The Drug Industry as a whole has performed well in 2017, highlighted by double-digit price gains from several of the sector's top players (*Novartis, Merck, Eli Lilly, AbbVie*). Improved operating results, an attractive new product cycle, and a more favorable macroecomomic environment have been key catalysts. A mid-year report that President Trump could be looking to ease industry regulations provided further support, helping to offset lingering scrutiny related to drug pricing.

The XLV ETF, which tracks the performance of the broader healthcare industry, increased 3% in value during the third quarter and is up 18% year to date. In comparison, the Dow and S&P 500 gained 5% and 3% in the September period, and have risen 13% and 12% since January 1st.

In the following report, we touch on price gouging, a top industry performer, pressure in the generic drug space, *Valeant's* battle with its debt load, and a recent oncology collaboration.

Price Gouging

Price gouging in the Drug Industry has been a hotly-debated topic in 2017. Several high-profile cases got the attention of the public and it appeared likely that a political crackdown was inevitable. Despite growing outrage over aggressive price hikes, pharmaceutical companies have so far dodged stricter federal oversight. This will be a situation worth monitoring over the balance of the year.

AbbVie Has Been On A Tear

Shares of the North Chicago-based drugmaker have surged 44% in price year to date. It's cornerstone *Humira* franchise, currently the world's highest-grossing drug, continues to exhibit strong momentum (Q2 sales +14%) thanks to an expanded approval list and strong uptake trends in both domestic and international markets. While concerns over a potential biosimilar release have lingered, management seems confident with the strength of its patents and is hopeful to maintain market exclusivity until 2022. *AbbVie* recently scored a victory on this front, winning a *Humira* patent challenge case against Coherus Biosciences.

Generic Pressure

Total revenue for the generic drug industry has been in steady decline over the past year, despite a modest increase in prescriptions. Consolidation on the demand side, unsuccessful patent challenges, and a significant increase in competition have weighed on results. Indeed, two of the sector's top players, *Mylan* and *Teva*, have recently reported disappointing operating results.

Valeant Versus Its Debt

The Canadian drugmaker reported better-than-expected progress on this front in the second quarter. Its debt load, which stood at roughly $30 billion at the onset of 2017, was reduced to about $28 billion as of June 30th. Encouragingly, management indicated that it will likely exceed its previously announced goal of $5 billion in debt repayment by February, 2018. The news was well received on Wall Street and VRX stock received a nice pop on the release. The shares are still down more than 50% over the past twelve months.

INDUSTRY TIMELINESS: 92 (of 97)

Much of *Valeant's* progress can be attributed to asset sales, including the recent divestiture of its Dendreon business to he Sanpower Group for $820 million (management noted that $811 million was used to pay down senior secured term loans). The company also has pending deals to sell its iNova Pharmaceuticals and Obagi Medical Products divisions for $930 million and $190 million, respectively. In total, *Valeant* has announced $3.8 billion in asset sales since the beginning of 2016.

Merck and *AstraZeneca* Link Up

The two drug giants recently reached an agreement to co-develop and co-commercialize Astra's *Lynparza* for multiple cancers. The drug's pipeline has grown significantly over the past few years, with 14 indications currently being developed across several tumor types, including breast, prostate, and pancreatic cancers. Under the terms, the companies will share development and marketing costs equally, as well as gross profits. Merck agreed to pay up to $8.5 billion in total consideration, including $1.6 billion upfront.

Dividends

The Drug Industry currently boasts a handful of high-yielding equities with relatively low-risk profiles. Investors seeking to add current income to their portfolios should consider *GlaxoSmithKline* (4.9%), *Pfizer* (3.6%), *Novartis* (3.2%), and *AbbVie* (3.0%).

Conclusion

In terms of Timeliness, the Drug Industry continued its slide during the third quarter, falling three spots since our July report. The group currently ranks 92nd out of the 97 industries under *Value Line's* coverage. While investors will likely find more-attractive year-ahead growth options elsewhere, the sector still offers a strong base of safe, well-established equities with above-average income components.

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