FOCUS

Vol. 22, No. 6 International Federation of Pharmaceutical Wholesalers March 19, 2015

The Outlook for Global Growth In 2015

(Source: an article prepared by Luis Enriquez, a director in McKinsey's Brussels office; Ina Kota a specialist in the New York office; Sven Smit a director in the Amsterdam office; and published by McKinsey & Company)

Despite tempered expectations, most forecasters see strong growth ahead, accelerating in 2016. As the McKinsey's Global Economics Intelligence team reports, executives are focusing on divergent opportunities.

Leading forecasters estimate that the world economy will grow by between 2.8 and 3.8 percent this year—about one percentage point lower than last year's consensus forecasts. Yet as monitors of the global economy lower their expectations for 2015, executives are increasingly focusing on opportunities presented by diverging growth rates among regions, countries, and even sectors. This means an essential element of strategic and financial planning for 2015 and beyond is taking closer account of critical regional trends and risks, with sensitivity to key economic indicators and government policy responses.

McKinsey's Global Economics Intelligence (GEI) team closely tracks forecasts of leading financial institutions and multilaterals. By the latest estimate of the International Monetary Fund (IMF), in October 2014, world GDP growth was measured at 3.3 percent for 2014. For 2016, the IMF and other organizations have lowered previous global GDP growth projections to 3.1 to 4.1 percent. Most forecasters expect a robust US economy to continue to lead the way, and the Eurozone's new program of quantitative easing is a sign the region is ready for expansion. And while falling oil prices weigh heavily on growth prospects for commodities-dependent Brazil and Russia, China and India are benefiting from easing inflationary pressures.

Market volatility is being stoked in part by the steep decline in oil prices, which will adversely affect oil producers while benefiting consumers. Although the net impact of the lower prices will differ by country, a very rough estimate of the potential consumer savings is nearly US$450 billion, which represents a considerable transfer of wealth from producing to consuming countries. In addition, while executives were confident about their own companies, "geopolitical instability" was cited as the leading risk to global growth in McKinsey's global survey of nearly 1,700 business leaders at the end of 2014.

The US economy has momentum from stronger-than-expected growth at the end of 2014. Consumer sentiment and trade activity increased, the unemployment rate fell to 5.6 percent in January, and financial markets benefited from upbeat investor sentiment. However, retail sales dipped in December, and real wages continued to stagnate. The US economy has overcome a number of hurdles to see its way clear to a deeper and stronger recovery: the range of growth forecasts exceeds 3 percent for 2015.

In the Eurozone, macroeconomic conditions are improving after sluggish growth last year. Even with a depreciating euro, deflation, and financial pressures hitting smaller economies, the underlying real economy appears to be gaining. A brighter

continued on page 2

In Brief . . .

- US wholesaler **H. D. Smith** named *Dale Smith* as chairman and CEO of **H. D. Smith Holding Co.**, as part of a series of executive moves. In his new role, Smith will oversee progress for all H. D. Smith business units, including wholesale distribution and specialty solutions. He previously served as chairman and CEO of H. D. Smith Wholesale Drug. *Chris Smith*, who served as president and COO for H. D. Smith Wholesale Drug Co., is now its president and CEO and *Bob Appleby*, previously SVP of category management at H. D. Smith Wholesale Drug Co., has been named president of H. D. Smith Specialty Solutions. Lastly, *Joe Conda* joins the office of the chairman as EVP to focus on expanding upon the company's mission as an integrated provider of health products, solutions and services, a role that includes acquisitions and alliances. He was previously president of H. D. Smith Specialty Solutions.
- **Intelligent Hospital Systems** (IH Systems), developer of pharmacy automation and workflow solutions, announced it has acquired **AmerisourceBergen Technology Group**. The combined businesses will form a new pharmacy technology company, ARxIUM, offering numerous products and software solutions to pharmacies. ARxIUM will have headquarters in Winnipeg, Manitoba, and Buffalo Grove, Illinois. AmerisourceBergen Technology Group (ABTG) is a business of AmerisourceBergen Drug Corporation and has been in the pharmacy automation industry for nearly 20 years, serving from small community pharmacies dispensing a few dozen prescriptions per shift to large multi-facility health systems supporting thousands of lives it provides technology solutions that help improve patient safety, streamline medication management processes and control costs.
- **KNAPP** has strengthened its affiliation with the **KHT** group of companies by acquiring a 49% stake in **Apostore**, for an undisclosed sum. A 100% subsidiary of KHT, Apostore was the first company to offer picking robots for small parts, with an emphasis on pharmaceuticals, and is specialized in stock management, automation and logistics in pharmacies. In both 2011 and 2013, Apostore was voted as one of the top 100 most innovative companies in Germany and in 2013, as the best vendor in pharmaceutical "autopickers".
- **Valeant Pharmaceuticals** has agreed to an increased all cash offer price for **Salix Pharmaceuticals** of US$173 per share (up from its earlier US$158 offer), prompting **Endo International** to pull out of the bidding war for the US-based gastrointestinal products specialist. Salix is "carefully considering" the offer.
- **Novartis** and its **Sandoz** unit made history on 6 March gaining the first approval of a biosimilar in the US. The approval came for *Zarxio* (filgrastim-sndz) a version of Amgen's *Neupogen* (filgrastim).
- In 2014, about 25% of retail, mail, and specialty pharmacies' revenues came from specialty drugs. The top 3 companies -

continued on page 3

Outlook (cont.) . . .

