

PFIZER-US DEAL

SECTOR UPDATE

Pfizer-US deal provides temporary relief

Pfizer has [signed](#) a deal with the Trump administration to cut drug prices for some of its products sold in the Medicaid channel. Medicaid is ~12% of the market; hence, the deal would have limited impact. However, this can partially cut rebates and the role of PBMs. Pfizer will also participate in the government's DTC website by cutting the prices of new drugs. In return, Pfizer gets relief from tariffs for three years.

We think other pharma companies are likely to follow suit, which would provide some relief from tariffs in this uncertain environment created since Jan-25. We believe the deal temporarily removes the overhang on branded pharma/CDMOs. Retain 'HOLD' on Sun Pharma and a 'BUY' each on Divi's, Neuland Labs and Jubilant Pharmova.

Medicaid: Small Rx funding channel may not impact spending

According to our analysis, the gross/net Medicaid spending on prescription drugs was USD105bn/USD51bn in 2023. At the net level, this is 12% of the total Rx drug spending. Based on this, it is apparent that drug companies have paid substantial rebates on Rx drugs. Under the MFN pricing, Pfizer can offer discounts on Medicaid drugs and, in our view, may cut rebates thereof. This can possibly lead to an almost negligible impact on the net price. If such an action is taken, this would lead to a cut in rebates to middlemen rather than impacting the branded pharma companies.

New government website for direct purchase in the offing

As part of this deal, Pfizer will also participate in the US administration's new direct-to-consumer (DTC) platform, TrumpRx.gov. This website is likely to go live in early 2026 and allow US patients to purchase select medicines directly from Pfizer. This, we believe, would lead to an overall increase in out-of-pocket expenses in the US. As per our [understanding](#), prices of DTC drugs are higher than the price of the same drug in insurance programs. Pfizer has stated that DTC purchase discounts will range between 50% and 85% for a majority of Pfizer's primary care treatments and some select specialty brands. This includes a 40% discount on Xeljanz—JAK inhibitor for rheumatoid arthritis, psoriatic arthritis, etc. It, however, means Pfizer's large current portfolio would not be under DTC. We believe DTC would reduce the contribution of PBMs in the US market, which is positive for Pfizer as well as other branded players, if they follow suit.

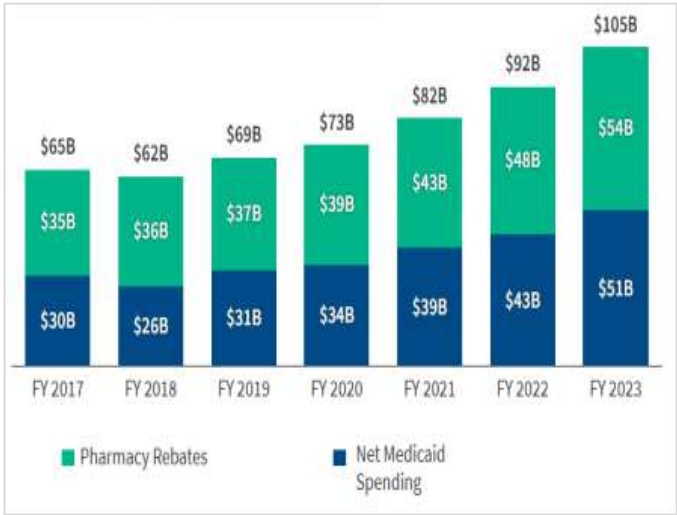
Temporary removal of overhang on branded pharma in US

This deal temporarily removes an overhang on branded pharma, and is relevant to SUNP as well due to its exposure to US innovative drugs. Ilumya, its largest drug, generates its revenue from Medicare Part B (50–60%) while the Medicaid contribution is likely to be ~5% (our estimate). We think if Sun is able to strike a similar deal or take an initiative to manufacture in the US, it may also be able to avoid US tariffs in the near term. This also means business as usual for CDMOs in our view. We retain 'HOLD' on SUNP and a 'BUY' each on Divi's, NLL and JPL.

Medicaid: Small Rx funding channel; spending impact likely limited

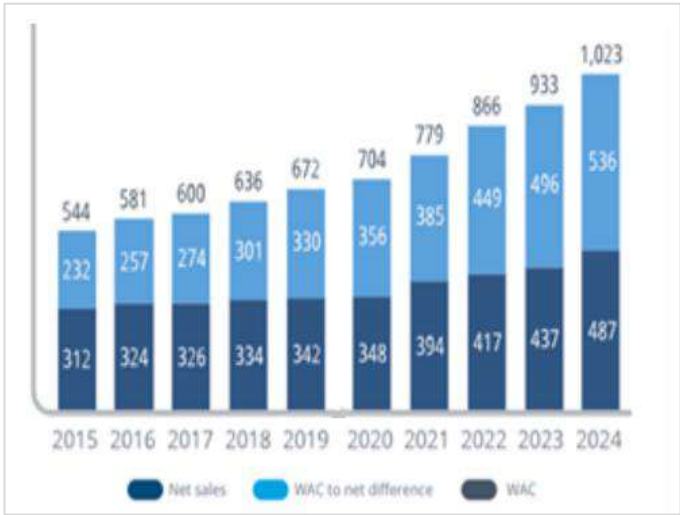
As per the data we have collected, in 2023 the gross/net Medicaid spending on prescription drugs was USD105bn/USD51bn. At the net level, Medicaid spending is ~12% of the total net spending on prescription drugs. Based on the data (exhibit 1), it is clear that drug companies have paid substantial rebates on prescription drugs.

