2019 Global Healthcare Outlook

A forecast of the industry’s most consequential stories, opportunities, and risks

By Frontier Strategy Group and Ducker Worldwide's Healthcare Practice
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Introduction

Welcome to Frontier Strategy Group (FSG) & DuckerWorldwide's (Ducker's) 2019 outlook for the global healthcare industry. We strongly believe that understanding the macro environment—the political, policy, and macroeconomic context in which every global healthcare company operates—is a prerequisite to developing a sound growth strategy. With that in mind, we'll begin with a discussion of our proprietary macroeconomic and healthcare spending forecasts and summarize where companies are likely to find the strongest and weakest environments for growth. Headline economic growth does not guarantee market access, however, so we'll go a step further and discuss some leading indicators that suggest emerging-market access risks for innovative therapeutics. To round out our macro discussion, we'll examine how companies can protect against these near-term risks while making investments to capture medium- and long-term growth trends.

Having established our macro view of the world, we'll explore the key stories, opportunities, and risks that will dominate the healthcare industry in 2019. Each of these stories is a reaction to the interplay of economic forces driving global healthcare—namely, government efforts to provide healthcare access to more of their increasingly restive citizens; efforts to control inexorably rising costs; attempts to reorder the competitive global landscape among governments and the private sector; and the jockeying between traditional healthcare companies and technology firms to create the healthcare companies of the future. Specifically, we'll discuss:

- The US' unexpected potential involvement in driving a more global drug pricing and R&D regime
- The future of the Affordable Care Act
- China's efforts to speed approvals for innovative foreign drugs
- The healthcare impacts of the US-China trade war
- The likelihood and potential healthcare spending implications of a global liquidity crisis
- What we expect to see in 2019 in the realm of cutting-edge healthcare partnerships

It is not an exhaustive list, but we chose these stories because of their potential global ramifications and because of what they illustrate about a rapidly changing healthcare sector.
The macroeconomic context for healthcare in 2019

With growth slowing in emerging and developed markets, be more selective with country investments

We forecast global economic growth of 3.0% in 2019 (down from 3.3% in 2018), with emerging markets leading growth at 4.6% (from 4.8% in 2018) and developed markets showing expansion of 2.0% (from 2.3% in 2018).

The overall growth number is robust. But to continue driving volumes growth while protecting against price erosion, global healthcare companies will need to improve their market prioritization capabilities while anticipating risks to market access. Overall, this requires a strong understanding of the global and individual country outlooks at a macro level, and the ability to anticipate how these outlooks will translate to new healthcare spending and policy shifts that impact patients’ ability to access innovative therapies.

When translating global and regional growth outlooks to forecasts for healthcare expenditures, we begin to see some divergences. The key highlights are China and Latin America (LATAM), two key contributors of emerging-market revenue and profits for healthcare multinationals.

In China, despite an economic deceleration, we anticipate a marginal acceleration in healthcare expenditure, driven nearly equally by private (+8.8%) and public expenditure growth (+8.4%), with acceleration in private expenditure outpacing that in public expenditure as the government continues to push the burden of healthcare financing to individuals and families.

In Latin America, despite economic acceleration in 2019 to 2.5% from 1.5% in 2018, healthcare expenditure growth is set to decelerate from 3.2% to 2.7% before rebounding to 4.1% in 2020. This dynamic is largely due to post-election fallout—public spending increased in 2018 when there were 6 elections across the region, only to be cut in markets such as Mexico and Argentina (where a currency crisis has undermined payer purchasing power even though the country will hold an election in 2019) and held essentially flat in Brazil.

But of course, expenditure growth does not automatically translate into improved market access. When looking at global portfolios, companies need to prioritize for affordability and payer priorities as well.
When it comes to affordability, large developed markets in North America, Western Europe, and Asia Pacific are economically better positioned to procure high-cost therapeutics. But considering that emerging markets, where per-capita expenditure and insurance coverage are much lower, now represent 30% of total global healthcare expenditure (set to expand to 35% by 2023), companies need to ensure they are prioritizing resource allocation across these markets not just on expenditure growth, but also on the ability to achieve market access in the short and medium term.