picture is reflected in consumer sentiment, manufacturing, and trade—thanks especially to lower energy prices. If negotiations with Greece are effectively managed, the Eurozone could be well positioned to benefit from Europe's looser monetary policy, evident recovery in several of the region's economies, and low or falling oil prices. The euro continues to depreciate against the dollar, falling sharply when the Swiss franc was unpegged on January 15. The European Central Bank has since announced that asset purchases would be expanded to €60 billion a month until September 2016. GDP growth forecasts for the Eurozone in 2015 have been lowered slightly, with most estimates coming in above 1 percent.

China and India have experienced broad improvements in macroeconomic conditions as low energy prices eased inflationary pressures and import bills. Financial markets gained in China but remained volatile in India. Forecasts for both have been tempered for 2015. For China, the economy is slowing in line with expectations, with projections approaching 7 percent growth for 2015 and 6.3 percent in 2016. Conditions in India are improving, and growth through 2016 is predicted around 6.5 percent.

Brazil is struggling, but inflation has eased recently. The central bank remains cautious and has raised its overnight rate by 50 basis points. Trade and fiscal deficits posed new challenges for the newly elected government, as a possible debt downgrade looms. Most forecasts for Brazil's GDP in 2015 were lowered, with a range of less than 1 percent.

Russia's economic conditions worsened as consumer confidence hit a five-year low and indicators for manufacturing and trade both fell. Inflation soared to 11.4 percent on an annual basis, as the ruble lost nearly half its value over the past 12 months. Most GDP forecasts for Russia in 2015 have been cut sharply, ranging from zero growth to a contraction of 0.7 percent.

Even the lowered global-growth estimates of more than 3 percent in 2015 and 2016 remain well above the historical average of 1.8 percent annual growth during the past 50 years. But executives remain wary of macroeconomic and geopolitical risks, including oil and gas price volatility and its impact both on major exporting economies, Russia foremost, and on consuming economies, including Europe, Japan, and the United States. Other significant risks are the conflict between Russia and Ukraine, with its European and global ramifications; China's downshifting economic pace, which has implications for global trade; the effects on foreign exchange levels and capital availability of diverging monetary-policy actions by central banks around the world; and Greece's unresolved status in the Eurozone, which raises significant questions about the economic future of Europe and the global economy.

IFPW and Members Discuss Wholesalers' Emergency Responses and Capabilities

In continuing its role as the international networking platform for its members and stakeholders, IFPW met with the Healthcare Distribution Management Association (HDMA) and the Japanese Pharmaceutical Wholesalers Association (JPWA) to discuss the wholesale industry's past responses to natural disasters and emergencies, and its preparedness for future events. Specifically executives from the associations compared the US response and experiences to natural disasters, such as hurricanes Katrina and Sandy, to the events encountered in Japan during and immediately after the Great East Japan Earthquake of 2011.

JPWA is currently preparing a report on the lessons learned through the tragic earthquake and tsunami experience as part of its proactive planning for improved industry responses to future emergencies.

Following Hurricane Katrina, HDMA with other US stakeholders from government and the private sector, formed Rx Response (www.RxResponse.org) to coordinate communications and relief efforts between participating public and private entities, including pharmaceutical wholesalers and manufacturers. HDMA continues to be an active supporter of and participant in Rx Response, which has drastically improved relief efforts and emergency planning.

Executives from IFPW, HDMA and JPWA meet at HDMA's offices to discuss disaster response

In both cases the domestic pharmaceutical wholesale sectors played a pivotal role in timely response and in restoring the supply of essential medicines and health commodities to the most affected areas, with minimal disruptions, despite facing similar challenges. In addition, wholesalers' resources, distribution networks and infrastructure were able to be leveraged and utilized; avoiding the need for governments and other agencies to setup their own ad hoc supply chains in response. Though unfortunate in nature, these incidents demonstrate the highly sophisticated capabilities of the global wholesale industry and vital role wholesalers play in healthcare distribution and logistics as well as what a valuable partner wholesalers can be in delivering care to patients, regardless of the circumstance or setting.

Special thanks to HDMA who hosted the meeting at its offices just outside of Washington D.C.!

The Value Dilemma

(Source: Edited excerpts of a Blog prepared by Martin Sawer, Executive Director of the British Association of Pharmaceutical Wholesalers)

Wholesalers do add value to the pharmaceutical supply chain, engaged in delivering, every day, hundreds of thousands of medicines to pharmacies (retail, hospitals & care facilities) and doctors in a safe and reliable manner for patients. However, this value is not completely promoted or properly understood.

