

## Drug Companies Pushed to Explain High Prices

(Source: Edited excerpts from an article prepared by Andrew Pollack and published by the NY Times)

As complaints grow in the US about exorbitant drug prices, pharmaceutical companies are coming under pressure to disclose the development costs and profits of those medicines and the rationale for charging what they do.

So called pharmaceutical cost transparency bills have been introduced in at least six state legislatures in the last year, aiming to make drug companies justify their prices, which are often attributed to high research and development costs.

"If a prescription drug demands an outrageous price tag, the public, insurers and federal, state and local governments should have access to the information that supposedly justifies the cost," says the preamble of a bill introduced in the New York State Senate in May.

In an article recently published, more than 100 prominent oncologists called for support of a grassroots movement to stem the rapid increases of prices of cancer drugs, including by letting Medicare (the US government's healthcare program for seniors) negotiate prices with pharmaceutical companies and letting patients import less expensive medicines from Canada. "There is no relief in sight because drug companies keep challenging the market with even higher prices," the doctors wrote in the journal Mayo Clinic Proceedings. "This raises the question of whether current pricing of cancer drugs is based on reasonable expectation of return on investment or whether it is based on what prices the market can bear."

The former US President, Bill Clinton, in a speech to pharmaceutical executives in Philadelphia this past June, said it would be in the industry's best interest to say more about its costs and pricing. "Explain, explain, explain and disclose, disclose, disclose," Mr. Clinton said, according to the newspaper, The Philadelphia Inquirer. "Don't expect everybody to love you, but at least they will hear your side of the story."

The pharmaceutical and biotechnology industry trade groups say the transparency bills would be costly to comply with and would provide misleading information. Even some people concerned about drug prices say that the cost to develop a particular drug has little to do with that drug's price and that knowing such information will not keep prices down. "The past R&D cost is really kind of a red herring," said Len Nichols, a health care economist at George Mason University, referring to research and development. "The current revenue doesn't pay for past R&D; It pays for current R&D." Prices for cancer drugs, some of which extend lives by only a couple of months, routinely exceed US\$100,000 a year, and some new ones exceed US\$150,000. And it is not unusual for the list prices of existing drugs to rise 10 percent or more year after year, far beyond the rate of inflation. The prices of older drugs for multiple sclerosis have risen from about US\$10,000 per year in the late 1990s to more

(continued on page 2)

## In Brief . . .

♦ **McKesson** reported a 9% increase in revenues to US\$47.5 billion for its 1st quarter ended June 30th. The company's **Distribution Solutions** revenues were US\$46.8 billion for the quarter (+10% on a reported basis and 13% on a constant currency basis), with North America pharmaceutical distribution and services, revenues up 15% and International pharmaceutical distribution and services revenues down 17% (to US\$5.8 billion for the quarter). During the earnings announcement, The **Celesio Group** (of which McKesson is the majority shareholder) reaffirmed its plans to acquire **Sainsbury's** U.K.-based pharmacy operations which will add 281 pharmacies to the **LloydsPharmacy** brand in the United Kingdom and will complement the more than 12,000 owned or banner pharmacies across McKesson.

♦ **Cardinal Health** reported a 20% increase in revenues (to US\$27.5 billion) for its fiscal 4th quarter. Pharmaceutical segment revenues increased by 23% to US\$24.7 billion and profit increased by 42% to US\$535 million, due to strong performance of the generics program, which includes the net benefit of **Red Oak Sourcing** — Cardinal Health's generic sourcing venture with **CVS Health** — and customer growth in the period. Total fiscal year 2015 revenues increased by 13% to US\$102.5 billion.

♦ At *ThoughtSpot 2015*, **Good Neighbor Pharmacy's** annual tradeshow and conference, **AmerisourceBergen** announced a new set of innovative capabilities that will strengthen its Pharmacy Services Administration Organization and help independent pharmacies endure the industry's most pressing

(continued on page 2)

## Rite Aid and HealthSpot Introduces New Model for Telehealth in a Retail Setting

U.S. chain drug store Rite Aid, and HealthSpot®, a provider of healthcare technology, announced the opening of *HealthSpot* stations inside 25 Rite Aid pharmacies. Through the *HealthSpot* stations, customers will be able conveniently access a variety of quality healthcare services including pediatric care. The *HealthSpot* stations are currently located inside select Rite Aid pharmacies in Ohio.