In 2018, the clear winners for innovative therapeutics were the Middle East and North Africa (MENA) and LATAM, where national governments pursued universal healthcare coverage and the improvement of key affordability metrics. However, forecasts through 2023 show continued improvements on these key metrics as global economics impact governments’ ability to increase expenditure. While MENA today is the best-positioned emerging-market region, we forecast that LATAM will take over this position by 2023 due to significant expansion of access in Mexico and Peru, and China will continue to climb the charts on key affordability metrics.

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While MENA’s key markets, such as Saudi Arabia, Turkey, and Egypt, will continue to invest greater resources into healthcare expenditure, other markets dependent on oil revenues (e.g., Iran, Iraq, Kuwait) will drag the regional average downward.

Finally, to drive outperformance it will become increasingly important for companies to anticipate shifting payer and provider priorities and the likely impact on market-access barriers and optimal commercial strategies.
At the country level, there will be significant divergence in per-capita spending growth in 2019. Some markets, such as Mexico, Turkey, Iran, and Argentina, will clearly show short-term market-access risks. However, by layering more context about the individual healthcare systems on top of the macro outlook, a more nuanced view of opportunity and risk emerges. We group markets into three overarching categories of healthcare priorities:

- **Expansionary healthcare** – likely to focus on quality and access
  
  *Key example: China* is rapidly expanding its per-capita expenditure, with a focus on expanding access to rural inhabitants while also improving quality of care across the entire system.

- **Cost focused healthcare** – likely focus on cost and access
  
  *Key example: Brazil* – Public spending will be held essentially flat in 2019, with private spending driving growth. While this dynamic plus currency appreciation will lift per-capita spending in US dollar terms in 2019, continued tight private payer margins and a stretched public system mean that companies will continue to see a reprioritization of lower-cost inputs and greater pricing pressures across the system in the short term.

- **Value based healthcare** – likely focus on cost, access, and quality nearly equally
  
  While no market can truly be considered value-based today, the markets closest to achieving this balance are Turkey and Costa Rica, where healthcare systems are less fragmented and thus facilitate greater focus on population health and aligned incentives, and certain subnational entities in larger markets such as China and Brazil, where more advanced reimbursement schemes have already been implemented.

Having established a baseline for global economic performance and healthcare spending, we will now turn to the individual political, policy, and industry stories that we think will drive the global healthcare conversation in 2019. To begin, we’ll discuss an arguably surprising effort to address US prescription drug costs—something even the Obama administration avoided tackling in the Affordable Care Act in 2010—and the ripple effect it could have globally.

### A more global pricing and R&D regime?

The Trump administration wants to base the pricing of prescription drugs in Medicare Part B (physician-administered drugs in a hospital or outpatient setting) on the prices a basket of advanced industrialized countries pays for the same drugs. But the rationale behind the move makes this more than a US story. The administration argues that it is wrong for the US taxpayer—and healthcare consumer—to pay multiple times the price that similar countries pay for the same treatment, essentially subsidizing access abroad. What’s more, according to the administration, if other advanced industrialized countries want to benefit from US-developed drugs, they should...
begin footing part of the early-stage R&D bill as a way of encouraging domestic investment from US drug firms.

The Trump administration’s proposed policy has numerous political and regulatory hurdles to clear before it becomes reality, and only affects a small percentage of US prescription drug spending (Medicare in total accounted for 29% of US prescription drug spending in 2015, with Part B a portion of that). The largest impacts of this policy would be a few years away, but it is crucial that healthcare executives think through the logic of the proposal now and its potential knock-on ramifications in the US and globally.

What does this really mean?

1. The most obvious domestic ramification of this proposal is that it provides a pathway for bipartisan action on drug pricing, with reference pricing at the core. Other proposals under consideration include allowing prescription drugs to be imported from Canada and cracking down on so-called “pay-for-delay” deals that delay the entry of generics into the US market. In 2019, healthcare executives should prepare themselves by developing multiple US political and drug-pricing scenarios that draw heavily from global regimes. Putting new pricing procedures in place (and even implementing some ahead of regulation) will help to minimize disruption should any come to fruition.

2. Lowering domestic drug prices is the administration’s central intent, but the means it is using imply a more globalized R&D and pricing regime. The thinking is that US biopharmaceutical firms, facing lower prices in the US, will then attempt to renegotiate prices in Europe, Canada, and Japan, and those governments will make domestic early-stage R&D incentives part of their offer. Companies should begin to prioritize markets for R&D investment and consider where it makes sense to expand operations (proposed tariffs on active pharmaceutical ingredients [APIs] imports from China could also fuel this trend).

