

# Health Care

## Increased focus on capacity building

This report does not constitute a rating action.

### What's changed?

**Supply chain bottlenecks are a key consideration for the pharmaceutical sector.**

Denmark-based Novo Nordisk acquired three manufacturing sites for \$11 billion in February 2024, after its controlling shareholder bought U.S. company Catalent. The Danish drugmaker and its competitor Eli Lilly have announced huge additional investments to increase capacity in their U.S. plants as they race to expand production of the weight loss drugs. Therefore, we anticipate a reallocation of investments toward capacity increase and supply chain strengthening, following a period where growth investments were primarily in mergers and acquisitions (M&A).

**The main business trend for pharma is the fantastic growth prospects of GLP-1,** a new class of diabetes and obesity drugs, a market which should exceed \$40 billion in 2024 and could reach \$130 billion by 2030. The runaway success of this asset class is unprecedented since the emergence of immuno-oncology.

**A tough pricing environment affects health care services.** In France, a price increase cap was set at the beginning of 2024 for the diagnostics segment. This came after a cut of about 5% in 2023, which had already significantly weighed on earnings. Amid tough negotiation with the state, the private clinics sector in France is operating in a blurred tariff's environment.

### What to look out for?

**For big pharma,** we await the new list of drugs that the Inflation Reduction Act in the key U.S. market will affect. In 2023 an initial list of 10 products was released and the drugs will be subject to price renegotiation with Medicare from 2026. However, we do not expect regulations to have a material effect on earnings.

**For health care services,** we will monitor the ability to cut costs and adjust the operating footprint to the current environment where volumes linked to the COVID-19 pandemic have plummeted. There is a need to optimize costs at a time when inflation is still biting, and tariff increases are a constraint.

### What are the key risks around the baseline?

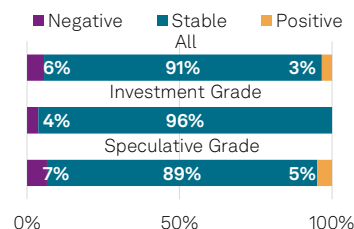
**In our view, the key risks for pharma** are the ability to expand production and supply chain shortages, ahead of M&A risks. Coping with inflation in an unfavorable pricing environment is the key risk for health care services.

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### Rating Trends

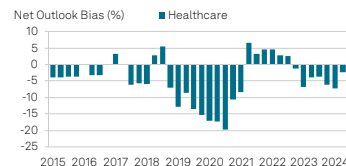
#### Outlook Distribution



#### Ratings Statistics (YTD)\*

	IG	SG	All
Ratings	27	62	89
Downgrades	0	2	2
Upgrades	1	1	2

#### Ratings Outlook Net Bias



#### Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	4.8	5.3
EBITDA growth (Y/Y%)	5.1	14.7
EBITDA margin (%)	27.3	22.0
Capex growth (Y/Y%)	1.9	2.1
Debt/EBITDA (x)	2.3	6.6
FFO/Debt (%)	35.1	8.5
FOCF/Debt (%)	20.8	3.6

All data as of end-June 2024.  
\* Year-to-date. Current ratings only.

### Related Research

[Peer Comparison: Top Pharmaceutical Companies Will See Revenues Soar By 2028](#), May 1, 2024