"The opening of the first *HealthSpot* stations inside select Rite Aid pharmacies in Ohio is another step in our transformation into retail healthcare company," said Robert I. Thompson, Rite Aid executive vice president of pharmacy. "This first of its kind model pairs licensed healthcare providers with state of the art technology to deliver a truly unique solution to consumers looking for convenient and quality healthcare. We are excited to be bringing such an innovative concept to market and look forward to introducing our customers to *HealthSpot*." Through proprietary cloud-based telemedicine software, *HealthSpot* allows users to interact with nationally recognized providers in a private, 40-squarefoot station using high definition videoconferencing and

(continued on page 2)

## Rite Aid (cont.) . . .

interactive medical devices including a stethoscope, an otoscope, a pulse oximeter and a magnascope. Each HealthSpot station is supported by a trained wellness attendant who can help the patient as needed from check in to checkout. Customers ages 3 and above can be treated for minor and common health conditions, including cold and flu, rashes and skin conditions, eye conditions, earaches and seasonal allergies. A record of the visit is maintained, ensuring seamless communication and continuity of care. The software platform also interfaces with insurance eligibility, electronic medical records and billing systems.

"Telehealth is a key driver in the revolution of our healthcare delivery system. HealthSpot brings together a set of unique technologies, devices and local healthcare providers to create a one of a kind healthcare experience," said Steve Cashman, HealthSpot CEO. "We are thrilled to be working with Rite Aid to pilot this new healthcare model as the first retail clinic truly integrated with local health systems to expand access to affordable and convenient healthcare in Ohio."

In Ohio, customers will be able to connect with a network of medical professionals from Cleveland Clinic, Kettering Health Network and University Hospitals, including pediatric specialists from UH Rainbow Babies & Children's Hospital, as part of HealthSpot's Care Network. The Care Network, a key component in building the infrastructure necessary to offer affordable, quality healthcare in retail, enables clinicians to extend their reach into local communities and serve more patients with expanded hours through HealthSpot stations. Since opening in late May, HealthSpot stations at Rite Aid have served thousands of Rite Aid customers. No appointment is necessary and most insurance will be accepted.

Rite Aid Corporation has nearly 4,600 stores in 31 states and the District of Columbia and fiscal 2015 annual revenues of US\$26.5 billion. Information about Rite Aid, including corporate background and press releases, is available through the company's website at [www.riteaid.com](http://www.riteaid.com).

## Drug Companies (cont.) . . .

than US\$60,000 now, according to a study, even as competition in the market has intensified with the introduction of new products.

Lori Reilly, executive vice president for policy and research at the Pharmaceutical Research and Manufacturers of America, the industry's main trade group, said it was misleading to look only at the cost of developing a particular drug because that ignored the money spent on the drugs that fail during development. Only about 12 percent of drugs tested in people reach the market, she said. She continued saying that publicly traded drug companies already disclosed their overall research and development costs, as well as other financial information. She also said that focusing on costs ignored the value of the drugs. Some drugs, for instance, can save money for the health system over all by keeping people out of the hospital, she said. Pharmaceutical executives do not typically tie the price of any particular drug to its development cost. But they do say that their sales have to recoup their investment in research and development if the companies are to stay in business.

The industry often cites the Tufts Center for the Study of Drug Development at Tufts University, which last year said companies spent an average of US\$2.6 billion to bring a drug to market, up from an estimate of US\$800 million in 2003. That includes the cost of failures. And almost half the figure is opportunity cost, the

amount a company might have earned if it had invested money elsewhere rather than spending it on drug development. Critics are skeptical of that figure, saying that the Tufts center gets funding from the pharmaceutical industry and uses data supplied by the drug companies, but does not disclose which drugs are used as the basis of the estimates.

Pharmaceutical executives often say they price the drugs based on the value they provide, though often a detailed explanation of that is not provided. In many cases, it appears, the price of new drugs is set in comparison to rival drugs already on the market, and usually a bit higher. Companies then can raise their prices for the older drugs.

"Honestly, there is no science to it." John Rother, chief executive of the National Coalition on Health Care, a group of insurers, consumer organizations, labor unions and employers concerned about drug prices, said his group hoped to introduce transparency legislation in Congress, but aimed at determining how drug companies estimate the value of their drugs, not the research and development costs. "The industry has used R&D costs for the justification, but anyone who is reasonably sophisticated understands those are sunk costs and have little to do with pricing," Mr. Rother said. "The more important information is any calculation of value. If the drug actually cures people, then what costs in health care are you saving?"

Dr. Jerry Avorn, a professor at Harvard Medical School and critic of some drug company practices, said the industry "has brought this on itself by charging prices that are so astonishing, it makes citizens wonder, 'Where did this figure come from?'"

## In Brief (cont.) . . .

challenges, including pressure on profit margins, narrowing networks and reimbursement challenges. New and enhanced services under the newly-named *Elevate Provider Network*, which will support efforts to improve profitability through enhanced patient care, better business practices and by leveraging centralized data to support reimbursement discussions, include: a new patient engagement center and capability set, powered by *Prescribe Wellness*, that independent pharmacies can leverage to drive adherence and enhance patient care; access to pre- and post-claims editing services through **Emdeon**, a leading provider of revenue and payment cycle management; an expansion of its central pay capabilities with the addition of claim reconciliation services powered by **FDS, Inc.**; and a revamped *InSite* pharmacy performance tool that will now include front-of-store sales data displayed in its popular peer benchmarking view. In addition, new mobile application is available that will notify pharmacists of key information they need to manage their business.

