

A Snapshot of the US Pharmacy Industry in 2014

(Source: an overview of the 2014-15 Economic Report on Retail, Mail and Specialty Pharmacies, published by Drug Channels Institute)

In 2014, the pharmacy industry continued to evolve. Prescription revenues exceeded US\$300 billion. Generic substitution rates have begun to level off, even as generic drugs have experienced unexpected inflation. Meanwhile, specialty drugs accounted for almost a quarter of these revenues, and they continue to reshape business strategies throughout the industry. The largest independent specialty pharmacy, Diplomat Pharmacy, became a public company. What's more, a growing number of healthcare organizations now compete to dispense specialty drugs.

Chain drugstores led the industry's overall growth. Walgreens completed its acquisition of Alliance Boots, forming Walgreens Boots Alliance. CVS Caremark renamed itself CVS Health, and signaled its broader healthcare focus by stopping cigarette sales in CVS retail drugstores. Rite Aid and Walgreens have both restructured their wholesale relationships, shifting from self-warehousing to direct-store deliveries from a wholesaler. The largest chains have also entered into new combinations that aggregate generic purchasing power across the supply chain.

The Big Three public wholesalers—AmerisourceBergen, McKesson, and Cardinal Health—have experienced major business changes in the past two years. Large pharmacy customers have shifted from self-warehousing to direct-store deliveries from a wholesaler. Two of the largest pharmacies—Express Scripts and Walgreens—shifted more than US\$40 billion in business from Cardinal Health to AmerisourceBergen. Each of the Big Three wholesalers has diversified outside North America into global drug distribution, even as the global powerhouse Walgreens Boots Alliance is making unprecedented equity investments in AmerisourceBergen. Meanwhile, specialty drugs continue to reshape manufacturers' channel strategies, and generic drugs experience unexpected inflation.

A Movement to Engage Patients in Their Own Care via Pharmacy

(Source: an article by Jim Frederick and published by Drug Store News)

A new, potentially far-reaching program to encourage individuals to take better charge of their own health is taking shape in the United Kingdom. The new, so-called SelfCare Pharmacy initiative will go live in some 60 pharmacies in three North East London boroughs in April, according to a report from The Pharmaceutical Journal. Participating pharmacists will work with patients to jointly develop an individual care plan that encourages patients to take more responsibility for their own health and wellbeing, in partnership with their physician, pharmacist and other local health providers.

The North-East London Local Pharmaceutical Committee [LPC], which is developing the self-care initiative with support from

continued on page 2

In Brief . . .

♦ **Cardinal Health** increased its full-year earnings projections based on a successful first half, in part driven by a faster-than-expected start for its generics sourcing venture with **CVS Health Corp.** Cardinal reported sales of US\$25.5 billion (+14.8%) and net income of US\$289 million (+4%) for its 2nd quarter ended December 31st.

♦ **Celesio** generated group revenue of €22.3 billion / US\$25.4 billion in fiscal 2014, up 4.3%. Most business units, in particular wholesale in Germany, in the United Kingdom, in Norway and in Denmark, as well as the retail pharmacy business in the United Kingdom and in Norway were able to increase revenue significantly or at least within the expectations. Revenue in Celesio's Consumer Solutions division – the retail pharmacy business – increased by 7.8% to €3.7 billion / US\$4.2 billion and revenue in the Pharmacy Solutions division – the wholesale business – increased 3.6% to €18.6 billion / US\$21.2 billion. "Having joined forces with McKesson will make us even stronger," commented *Marc Owen*, Chairman of the Management Board of Celesio. Great opportunities lie ahead for our customers and for Celesio. I feel highly confident that with our newly established leadership team in place we will be able to continue charting the right course for the company and striving to always better serve our patients, pharmacies and manufacturing partners, while developing our leadership talent and making Celesio an even better place to work."

♦ Japanese wholesaler and healthcare service provider **Suzuken** reported revenues of ¥1,476 billion / US\$12.4 billion (-0.7%) and operating income of ¥10,620 million / US\$89.4 (+1.6%) million for its fiscal 3rd quarter ended December 31st.

♦ **World Courier**, a global leader in specialty logistics and an **AmerisourceBergen** company, opened a new distribution facility in Melbourne, Australia. This is the first facility in AmerisourceBergen's global network to be purpose-built to support clinical trial logistics and commercial third-party logistics (3PL). In conjunction with World Courier's specialty logistics and transportation offerings, the facility provides a complete portfolio of supply chain solutions for pharmaceutical manufacturer partners. Separately, AmerisourceBergen recently promoted *Robert P. Mauch*, to Executive Vice President and President of AmerisourceBergen Drug Corporation. Mauch previously served as AmerisourceBergen Drug Corporation's Senior Vice President and Chief Operating Officer. *David W. Neu* will transition from his previous role as President of AmerisourceBergen Drug Corporation to assume the newly created position of Executive Vice President of Retail Strategy and President of **Good Neighbor Pharmacy**.

♦ **McKesson** reported revenues of US\$47 billion, up 37%, for its 3rd quarter ended December 31st. Distribution Solutions revenues were \$46.3 billion, up 38% on a reported basis and 39% on a constant currency basis for the quarter, mainly driven

continued on page 2

Movement (cont.) . . .

the Newham Clinical Commissioning Group [CCG], calls it “an innovative pharmacy practice focusing on safety, effectiveness and patient empowerment. “It involves managing long-term conditions [and] co-morbidities in community pharmacy, and ensuring parity between mental and physical health,” noted the LPC. “Using therapeutic and psychological tools to empower patients, [pharmacists] can bring about benefits to local populations...in an open, transparent way that builds community confidence.”

