

**BMI**

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# Innovative Pharmaceuticals Risk/Reward Index

*Please note: BMI is enhancing its risk analysis with a new scoring system following acquisition of GeoQuant, a market-leading provider of political risk data. From March 27 2024, risk scores are inverted: zero now represents the lowest risk and 100 the highest, for clearer, industry-standard assessments. This methodology document has been updated accordingly.*

Our Innovative Pharmaceuticals Risk/Reward Index (RRI) quantifies and ranks a market's attractiveness in terms of its pharmaceuticals market; it balances the **Risks** and **Rewards** of launching innovative medicines in different countries. It should be emphasised that the RRI broadly assesses the rewards and the risks that a company will face when looking to launch an innovative drug in a market. For example, we do not differentiate between drugs that are a part of different therapeutic groups or whether the drug being launched is the first to be launched in the market or will be one of the many different drugs of the same therapeutic class that has been launched in the market.

To form a country's RRI score, we combine industry-specific characteristics with broader economic, political and operational market characteristics. We weigh these inputs in terms of their importance to investor decision making in a given industry – in this case that of innovative pharmaceuticals. The result is a nuanced and accurate reflection of the realities facing investors in terms of the balance between: 1) opportunities and risk; and 2) sector-specific and broader market traits. This enables users of our RRI to assess a market's attractiveness in both a regional and global context.

The RRI also encompasses a combination of our proprietary forecasts and analyst assessment of the regulatory climate, as well as globally acceptable benchmark indicators (eg, Transparency International's Corruption Perceptions Index). As regulations evolve and forecasts change, so does the RRI score, providing a highly dynamic and forward-looking result.

The Innovative Pharmaceuticals Risk/Reward Index universe comprises **110 markets**.

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## Benefits of Using BMI's Innovative Pharmaceuticals RRI

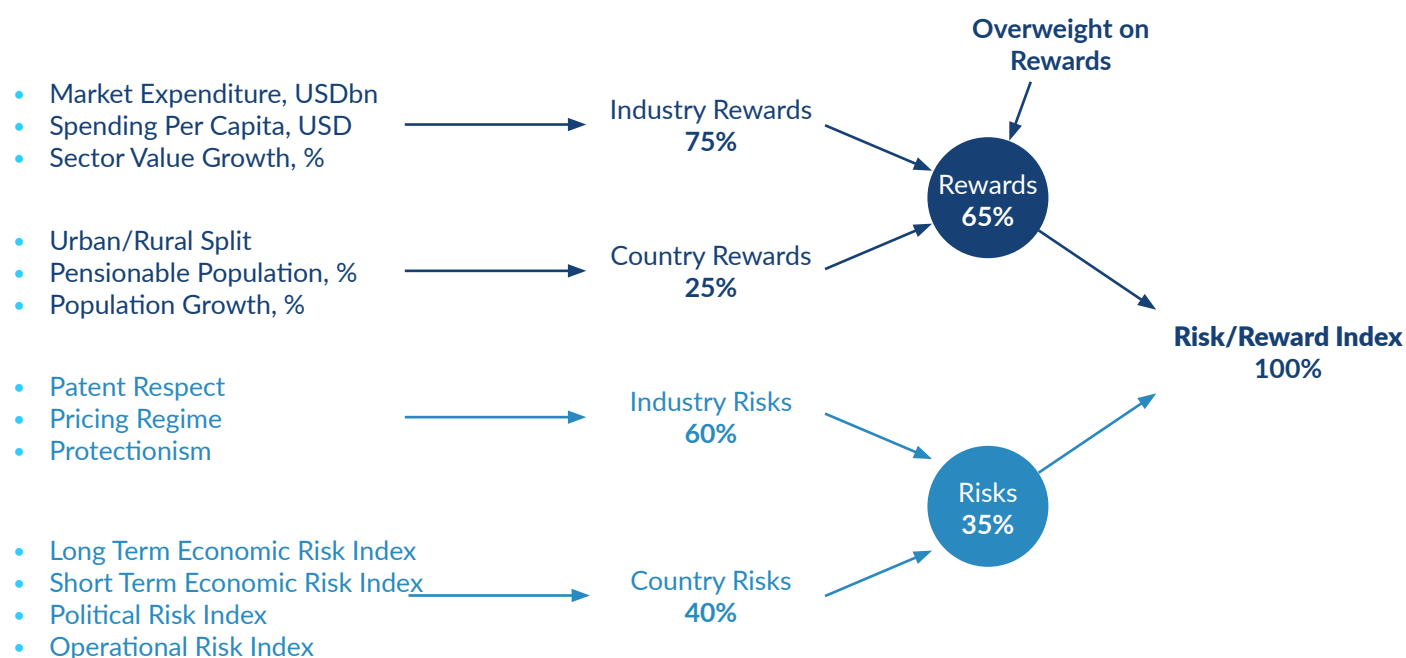
- **Global Index:** One global table, ranking all the markets in BMI's universe for the launch of innovative pharmaceuticals from most attractive (closest to zero) to most risk (closest to 100).
- **Accessibility:** Easily accessible, top down view of global, regional or sub-regional Risk/Reward profiles.
- **Comparability:** Identical methodology across 110 markets allows users to build lists of markets they wish to compare, beyond the confines of a global or regional grouping.
- **Scoring:** Scores out of 100 with a wide distribution, provide nuanced investment comparisons. The higher the score, the less favourable the profile.
- **Quantifiable:** Quantifies the Risks and Rewards of doing business in the innovative pharmaceuticals sector in different countries around the world and helps identify specific flashpoints in the overall business environment.
- **Comprehensive:** Comprehensive set of indicators, assessing industry-specific risks and rewards alongside political, economic and operational risks.
- **Entry Point:** A starting point to assess the outlook for the innovative pharmaceuticals sector, from which users can dive into more granular forecasts and analysis to gain a deeper understanding of the market.
- **Balanced:** Multi-indicator structure prevents outliers and extremes from distorting final scores and rankings.
- **Methodology:** The Index is created using a combination of proprietary BMI forecasts, analyst insights and globally acceptable benchmark indicators.