Exhibit 1: US gross and net Medicaid medicine spends



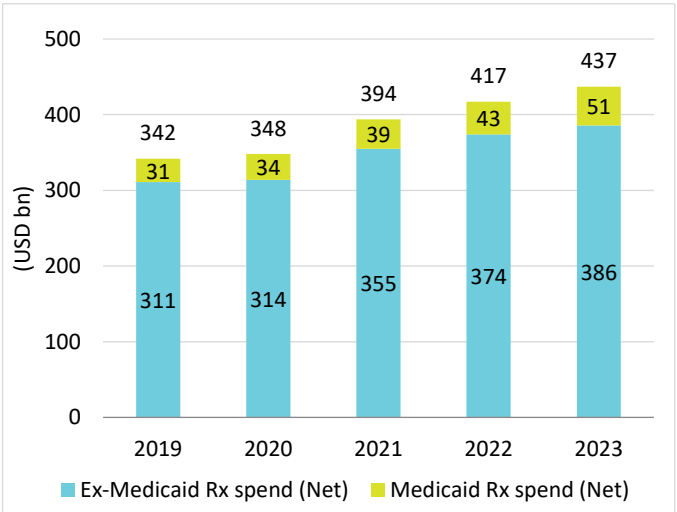
Source: KFF, Nuvama Research

Exhibit 2: US total net medicine spend at USD487bn in 2024



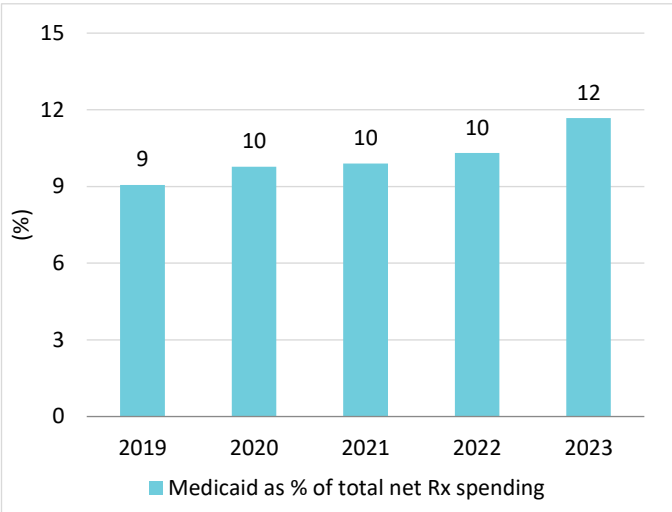
Source: IQVIA, Nuvama Research

Exhibit 3: US total and Medicaid net medicine spending



Source: Nuvama Research

Exhibit 4: Medicaid’s contribution to US medicine spending



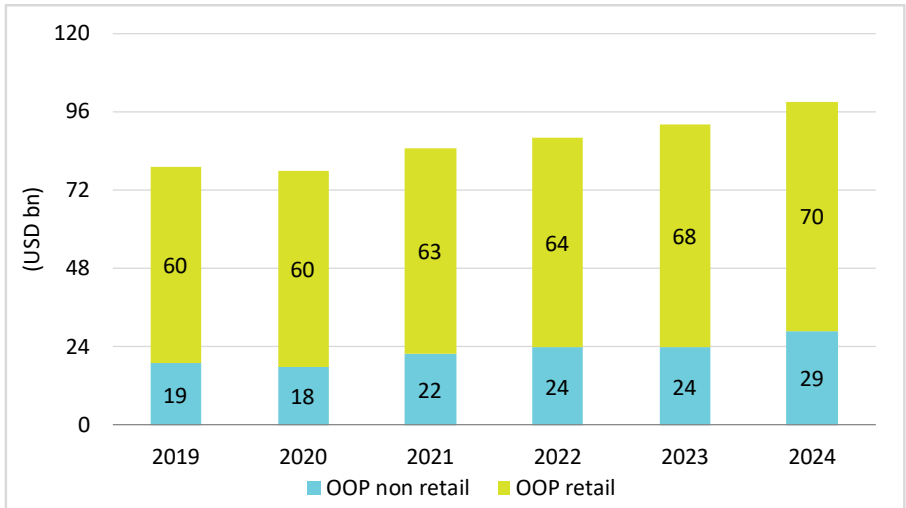
Source: Nuvama Research

We think Pfizer’s revenue generated through the Medicaid channel is small and, hence, this is unlikely to affect Pfizer’s US branded business. For the US government, this can be a win as it has successfully signed a deal with a large drug company to voluntarily cut drug prices in the US. This, however, may affect the PBMs as [indicated](#) by the US administration in April-25.

