Pharmagro Scenarios 2025-2030

Tariff Scenarios 2025

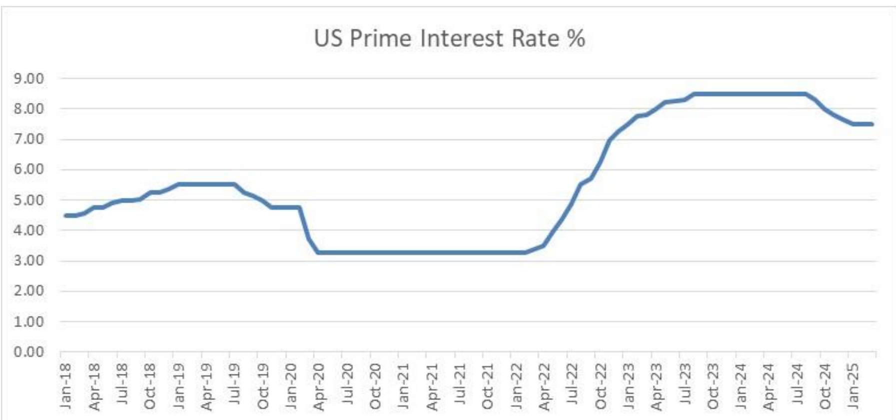
The immediate results of President Trump's imposition of tariffs have been spectacular. For Pharma boards, the question is, what will be the mid to longer term effect? We have no inside knowledge of what the Trump administration is thinking, but we believe that boards and leadership teams should think through a couple of scenarios. It is tempting when scenario planning to opt for three scenarios with the aim of picking the middle ground between two extremes. In this case, however, we outline two scenarios which we have named "Keep America Great" (KAG) and "New World Order" (NWO). In KAG we see that companies continue to focus on the US but that the effort required to produce the same results rises considerably. In NWO companies shift resources away from the USA in the quest for more stable returns.

As background we provide some key financial data.

Data

Exchange Rates : the dollar appreciated strongly against the Euro after COVID before stabilising between 2021 and 2024 q3.

Interest rates rose strongly from mid 2022, plateaued and then appeared to be set for a fall.

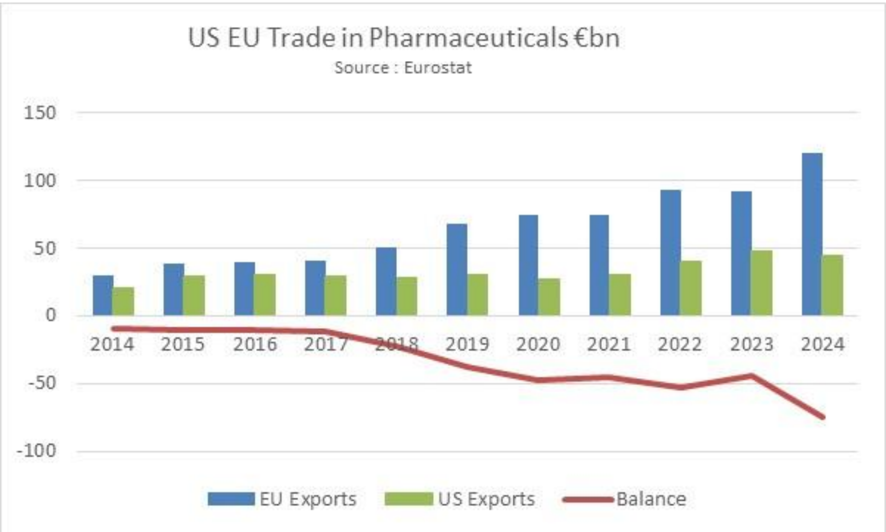


The third table shows how strong the USA pharma market has been during the last five years.

