on the Continent are inadequately prepared for the job. Germany, especially, must fundamentally reform its state pension system and substantially bolster occupational and personal provision schemes by improving the regulatory framework.

Company pensions already make a sizeable contribution to retirement income in the Netherlands, Switzerland and the United Kingdom. This speaks for the widespread use in those countries of pension funds for old-age provision. However, the quite varied labour, supervisory and taxation practices in the individual EU member states mean that a single market for pension funds is still a long way away.

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Deutsche Bank Research
Marketing
60272 Frankfurt am Main
Fax: +49 69 910-31877
E-mail: marketing.dbr@db.com

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