3. US adoption of international reference pricing would strongly amplify a pricing system that already has growing global linkages. Companies already closely watch Saudi Arabia on pricing to anticipate what will follow in Gulf Cooperation Council (GCC) countries and follow Brazil to anticipate knock-on effects in Colombia and elsewhere in Latin America. A more synchronized global pricing system would require companies to re-evaluate their standard R&D, approval, and commercialization sequences. Companies should begin scenario planning with the myriad variables that would govern these decisions, alongside pricing developments. China, for example, is already prioritizing the commercialization of rare disease therapeutics, an area where the clear answer has always been to commercialize in the US first.

4. Medical technology firms should pay attention: Pharma regulation is often a leading indicator of how governments will approach pricing regulations for the medical device sector in the future.

The future of the Affordable Care Act—The “Medicare of the millennials”

To understand the long arc of politics and policy surrounding the Affordable Care Act (ACA), it’s instructive to consider two arguments that analysts who predicted its survival made. First, the history of social safety net expansions suggests a pattern: passage, initial backlash, rising popularity, inertia, and longevity. The analysts said the Affordable Care Act would follow the same path as Medicare, and in 2019 it appears they have been proved right. Second, while “Obamacare” has often polled poorly, when respondents were asked about many of its individual provisions (e.g., coverage of pre-existing conditions, children being able to remain on their parents’ plans until age 26), they approved in much larger numbers. Support for those individual provisions hasn’t wavered, but the politics of the moment have, and “Obamacare” no longer carries the same negative connotation. While the ACA could return to the US Supreme Court after a Texas judge found the entire law unconstitutional in late 2018, let’s consider:

• The political moment: Democrats just picked up 40 seats to gain control of the House of Representatives, using healthcare prominently in their campaigns; 37 states have now adopted the expansion of Medicaid; Republicans have been unable to develop a replacement; and now Republicans outside the Freedom Caucus seem unwilling to put their political capital on the line to fight the ACA.
• The economic moment: The global economy is slowing, US stock markets are hovering in correction territory, and a 2019 recession is possible though unlikely (we forecast 2.1% growth and put a 15.0% probability on a US recession). Taking away the ACA’s insurance exchanges and associated subsidies—a haven for individuals who don’t qualify for Medicaid and can’t get employment-based insurance—approaching a presidential election year when the economy is likely softening will be politically perilous.

The bottom-line for healthcare companies?

1. Payers can take solace with the growing stability of the ACA exchanges (and the growing trend of privatized Medicaid), but should monitor “Medicare for All” and the “public option” in Democrats’ campaign platform as potential competitive threats—the long arc of government expansion in healthcare suggests doing so is wise.

2. Providers should continue to take risks with joining Accountable Care Organizations and more innovative treatment and care models. While attention right now is on drug pricing as a driver of healthcare costs, hospitals and doctors will also have their turn under the microscope. Providers should consider integrations with payers, and payers with life sciences firms, to align incentives toward cost reduction and to demonstrate broader value to the healthcare system.

3. Biopharmaceutical and medical technology firms should continue to anticipate cost pressures from both public and private payers arising from alternative payment models and integration/partnerships across the healthcare value chain as they consider their global investment priorities.

4. All healthcare companies should focus on the state and regional level. Regardless of the federal environment, states are likely to remain the most aggressive policy incubators. For example, several states have either approved or are considering passing individual mandates of their own after the US Congress abolished the individual mandate as part of the December 2017 tax law changes.

China—a brief window for success?
And just for some.

In a heartening development for global biopharmaceutical firms, China has approved 30 innovative drugs made by foreign firms in roughly the last two years, after approving only three foreign drugs in 2016. The country’s regulators have also begun to accept the results of early-stage clinical trials, bringing the country more in line with international practices. What’s more, regulators seem intent on easing the process of approval for innovative drugs to treat rare and life-threatening diseases. However, as executives contemplate their China strategy in 2019, sober analysis is warranted.