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# Weightings of Categories and Indicators

## Innovative Pharmaceuticals Risk/Reward Index



The RRI matrix divides into two distinct categories:

- Rewards:** This component of the RRI is composed of an evaluation of an Industry's size and growth potential (**Industry Rewards**), and also macro industry and/or market characteristics that directly impact the size of business opportunities in a specific sector (**Country Rewards**).
- Risks:** This component of the RRI is composed of an evaluation of micro, industry-specific characteristics, crucial for an industry to develop to its potential (**Industry Risks**) and a quantifiable assessment of the market's political, economic and operational profile (**Country Risks**).

## Assessing Our Weightings

We deliberately afford **Rewards** a greater weighting (65% of a market's final RRI score) and within this, the **Industry Rewards** pillar accounts for a majority 75%. This is to reflect the fact that when it comes to long-term investment potential, industry size and growth potential carry the most weight in indicating opportunities, with other structural factors weighing in but to a slightly lesser extent. In addition, our focus and expertise in Emerging and Frontier Markets has dictated this bias towards industry size and growth to ensure we are able to identify opportunities in markets where regulatory frameworks are not as developed and industry sizes not as big (in USD terms) as in developed markets, but where we know there is a strong desire to invest.

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# Indicators, Rationale and Sources

Table: Pharmaceuticals Reward Index, Indicators

Indicator	Source	Rationale
<b>REWARDS</b>		
<b>Industry Rewards</b>		
Market Expenditure, USDbn	BMI Forecast	Denotes breadth of pharmaceutical market. Large markets score better than smaller ones. Scores are based on annual average expenditure over a five-year forecast period.
Spending Per Capita, USD	BMI Forecast	Denotes depth of pharmaceutical market. High-value markets score better than low-value ones. Scores are based on annual average expenditure over a five-year forecast period.
Sector Value Growth, %	BMI Forecast	Denotes sector dynamism. Scores are based on annual average growth over a five-year forecast period.
<b>Country Rewards</b>		
Urban/Rural Split	BMI Forecast	Urbanisation is used as a proxy for the development of medical facilities. Predominantly, rural states score lower.
Pensionable Population, %	BMI Forecast	Shows the proportion of the population over 65. States with ageing populations tend to have higher per capita expenditure.
Population Growth, %	BMI Forecast	Fast-growing states suggest better long-term demand and thus growth for all industries. Scores are based on annual average growth over a five-year forecast period.

Source: BMI



## Indicators – Explanation and Sources

Table: Pharmaceuticals Risk Index, Indicators

Indicator	Source	Rationale
<b>RISKS</b>		
<b>Industry Risks</b>		
Patent Respect	BMI Subjective Indicator	Markets with fair and enforced intellectual property regulations score better than those with endemic counterfeiting.
Pricing Regime	BMI Subjective Indicator	Markets with a free pricing environment score better than markets where governments and private-sector payers put downward pressure on pharmaceutical prices as a mechanism to control expenditure.
Protectionism	BMI Subjective Indicator	Better scores are awarded to markets which have realised the economic and social benefit of pharmaceuticals, in turn modernising the provision of healthcare through reforms and essential drug lists and encouraging local manufacturing and research and development by foreign firms.
<b>Country Risks</b>		
Long Term Economic Risk Index	BMI Country Risk Index	The LT ERI takes into account the structural characteristics of economic growth, the labour market, price stability, exchange rate stability and the sustainability of the balance of payments, as well as fiscal and external debt outlooks for the coming decade.
Short Term Economic Risk Index	BMI Country Risk Index	The ST ERI seeks to define current vulnerabilities and assess real GDP growth, inflation, unemployment, exchange rate fluctuation, balance of payments dynamics, as well as fiscal and external debt credentials over the coming two years.
Political Risk Index	BMI Country Risk Index	The Political Risk Index is a score made up of the mean average across three distinct pillars: Governance Risk, Society Risk, and Security Risk that are aggregated into an overall assessment of 'Political Risk'.
Operational Risk Index	BMI Operational Risk Index	The ORI focuses on existing conditions relating to four main risk areas: Education & Labour, Trade & Investment, Logistics & Freight Transport and Crime, Defence & Security.

Source: BMI

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## About BMI

In an uncertain macroeconomic environment, BMI's systematic, independent and data-driven market insights, analysis and forecasts enable you to recognize and assess risks and opportunities across 200+ markets and 20+ industries.

For more than 40 years, we have provided impartial and transparent analytics, data and research across themes,

countries and sectors, with deep insight into emerging markets. Our detailed intelligence is frequent, consistent and systematic, enabling you to easily make comparisons and interrogate data to support your strategic plans and investment decisions.

Learn more at [fitchsolutions.com/bmi](https://fitchsolutions.com/bmi)

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## Client Services

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