"Value" is a word that has a few meanings, the most noteworthy in business environments relates to financial value: profit, margins, return on investment, efficiency/productivity, etc. Moreover, there is another meaning of the word "Value" and that is importance, which refers to significance, meaning, usefulness, etc.

It is understood that the discoverer and manufacturer of a particular medicine has created value by this often life-saving creation for patients. Furthermore there is a need to recover the costs of research and development, to finance the continued research for new medicines and to provide an adequate financial return to investors. It is also known that generic manufacturers provide good economic value to patients and payers when competitive and open markets operate properly.

Often forgotten is the "service value" that wholesalers and distributors provide by ensuring medicines are available to patients when and where they are needed. Often these "service values" are taken for granted when the primary focus is on the "economic value". Granted that price, cost and financial incentives are all enablers of the "service value". However, at a time when budgets are applying pressure throughout the pharmaceutical supply chain, the service value of pharmaceutical wholesalers/distributers becomes an even more significant piece to ensure the health and wellbeing of patients throughout the world. Collaboration, therefore, is absolutely necessary among payers, health providers and entities within the pharmaceutical supply chain in delivering health to the world.

Access to Cancer Drugs in Australia Debated

(Source: An article prepared by Katrina Megget and published by PharmaTimes)

Timely access to cancer drugs in Australia is a current difference between the industry and the government. The industry is calling for a more flexible and fast-tracked approach to approving new cancer drugs, claiming the current system is outdated. Australia ranks 18th out of 20 comparable OECD countries on access to innovative new medicines, with Australians waiting longer for subsidized cancer medicines than European counterparts, the industry trade body says.

But the drug approval body, the Pharmaceutical Benefits Advisory Committee (PBAC), has responded saying any change to the approval process would "greatly increase the cost to the community and diminish the sustainability of the Pharmaceutical Benefits Scheme (PBS) without any commensurate gain in health outcomes". There is currently a Senate inquiry on the availability of new cancer drugs. The PBAC submission to the inquiry notes there is a discrepancy between the benefits patients perceive the new drugs to have with clinical evidence, which is often "of such poor quality that it does not allow confident assessment of benefit", it says. It adds that while new drugs were "not often dramatically more effective than older drugs, they are routinely dramatically more highly priced".

The Committee recommends against a special process for cancer drugs, saying it would create "justified resentment" among other patients. But trade body Medicines Australia says Australians have to wait, on average, more than a year between the medicines being deemed safe and effective and then being made available on the PBS. "Australians have access to less than 40% of new medicines considered safe and effective since 2009. Patients in many other OECD countries have 75% or more of the new medicines reimbursed and readily available through government funding," said Dr. Martin Cross, Medicines Australia chairman. "This is just not good enough and I'm sure I share the same views as patients when I say access to medicines needs to be modernized. It's becoming apparent to patient, clinicians and the industry that Australia's system for selecting and making new medicines available is struggling."

The Australian Government spent $1.5 billion on subsidizing cancer medicines in 2014.

In Brief (cont.) . . .

Express Scripts, **CVS Health**, and **Walgreens** - accounted for 56% of revenues from pharmacy-dispensed specialty drugs. Over the past few years, however, marketplace and business changes have slightly reduced their share.

- AbbVie (U.S.) recently acquired the California-based biopharmaceutical firm Pharmacyclics for US$21 billion.
- One of the guidelines imposed by the **European Commission**, the **European Central Bank** and the **International Monetary Fund** on the fiscal activities of Greece, Ireland, Portugal and Spain was that the target for spending on pharmaceuticals should be 1% of GDP, raising concerns that pharma across Europe as whole could be targets of emergency financial stringencies. Across the EU, the pharma spend is around 1.3% of EU GDP, according to figures collated by the **European Federation of Pharmaceutical Industry Associations** (EFPIA) and in Germany the spend is 1.15% of German GDP. This contrasts with US pharmaceutical spending which runs around 2% of US GDP.
- **GlaxoSmithKline** is strengthening its presence in Singapore by establishing a new 15,000-sq-meter global headquarters for Asia. The company is expecting pharmaceutical, consumer healthcare and vaccine markets to grow "significantly faster" in key Asian territories than in the rest of the world.
- An outbreak of swine flu in India has killed more than 1,200 people since December, and a new MIT study suggests that the strain has acquired mutations that make it more dangerous than previously circulating strains of H1N1 influenza. The findings contradict previous reports from Indian health officials that the strain has not changed from the version of H1N1 that emerged in 2009 and has been circulating around the world ever since.
- A new class of experimental cholesterol drugs might sharply reduce the risk of heart attacks and strokes, based on preliminary evidence. The drugs, one being developed by **Amgen** and the other by **Sanofi** and **Regeneron Pharmaceuticals**, are known to sharply reduce so-called bad cholesterol, in some cases to levels lower than those achieved through the use of current statins.

(Sources: Drug Channels, Drug Store News, KNAPP, New York Times, Pharma Times, Scrip and Yahoo Finance)