Its been volatile times for the Drug Industry in the early stages of 2018. After making a strong recovery in 2017, and exhibiting solid momentum through January, the group appears to have fallen out of favor in recent months. While broader market softness has been a drag, the sector has also been hit hard by some disappointing late-stage clinical trials and challenges on the generic side of the business. Increased scrutiny related to drug pricing also remains a significant overhang and optimism surrounding the potential benefits of tax reform seems to have worn off.

The XLV ETF, which tracks the performance of the broader healthcare industry, hit a new 52-week high on January 26th, before selling off sharply in February and March. In total, XLV declined roughly 4% in price during the first quarter, compared to a 2% dips in the Dow Jones Industrial Average and S&P 500.

In the following report, we touch on patent losses, Endo's struggle, consolidation in consumer healthcare, and a few attractive dividend plays.

Patent Losses

Patent losses are always a hot topic when discussing the Drug Industry. One of the more noteworthy stories of late dealt with the world's highest-grossing drug, *Humira*. The rheumatoid arthritis franchise, developed by *AbbVie*, generated a whopping $18.4 billion in global sales last year, fueled by label expansion and strong uptake trends in both domestic and international markets. However, when biosimilar concerns surfaced in 2017, many analysts started questioning the drug's longer-term viability. On a positive note, these concerns have since subsided, as *AbbVie* reached an agreement with *Amgen* that would delay its generic launch until 2023. As a result, *Humira* appears safe, for now.

Across the pond, *GlaxoSmithKline* is expected to see some pressure on its blockbuster *Advair* franchise in 2018. The respiratory drug has been the cornerstone of Glaxo's portfolio for the better part of a decade, but a double-digit sales decline last year and the possibility of increased competition in 2018 has raised a few eyebrows. On the fourth-quarter conference call, management indicated that it is bracing for a generic entry in the U.S. this year, but the timing and the extent of the impact is largely unknown.

AstraZeneca is another U.K.-based drugmaker likely to face considerable generic erosion in 2018. Its blockbuster cholesterol-fighting drug *Crestor* lost patent protection in mid-2016 and the losses have piled up, including a 30% decline annual sales last year. *Crestor* still generated north of $2 billion, but further fallout is forecasted in 2018.

Endo Facing a Difficult Road Ahead

At the request of the FDA, the beleaguered drugmaker pulled its opioid painkiller *Opana ER* from the market in 2017. Regulators made the decision based on findings that the benefits no longer outweighed the risks. The lost revenue stream was just the latest in a long line of hurdles the company has faced over the past two years, a timeframe in which ENDP shares have shed more than 90% of their value. To make matters worse, *Endo* is facing multiple lawsuits related to the opioid epidemic in the U.S. Specifically, the company is being accused of using fraudulent marketing to drive sales of *Opana ER*.

INDUSTRY TIMELINESS: 82 (of 97)

Glaxo Bolsters Consumer Healthcare Business

On March 27th, the British drugmaker announced an agreement to buy out *Novartis'* stake in their consumer healthcare joint venture. The price tag came in at $13 billion and would give *GlaxoSmithKline* full control over several lucrative products including Sensodyne toothpaste, Voltaren Gel for muscle pain, and Panadol headache tablets. Both sides expect the deal to be completed in the second quarter of 2018.

Assuming a successful closing, the move will likely leave *Pfizer* out in the cold. Glaxo had emerged as a favorite to purchase its consumer healthcare business last year, which includes well-known brands like Advil and Centrum multivitamins, but we figure this will take them out of the running. With its acquirer options dwindling, *Pfizer* may opt to take a different route like a spinoff or keeping the business altogether. Though the latter seems less likely as management seems adamant on shifting its strategy away from lower-margin products in order to focus more on innovative pharmaceuticals. *Pfizer* is not expected to make a final decision until later in 2018.

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* (6.6%), *Pfizer* (3.9%), *Merck & Co.* (3.6%), and *Novartis* (3.4%).

Conclusion

In terms of Timeliness, the Drug Industry has retreated seven spots since our January report. The group currently ranks 82nd out of the 97 industries under *Value Line's* coverage, with most of the equities ranked to either track or underperform the broader market averages in 2018. For investors seeking a year-ahead growth play, *Pfizer* and *Zoetis* standout. The sector also offers a strong base of safe, well-established equities with above-average income components.

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