The goal of the program is to help Londoners better manage their own chronic conditions, with pharmacists offering services and counseling in areas like pain management, glucose regulation, smoking cessation and respiration, healthy lifestyles, medication reviews and even mental health. In partnership with local doctors and health systems, pharmacists also provide vaccinations, body mass index screenings and monitoring of patients’ lipid levels, heart rhythm and blood pressure. The plan will include a measuring tool and scoring system for patients.

“Self-care is key to the effective management of long-term conditions,” noted Hemant Patel, secretary of the North-East London LPC. Patel, a longtime advocate for elevating pharmacy practice, helped spearhead the self-care initiative, providing leadership and arranging funding from the Newham CCG and other sources. The funding will enable the program to reimburse pharmacists £32.50 (US\$50.05) plus fees for services provided through each self-care intervention with patients. At a recent LPC conference exploring the concept, Patel predicted the program could generate roughly £250 (US\$384.05) per patient per year in pharmacy reimbursements.

NHS (National Health System) pharmacy minister endorsed the self-care concept, calling it a potential “game-changer” for community pharmacy that could “make best use of healthcare services...delivered as close to home as possible,” according to the Pharmaceutical Journal report. The effort is driven by necessity, notes the North-East London Public Pharmacy Partnership, a group allied with the campaign. With chronically ill patients in the United Kingdom accounting for 70% of the National Health System’s budget and half of all doctors’ appointments, “The NHS is under immense financial strain,” the group notes. “We must do more to acknowledge patients’ expertise on the effects of their condition on their lives, and to marry it with expert medical advice so patients have more of a say over the services they receive. Local pharmacies can help.”

Encouraging chronic-care patients to take better charge of their own health is at the heart of many similar efforts among pharmacies in North America as well. Driven by the success of collaborative community health initiatives like the Asheville Project and the Diabetes Ten City Challenge, pharmacy retailers and organizations have unveiled a slew of community wellness and disease prevention initiatives in partnership with other health entities. US chain drugstore, Rite Aid, for instance, continues to expand its commitment to in-store care coaches through its wholly owned subsidiary Health Dialog. Allied with Rite Aid pharmacists, those coaches “provide comprehensive care and support to individuals with chronic and poly-chronic health conditions, helping them achieve health improvement goals established by their physicians,” the company notes.

Other moves are occurring in the U.S. in 2015 to advance pharmacy practice. For example a new legislative bill has been

introduced in the U.S. House of Representatives to formally designate pharmacists as healthcare providers under Medicare Part B [the drug benefit portion of the healthcare program for the elderly and disabled. Aimed at medically underserved communities, the so-called Pharmacy and Medically Underserved Areas Enhancement Act would boost Medicare patients’ access to pharmacy services including immunizations, diabetes and cardiovascular screenings and self-management education in states where permitted.

In Brief (cont.) . . .

by the contribution from McKesson’s acquisition of Celesio and market growth.

- ♦ **Toho Holdings**, a Japanese wholesaler and dispensing pharmacy operator, reported revenues of ¥877 billion / US\$7.4 billion and operating income of ¥7,900 million / US\$66.5 million for its fiscal 3rd quarter ended December 31st.

- ♦ **McKesson** has appointed *Bansi Nagji* as EVP corporate strategy and business development, reporting to chairman and CEO *John Hambergren*. Nagji succeeds *Brian Tyler*, who has fully transitioned to a new position as president, North American Pharmaceutical Distribution and Services.

- ♦ **Pfizer** has agreed to acquire **Hospira**, a provider of injectable drugs and infusion technologies and a leader in biosimilars, in a cash deal valued at approximately US\$17 billion (\$90 a share) billion.

- ♦ US drugstore chain **Rite Aid** will acquire independent pharmacy benefit manager **Envision Pharmaceutical** in a deal valued at US\$2 billion. EnvisionRx is a national, full-service pharmacy benefit management company with projected 2015 calendar year revenues of approximately US\$5 billion and projected 2015 calendar year EBITDA in a range of US\$150 to US\$160 million.

- ♦ **China Jo-Jo Drugstores**, a pharmaceutical and health care products retailer and wholesale distributor in China, has entered into a service agreement with **Alibaba Health Information Technology** to utilize an electronic prescription platform in preparing for the upcoming authorization from the China Food and Drug Administration allowing for the online sales of prescription drugs in China. Through Alibaba Health’s recently launched mobile app, *Alijk*, patients are able to upload and send photocopies of doctor’s prescriptions to nearby pharmacies to check the availability of medicines, compare prices and eventually make payments. Those qualified pharmacies partnering with Alibaba Health, such as China Jo-Jo, can then fulfill the orders via in-store pickup or home delivery service.

- ♦ **Walgreens** is reportedly collaborating with beauty company **Maesa** to launch a multi-cultural beauty brand called *Circa*. The US nationwide launch supports Walgreens’ desire to increase accessibility to well-priced, diverse, specialty beauty offerings and reflects its commitment to owned brands.

- ♦ **IMS Health** reported revenue of US\$2.6 billion (+3.8%) and adjusted EBITDA of US\$878 million (+5.9) in 2014. Net cash provided by operating activities was US\$110 million for the year, reflecting significant IPO-related expenditures.

(Sources: AmerisourceBergen, Columbus Business First, Drug Store News, IMS Health, Oriola-KD, PR Newswire, Suzuken and Toho Holdings)