First, foreign drug makers have had to significantly cut prices for innovative therapeutics in order to be at least partially covered by China’s public insurance programs. Second, only a handful of the approved drugs have been approved to be covered under the national formulary, the National Reimbursement Drug List (NRDL). Third, it’s important to recognize that drug sales represent a large portion of China’s public hospital revenue, and that the government is encouraging local firms to dominate the local generics market (and to move up the value chain over time). With only about one-quarter of the value of drugs supplied by Chinese hospitals coming from foreign makers, approving more foreign drugs can provide a potential revenue source for hospitals as they undergo other reforms as part of overall healthcare system reform. The bottom line is that the speedier approvals may be just as much about stabilizing revenues during a time of reform as they are about getting Chinese patients more access to innovative treatments or leveling the playing field for foreign firms.

Each innovative global biopharmaceutical firm must make an individual decision about whether short-term gain in China is worth the price of market access. A window for profit exists for some, but make no mistake: threats to intellectual property (IP) still exist and the Chinese government’s longer-term goal is for Chinese firms to dominate both the generics and brand-name spaces, just as it is the government’s goal for Chinese technology companies to dominate the internet and 5G. Ongoing talks surrounding US-China trade relations present an additional layer of complication.
Healthcare and the US-China trade war

While many focus on the merits of China as a demand source for pharma and medtech, developments in the US-China trade war in 2019 could have both domestic and global ramifications for industry competition. Trump administration tariffs on medtech components imported from China, and on active pharmaceutical ingredients (25% of which are imported, with 80% of that originating from India and China), would have—and have had—significant impacts on cost and availability of certain medical devices and generic drugs in the US. Retaliatory tariffs from the Chinese government on medical devices from the US have also hurt sales in the other direction.

US generics and biosimilars producers are/should be evaluating their supply chain and manufacturing options (in the context of US-China trade war scenarios) to develop alternative sourcing. Firms should also consider a likely improvement in the competitiveness of Indian generics manufacturers (which in turn are also reliant on imports of APIs from China) in the US. A potential byproduct of a US-China trade war that affects APIs is a bilateral alliance in the generics industry between India and China. This would further hurt a US generics industry struggling to compete with manufacturing cost pressures and continuing political attention on the costs of drugs. Biosimilars producers already struggling with regulatory and legal barriers to widespread adoption in the US would be further hurt by rising difficulty in importing APIs, making development and commercialization of biosimilars in other global markets more appealing.

Beware the global liquidity crisis and plan accordingly

While FSG & Ducker forecast a third consecutive year of global growth in 2019, global healthcare executives should not ignore the 20% probability of a global liquidity crisis, which would have serious ramifications for healthcare spending across emerging markets. Tightening monetary policy in Europe and the US, combined with high levels of emerging-market debt, creates fertile conditions for currency depreciations/devaluations in 2019 in countries such as Indonesia, South Africa, and Egypt. But a significant “risk-off” mentality, which could even arise from economic shocks emanating from the US, Europe, or China, would hurt emerging-market currencies across the board as investors make little distinction within the asset class. Indeed, it is the potential interlinkages among a handful of economic events to watch in 2019 that require significant attention. Ongoing Brexit negotiations (where a no-deal Brexit is still a significant possibility), China’s delicate balancing act between deleveraging and reform, and the US-China trade war negotiations all present direct or indirect ramifications for emerging-market economies.

Past economic crises have shown clear links between currency volatility and devaluations and stark declines in both private and public healthcare spending. Currency depreciation and devaluation, in particular, have severe ramifications for countries’ ability to import medicines and medical equipment and for individuals to purchase the necessary care/treatments out of pocket. While isolated emerging-market crises are unlikely to create much concern among executives at a diversified global healthcare company, risks that spread across the emerging-market footprint have the potential to significantly restrain global revenues.

Actions to take

1. Companies should map out their specific exposure in emerging markets, particularly those that rely heavily on external financing. Use data from the impact of past economic slowdowns or currency crises to anticipate how a repeat event would impact healthcare spending going forward.
2. Global healthcare executives must consider their companies’ therapeutic/device areas and their main customers—public-funded, voluntary private insurance, or out-of-pocket—and run simulations of how various economic scenarios will affect these buying centers.

3. If necessary, companies should consider new strategies to minimize revenue disruptions, including moving to pricing strategies based more on volume, or relying more on distributors with adequate local financing to weather currency crises.

