

## Prologue

### *Big Scandals, Higher Prices*

#### A PHARMA UNDER FIRE

Each January, the J. P. Morgan Healthcare Conference rolls into San Francisco, towing along hundreds of pharmaceutical and biotech companies and nearly 10,000 attendees looking to hear about the latest developments in one of the world's hottest industries. Suits hobnob with scientists, financial journalists breathlessly cover the proceedings, and, controversially, companies throw cocktail parties with women hired to attend and improve diversity numbers.<sup>1</sup> Deal making generally takes place behind closed hotel room doors at the glamorous Westin St. Francis in the heart of San Francisco's Financial District, but crowds still turn out for investor presentations and occasionally heated Q&As asking, "What drugs are in the pipeline?" or "How are clinical trials coming along?"

In January 2016, the mood was far less rosy. After years of hypergrowth in biotechnology and health care, stocks experienced a precipitous drop in the second half of 2015.<sup>2</sup> By the beginning of the annual conference, the NASDAQ's Biotechnology Index had lost more than 25 percent of its value in six months.<sup>3</sup> *Bloomberg* reported that biotech stocks experienced their worst trading day for a J. P. Morgan conference opening day since the beginning of 2001's gathering.<sup>4</sup> Statistical indicators of unease were certainly present. The number of initial public offerings (IPOs) had

<sup>1</sup> Sasha Damouni, Doni Bloomfield, & Caroline Chen, *At Biotech Party, Gender Diversity Means Cocktail Waitresses*, BLOOMBERG (Jan. 13, 2016), [www.bloomberg.com/news/articles/2016-01-13/at-biotech-party-gender-diversity-means-cocktail-waitresses](http://www.bloomberg.com/news/articles/2016-01-13/at-biotech-party-gender-diversity-means-cocktail-waitresses).

<sup>2</sup> NASDAQ Biotechnology Index, GOOGLE FINANCE, [www.google.com/finance?q=INDEXNASDAQ%3ANBI&ei=TQHCV5CVE82N2Aaop0jYCW](http://www.google.com/finance?q=INDEXNASDAQ%3ANBI&ei=TQHCV5CVE82N2Aaop0jYCW) (click "Historical prices" and view prices from July 2015 to January 2016). The index peaked at an all-time high, 4,165.87, on July 20, 2015, before falling to 3,052.56 on January 11, 2016, the day the conference opened. That fall is equivalent to a 26.7% drop.

<sup>3</sup> *Ibid.*

<sup>4</sup> Drew Armstrong, Caroline Chen, & Sasha Damouni, *Worst Start to Health Conference Since 2001 Has Investors Glum*, BLOOMBERG (Jan. 11, 2016), [www.bloomberg.com/news/articles/2016-01-11/worst-start-to-health-conference-since-2001-has-investors-glum](http://www.bloomberg.com/news/articles/2016-01-11/worst-start-to-health-conference-since-2001-has-investors-glum).