

US Diversified BioPharma

IRA Price Negotiation Headwinds Better than Feared

Following this morning's publication of the prices in Medicare Part D for the first 10 drugs negotiated under the IRA, we want to provide our thoughts on the impact to the sector and individual names. Overall, we see today's publication as implying a ~20-25% net price cut for the products considered in the first wave of negotiations (CMS commenting 22%). This is at the lower end of the anticipated impact that we have heard from investors (who had been generally expecting 25-35% cuts following improved commentary from BMJ and JNJ in conjunction with 2Q results). And overall, we see today's announcement as helping lift an overhang that has been on the group and providing context on the level of impact we can expect for assets included in future cycles. Specific to BMJ and PFE, Eliquis has been of particular focus in this first round of negotiations, and BMJ's guidance for the drug in 2026 (\$8.5-\$10.5bn) is ahead of consensus and implies a 15-25% net price discount for the product based on our calculations, and we expect BMJ (and to a lesser extent PFE) to react positively to today's update.

- **We see the published MFPs as implying a ~20-25% discount on a net price basis.** While it is difficult to arrive at a current net price in Medicare Part D given the limited disclosures by our companies, we see the published MFPs as implying a ~20-25% net price discount, in aggregate. The CMS estimates that if these prices had been in effect in 2023, it would have amounted to savings of ~22% on a net spend basis, though the 2025 Part D redesign affects this calculation looking to the 2026 impact. While investor expectations on these price cuts had improved as we moved through 2Q results, these price cuts are generally better (i.e., lower) than we/investors had anticipated. As we look at specific drugs, we do not see any significant outliers in terms of net price cuts among the negotiated assets; directionally we see the net-price cuts as being in the same range (with some variability) for the products including in this round of negotiations.
- **For BMJ/PFE, US 2026 Eliquis guidance of \$8.5-10.5bn is ahead of expectations.** This morning the CMS/HHS published the new MFP for Eliquis starting in 2026 of \$231/mo (~\$2,770/year) equating to a 56% GTN discount (vs 2023 list price). BMJ expects this pricing to result in 2026 US revenues of \$9.5bn at the midpoint (JPMe/Street \$8.6/\$9.0bn) and \$9.0bn in 2027 (vs JPMc/Street both at \$8.6bn). While fears of more significant Eliquis erosion had eased over the last couple of weeks (BMJ commented during the 2Q call that it is increasingly confident in its ability to manage through the IRA price negotiation headwind), this pricing/revenue guidance is better than we/most investors had expected. After speaking with BMJ, we would note that the 2026/2027 guide does leave room for a range of scenarios/uncertainties (e.g., impact on pricing for commercial PBMs), but overall we believe the price announcement should provide more clarity for the Eliquis revenue profile (LOE in April 2028). As a reminder, we expect Eliquis to benefit from the Medicare Part D redesign in 2025 and then decline in 2026 as this price cut takes effect.

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- More broadly on the story, BMY's valuation of ~7x 2024E (ex IPRD) remains at a level rarely seen for a Pharma company still several years away from core LOEs. In 2Q we saw favorable dynamics for Reblozyl, Camzyos, Breyanzi and even Sotyktu (with expanded access), and the company sees that continuing in 2H24 and beyond. IRA clarity, acceleration in the newly launched products, coupled with what should be a significant oppty for KarXT in 2H25/2026+ (i.e., once government reimbursement is in place) could start to bring investors back to what has been the most out-of-favor large-cap names in our coverage universe.

Figure 1: 2026 Negotiated Assets

Low GTN = <20% Discount, Medium GTN = 20-40% Discount, High GTN = 40%+ Discount

Drug	Company	List Price per 30-day Supply, CY 2023	Published Maximum Fair Price (per 30-days)	MFP Discount to List Price	Estimated Current GTN Discount
Eliquis	BMY/PFE	\$521	\$231	56%	High
Imbruvica	ABBV / JNJ	\$14.9k	\$9.3k	38%	Low
Stelara	JNJ	\$13.8k	\$4.7k	66%	Medium
Enbrel	AMGN	\$7.1k	\$2.4k	67%	High
Xarelto	JNJ	\$517	\$197	62%	High
Jardiance	LLY	\$573	\$197	66%	High
Januvia	MRK	\$527	\$113	79%	High
Farxiga	AZN	\$556	\$179	68%	High
Entresto	NVS	\$628	\$295	53%	Medium
Novolog / Fiasp	NVO	\$495	\$119	76%	High

Source: CMS.gov, J.P. Morgan Estimates

- **We note that there are a number of factors that make it difficult to directly calculate the impact of today's published MFPs to 2026 sales.** Overall, there are number of variables/factors that will make the impact of the published MFPs difficult to calculate. These include 1) uncertain gross-to-net discounts (we estimate this using IQVIA data, though it is uncertain how accurate it ultimately is), 2) somewhat larger, but again unknown, discounts in the Part D channel vs. commercial channels, 3) very limited company commentary (likely that only BMY provides guidance on the impact of price negotiations), 4) the impact of the 2025 Part D redesign on net prices (low list price assets will see an increase in effective net prices with the removal of the donut hole, while high list price assets will see net prices decrease due to the revised catastrophic coverage range – again the exact impact is unknown), and 5) the potential for commercial spillover from these disclosed Part D prices as well as the need to still provide some rebates to payers even within Part D to achieve optimal formulary positioning. Finally, we would note the negotiated drugs will not be subject to any manufacturer discounts 2026+ (i.e., the 10-20% catastrophic contribution), which also mitigates some of the expected gross price cuts. Overall, given the factors listed above, we are taking more a directional approach to our estimates on both the average discount taken by CMS for the selected assets and how this impact might differ between assets.

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