$bn	**2020**	**2021**	**2022**	**2023**	**2024**
US					
Underlying Market	373	395	423	450	509
COVID Related	3	27	32	6	8
US Reported Sales	376	422	455	456	517
Rest of World					
Underlying Market	554	575	615	579	618
COVID Related	1	52	67	23	9
US Reported Sales	555	627	682	602	627
Impact Forex	0	10	-44	3	-2
Total	555	637	638	605	625
Total Market	**931**	**1,059**	**1,093**	**1,061**	**1,142**
USA Share	40.4%	39.8%	41.6%	43.0%	45.3%

Source : Hardman & Co. Quarterly research April 2025

Finally, this graph shows that the balance of trade in pharmaceuticals between the USA and EU is weighted firmly in of Europe.



Source : Eurostat

Keep America Great (KAG)

During the last five years the American market has powered the whole pharma business. The US market grew from $376bn to $517bn between 2020 and 2024, which is a CAGR of 8.4%. This excludes the COVID effect. The US share of worldwide pharma spend increased from 40% in 2020 to 45% in 2024, as the rest of the world had far weaker growth at 2.9%. So, it is not a question of “Make America Great Again” but rather “Keep America Great.” It means that the strategy of many pharma CEOs of “focus on the US” has paid off. Can this continue?

In this scenario we see the US keeping its prime position but the cost of the "ticket to the game" rises sharply. With a weaker dollar the earnings for non-US companies come under pressure. Nonetheless, interest rates remain high and there is renewed focus on the size of the US federal deficit. This puts the spotlight back onto the costs of Medicare and Medicaid and the contribution of pharmaceutical prices.

That US **pricing** is much higher than in the rest of the world is well known in the industry but not one that pharma executives like to talk about. President Trump has not been so reticent. The situation is analogous to military spending by NATO partners. Here the President's directness has forced European members to significantly increase planned defence spending. In this scenario US pharma pricing will come under more pressure, even if the next administration is a Democratic one. The combination of a weaker dollar and slowing price increases will hit non US companies.

Pharma executive reactions to price cuts have been to warn of cuts to R&D spending. We are not convinced that this will have such dire consequences. Pharma spend on R&D has been rising inexorably from 18.6% of revenues in 2012 to 21.5% in 2024. Productivity, however, has remained static. 60% of innovations come from smaller companies. We believe that a combination of government pressure on prices and the need to demonstrate a return on investments in Artificial Intelligence will force a reduction in this spend.

There is more caution about new **modalities** such as bi and tri specifics, oligonucleotides and even ADCs, which have shown such a growth recently. With higher interest rates, a more cautious academic and regulatory sector, there is more of a focus on tried and tested modalities. The structure of spending by **therapeutic category** remains centred on oncology (12% CAGR over last 5 years), obesity and small increases in rare diseases.

Regarding the **supply chain**, the need to demonstrate that products are made in America continues and the tariffs reinforce the Inflation Reduction Act. The threat of continued tariffs is more realistic in pharma than other sectors where US manufacturing capacity has been reduced. The idea that the US could replace consumer electronics is not realistic. But pharma manufacturing in the USA, at least for branded and new products, is perfectly feasible, particularly if government tax incentives are enacted.

Although a weaker dollar makes assets cheaper, there will be increased competition to acquire local companies, sites and factories. It is particularly difficult for small and mid sized pharma companies. Therefore we see a move towards more modular plants and greater flexibility.

In summary it is possible to continue betting on the US as being the engine for pharma sales, but the cost of fuelling that engine has got much higher.

New Pharma World Order (NWO)

In this scenario a combination of geopolitics and a stalling US economy leads to a significant shift. China becomes more important for newer medicines. Europe is forced to become more competitive. The US loses its position as centre for clinical trials as the EU streamlines its regulations. The result is that the mindset of "launch in the USA first" is eroded.

The New Pharma World Order has been developing for a while but the growth of the US market 2020-2024, noted above, overshadowed this. The Middle East has emerged as an area that is keen to join the ranks of advanced medical economies, while India is starting to move beyond being a generics producer. The biggest unknown is whether Europe can regain growth.