Out-of-pocket spending likely to increase in the US

We note that the US out of pocket (OOP) for retail aggregated USD70bn in 2024, and this spend has compounded at a 3% during 2019–24. The non-retail channel OOP spending was USD29bn in 2024 and expanded at a 9% CAGR during 2019–24. Pfizer’s move to offer discounts on new drugs on the DTC channel may increase the retail OOP spending in the US. This, however, also reduces the contribution of PBMs in the US medicine market, which may prove to be positive for Pfizer and for other branded players, if they follow suit.

Exhibit 5: Retail and non-retail out-of-pocket Rx spending in the US



Source: Nuvama Research

How this affects other branded pharma players

We understand that Eli Lilly, Merck and a few other drug companies are likely working on their own voluntary agreements as per the US media to avoid any tariff threats or punitive actions in the near future.

Priority reviews and focus on DTC channel

We note that companies that are lowering their drug prices will also receive [priority vouchers](#) to expedite USFDA reviews, even though there is no such USFDA pathway currently. However, considering this incentive, branded pharma companies may be able to avoid a longer wait time to get drugs approved, if they sign such deals.

The other branded drug companies also have plans to launch similar DTC websites, which includes companies such as Bristol Myers Squibb, AstraZeneca, Novartis and Boehringer Ingelheim. Also, industry trade group PhRMA has [announced](#) a new website to connect consumers with these manufacturer direct-purchase programs.

Way to avoid the punitive actions

All such moves signal that US pharma companies are responding positively to the US government’s call to either cut prices or move back production to the US. While we feel there would be limitations and cost implications of moving the production to US, this move looks to avert an uncertainty in the US branded pharma segment.

Deal temporarily removes overhang; implications for Sun and CDMO

This deal temporarily removes an overhang on branded pharma in a belief that US branded pharma companies may be able to avoid the tariff complications in the US.

Sun Pharma, due to its exposure to US innovative drugs, is likely to see tariffs as it manufactures its key drugs outside the US. Ilumya, its largest drug, gets manufactured in South Korea and also sees drug product manufacturing in Europe. Ilumya generates its revenue from government channels, i.e. Medicare Part B (50–60%) and Medicaid (~5%) as per our estimate. We think if Sun is able to sign a similar deal or take an initiative to manufacture in the US, it may be able to avoid any tariffs in the near term. We have a **'HOLD'** on Sun Pharma with TP of INR1,830. Read our recent management [visit note](#).

We think that branded pharma companies by signing such deals may avert any tariff action by the US government. This possibly means that drug manufacturing contracts are likely to continue to have business-as-usual. We think there may be no immediate implications for the manufacturing organisations (CDMOs). From the CDMO pack, we have a **'BUY'** on: i) Divi's Laboratories due to the potentially nearing Orforglipron [opportunity](#); ii) Neuland Labs (Read our [initiating coverage](#)) given its diversifying pipeline and growth opportunity in its existing molecules; and iii) Jubilant Pharmova taking cognisance of US CDMO—fill finish line-3 opening [shortly](#).

Exhibit 6: Valuation snapshot

INR mn	CMP INR	Target Price	Reco	Mcap (USD bn)	Sales (INR mn)			EBITDA (INR mn)			EPS (INR)			CAGR (%)	P/E (x)			EV/ EBITDA (x)		
					FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E		FY25	FY26E	FY27E	FY25	FY26E	FY27E
Sun Pharma	1,641	1,830	HOLD	44.36	5,25,784	5,67,269	6,21,061	1,52,717	1,66,837	1,86,306	49.9	51.5	58.1	7.8	32.9	31.9	28.3	24.3	22.4	19.8
Jubilant Pharmova	1,080	1,500	BUY	1.94	72,345	80,050	90,025	11,737	13,778	16,396	33.5	35.3	46.1	17.3	32.3	30.6	23.5	15.8	14.1	11.2
Divi's Labs	5,733	7,110	BUY	17	93,600	1,07,262	1,29,033	29,680	34,733	45,161	81.2	97.6	126.9	25.0	70.6	58.7	45.2	50.0	42.5	32.5
Neuland Labs	14,798	17,700	BUY	2.14	14,768	17,395	22,096	3,233	3,863	7,071	143.2	182.6	367.4	60.2	103.3	81.0	40.3	58.4	48.7	26.3

Source: Nuvama Research

All price charts cannot be included given the large of number of companies in our coverage. Specific charts may be available upon request.

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