- ♦ German drug maker **Merck KGaA** has identified India as one of its key markets under a global expansion strategy, amplified by forecasts that the economy could be equal or even outpace China over time. The chief executive of **Merck Serono**, the biopharmaceutical business of Merck KGaA (distinct from US-based Merck & Co), said the market potential for her company's pharma and consumer health business is promising but warned of immediate challenges, like concerns over pricing of medicines and recognizing innovation, which are creating a level of unpredictability and volatility in the way future plans are shaped.

(continued on page 3)

## In Brief (cont.) . . .

◆ Israeli drug maker **Teva Pharmaceutical Industries Ltd.** agreed to acquire **Allergan's** generics business for US\$40.5 billion. As a result Teva has also revoked its offer to acquire Mylan.

◆ **Walgreens** and **Unilever** recently announced a partnership with **Me to We** (<http://www.metowe.com>), a social enterprise that provides socially responsible products and services, and donates half of its profits to the charity **Free the Children**. Walgreens' *Give H2OPE to Others* campaign will donate proceeds from select Unilever products (including *TRESemmé*, *Suave* and *Caress*) to supply clean water to families in rural Kenya. Walgreens expects to provide up to 15 million gallons of clean water by the end of the campaign on Sept. 30th.

◆ **IMS** reported revenue of US\$742 million (+24.6% on a constant currency basis) for its 2nd quarter. Early in the period, the company closed the acquisition of **Cegedim's** CRM and Strategic Data businesses ("the Cegedim Acquisition"). Excluding the impact of the Cegedim Acquisition, revenue was up 5.2% on a constant currency basis and down 4.6% on a reported basis, with the difference entirely due to the year-over-year strengthening of the U.S. dollar versus key currencies in which the company transacts business.

◆ The anti-infective agent markets for Japan, the US, and Europe grew 48.4% to US\$42.7 billion (¥5,316 billion) according to a Japanese marketing research firm, suggesting that the market penetration of anti-hepatitis C virus (HCV) drugs is a key growth factor in the market.

◆ **Henry Schein, Inc.**, a global leader in providing health care products and services to office-based dental, animal health and medical practitioners, reported a .5% increase in net sales to US\$2.6 billion and net income of US\$117.9 million for its 2nd quarter ended June 27th.

◆ Retail sales for over-the-counter (OTC) medicines grew 6.7% in the UK in the 12 months ended February 2015. Analgesics are the largest sector in the OTC market, accounting for 21.5% of total sales, followed by skincare treatments (19.4%); cough, cold and sore throat remedies (17.8%); and gastrointestinal drugs (9.6%).

(Sources: BioSpace, Drug Store News, Economic Times, IMS, MarketWatch, Pharma Times and PRNewswire)

## Cardinal Introduces Adherence Advantage Program

Cardinal Health announced the introduction of the Adherence Advantage program, which features an expanded suite of solutions designed to help retail pharmacies improve medication adherence. "The IMS Institute for Healthcare Informatics estimates that implementing improvements in medication adherence could mitigate US\$105.4 billion in avoidable costs that are incurred each year due to medication non-compliance," stated Myles Hoover, VP marketing and customer solutions at Cardinal Health.

Hoover noted that three of the five pharmacy-related Centers for Medicare and Medicaid Services Star Ratings measures for health plans are based on medication adherence. "An important criterion for pharmacies to be included in health plan networks is the ability to drive medication adherence among their patients," Hoover said. "This expanded suite of services helps us work seamlessly with community pharmacists to help them ensure patients are on the right medications, using them the right way and achieving the desired results." The Adherence Advantage suite of services includes five adherence-boosting tools:

(1) *Cardinal Health Repackaging Solutions*: cost-efficient methods of repackaging prescriptions and over-the-counter medications for patients;

(2) *Consumer adherence products*: help patients help themselves with medication reminders, tablets crushers and cutters, medicine spoons and droppers;

(3) *Dispill*: a low-cost, multi-dose packaging solution that makes it easier for patients to adhere to their medication regimen;

(4) *Pharmacy Health Connect*: a smartphone app that allows patients to easily refill prescriptions, set medication and refill reminders, as well as view current pharmacy news, events and messages; and

(5) *Reimbursement Consulting Services*: The improved dashboard summarizes a pharmacy's key reimbursement and patient care opportunities, including visibility of available Medication Therapy Management (MTM) cases, which gives the pharmacist insight into patients who most need their assistance. In addition to MTM integration, the dashboard offers patient-level adherence reporting, so a pharmacist may improve their patients' overall care, as well as performance on CMS Star Rating metrics.



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