Supply chains become more nuanced. USA for USA, China for China and Europe for Europe gives way to more unusual combinations such as Canada and Europe, a warming Europe-China and a more China-S E Asia link.

Funding becomes more diverse with sovereign wealth funds and VCs from China, the Middle East, Asia and India. In this scenario we see the dollar weakening more than in the Keep America Great scenario and US growth is lower. In other words, the relative gap between US and ROW growth reduces. Tariff rates remain high and, importantly, even if the rates are reduced, the mindset of pharma executives shifts to establishing more independence from the USA.

Filing time increases as the USA has a weakened FDA. There starts to be more regulatory competition from the EU which could reduce the time it takes to file.

In both scenarios we see peak sales for new products reducing, more so in the NWO scenario. This is because more sales come from outside the US where prices are lower.

The portion of innovation that comes from outside big companies increases even more. This is for two reasons. We cannot see Big Pharma being able to continually increase the % of sales spent on R&D. There is a renewed effort to make R&D more productive. Secondly, the NWO scenario sees companies more active in searching a wider geography for innovation. This is partly driven by the rise of AI and networked working which disfavours traditional clusters (San Francisco, Boston, N. Carolina).

In the NWO scenario the US passes the BioSecure act into law. But meanwhile there is a closer cooperation between the EU and China. Increasingly pharma companies see the need for a ring-fenced US strategy. The commercial arms of pharma companies can act much quicker than the supply chain and manufacturing.

The Pharmagro Scenarios for 2025-30

Factor	2025 Q1 Actual	Keep America Great	New World Order
Macro	**Latest Figure**		
US Prime Rate	7.5% (2025-Q1)	8.0%	8.5%
USD vs Euro	0.92	0.90	0.85
US GSP Growth	2.4% (2024)	2.2%	1.8%
Tariff Level		10%	20%
Innovation			
Average development time P1 to Filing months	101 (2024)	103	105
Forecast peak sales for launched products	510	490	470
FDA Approvals	50 (2024) 48 (avg 2019-24)	48	44
US Share of Global Pharma Spend	45% (2024)	43%	39%
Start Up Funding		US centric	China, EU, SWFs
% Innovations from outside Big Pharma		60%	70%
Pricing - annual average increase USA		Double digit	Mid single digit
R&D Spend as % of sales for top 20 co.s	21.5%	21.0%	19.0%
BioSecure Act		Not put into law	In law

Summary Of Effects

The Trump presidency should be a stimulus to Pharma CEOs to model different scenarios. Some of the actions, such as tariffs, are eye-catching and have had huge sudden effects. But other factors are slower burning but just as important : – such as the growth of Medicare / Medicaid budget, the inexorable rise of R&D spend as a % of revenues and falling R&D productivity. We believe that these slow acting stimuli are just as important as the short sharp stimuli of recent months.

Executives and leaders of pharma companies and CDMOs should model the different scenarios to understand the following issues.

- **Pricing –** what happens to your NPV if prices stop rising in the USA?
- **Funding** – with interest remaining high, or even rising, how can you de-risk your project and create more runway?
- **Clinical Trials** – prepare for greater variability in duration and geographical location, particularly in the NWO scenario
- **Size** – model your future revenue as being smaller than you thought and more erratic
- **Talent Finding** – go to other universities outside the classic ones.

- **Lead Times –** whether it is for clinical trial material or commercial are likely to go up. So plan accordingly.

In summary we believe that phase **risk** will increase, phase **durations** will increase and become more volatile and the **scale** of businesses will decline.

Pharmagro Portfolio Management Tool

We hope you have found this stimulating, and we welcome your feedback. If you would like to discuss these issues with us, contact us at

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Pharmagro provides portfolio optimisation and risk management tools and services to pharma companies and their suppliers.

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