Partnerships and deal-making: Innovating toward the integrated future

Large pharmaceutical firms partnering with marijuana companies. Large pharmaceutical firms partnering with digital therapeutics companies. Hospitals purchasing physician practices. Tech giants purchasing online pharmacies. Insurers purchasing pharmacy-benefit managers. The march of technology, the steady progression toward value-based care, and economic realities are breaking down the siloes in which players in different parts of the healthcare value chain have operated. New alliances are forming through mergers and acquisitions (M&A), commercialization agreements, licensing deals, and other arrangements. Companies want to dip their toes in the water of an adjacent opportunity—or an entirely new section of the value chain—while maintaining their legacy specialization. It isn’t yet clear what the defining “healthcare” companies of 2025 will look like, but business, political, policy, and economic trends are all pointing in one direction: integration. Every healthcare executive should be thinking about their company’s distinct comparative advantages and how innovative partnerships can solidify its standing for the future.

Here are a few partnership trends we think will drive the healthcare innovation story in 2019:

• **Life sciences and payers unite:** Biopharma, medtech, and diagnostics firms venture to nearly every country in the world, reaching individual deals on pricing and reimbursement with myriad types of health systems. Wouldn’t it be easier to enter new markets with just one or two partners who would provide a steady funding source, or even just one or two partners for each region? As the burden of providing healthcare services to covered populations grows faster than many countries’ ability to pay for them, many will carve out expanded opportunities for private payers to fill the void. A handful of payers will have the scale to go global (or even regional), and biopharma, medtech, and diagnostics firms will partner with them to bring an integrated offering to emerging and perhaps even developed markets. One entity will provide patients with both the therapeutics they need and the insurance coverage they need to help pay for it. An early example of this trend is UnitedHealth Group’s US$ 4.9 billion acquisition of DaVita Medical Group, which will become part of UHG’s Optum unit.

• **Holistic health:** Historically, health agencies provide health funding and regulation. Housing agencies provide housing subsidies and regulation. Another agency provides food support. But in another example of the integration trend, the Trump administration has opened the door for Medicaid funds to be spent on so-called “social determinants of health,” such as rent payments and healthy food. An integrated approach should be even more applicable in developing countries, providing opportunities to companies—particularly those with the proper technology tools—to partner with governments in selecting, monitoring, and addressing the determinants of holistic health among populations. Rising middle classes in developing economies increasingly demand better services; the companies that can use technology to meet these demands in a cost-effective manner will be best-positioned to develop a new healthcare delivery paradigm.

• **Dr. Big Tech:** Big tech firms, notably Amazon, have already begun to partner to find innovative, lower-cost ways of providing healthcare to their own employees. This is the logical first step to developing a model that can then be applied to the hundreds of millions of consumers who are already customers of these firms. The Amazons and Microsofts of the world already have a trove of consumer data and relationships, the cloud and artificial intelligence (AI) capabilities to process the data, and an ecosystem of suppliers. They have the clout to negotiate with governments and life sciences companies on pricing and contracting. The regulatory landscape in developing and developed markets is moving toward value-based and integrated care (such as Accountable Care Organizations in the US), and a less-fragmented healthcare delivery system is the easiest to control for outcomes and costs. The bottom line? Look for physicians and hospitals to become employees of big tech.
About Frontier Strategy Group & DuckerWorldwide

Frontier Strategy Group acquired DuckerWorldwide in early 2018. Combined we offer expertise across 10 industry sectors and 80+ markets, expanded subject-matter expertise, global delivery reach, a robust cloud-based information services platform, and a range of tailored services for clients. Working across nine offices around the world, we provide executives with a comprehensive set of solutions to address their global strategic priorities and growth mandates.

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Stephen co-leads FSG and Ducker’s healthcare practice, which works with 55 global healthcare clients on their growth, commercialization, market access, and innovation strategies. Stephen partners with clients across the full range of practice offerings, from business development through delivery. He leverages his industry knowledge, expertise in FSG and Ducker’s solutions, and ability to place clients’ strategic challenges in the relevant macroeconomic, political, and policy context. With a diverse educational and professional background, Stephen takes a multidisciplinary approach to addressing client challenges. Prior to joining FSG and Ducker, Stephen worked for seven years at Eurasia Group, where he led the firm’s business development/client services efforts for the healthcare sector. He previously worked as an Associated Press journalist covering state politics and policy—including healthcare—in Florida and Ohio, and has reported internationally on health policy. Stephen holds a bachelor of science degree from Northwestern University, and a master of public policy from the University of Maryland.

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