FOCUS

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McKesson Expands Its European Operations

(Sources: Goldman Sachs and Company Press Release)

McKesson (MCK) has announced an agreement to purchase certain pharmaceutical distribution assets from UDG Healthcare (UDG) for €408 million (US$449 million) in cash. This deal follows McKesson's recent agreement to acquire 281 pharmacies operated by Sainsbury's in the UK. Management expects the total impact from both deals to generate US$0.10-US$0.14 accretion post close.

Goldman Sachs notes this deal is in-line with MCK's capital allocation commentary favoring tuck-ins to supplement its Celesio asset, and believe its ample firepower (~US$10bn) should allow for further accretive transactions.

The acquisition includes United Drug and United Drug Sangers wholesale operations across the Republic of Ireland and Northern Ireland; TCP, a home healthcare provider in the Republic of Ireland; and MASTA, UDG's travel healthcare business based in the United Kingdom. The acquired operations will be reported as part of MCK's International Pharmaceutical Distribution segment.

Both the UDG and Sainsbury's acquisitions of 281 pharmacies in the UK are expected to close in the first half of 2016. In the first 12 months following the close of both the UDG assets and Sainsbury pharmacies, MCK expects the combined impact of these transactions to be between US$0.10-US$0.14 accretive to EPS.

More than 1,000 UDG employees will join McKesson as part of the acquisition. The acquired operations will be reported as part of McKesson's International Pharmaceutical Distribution and Services business under the leadership of Marc Owen, Chairman of the Management Board at Celesio AG, the European business within McKesson's Distribution Solutions segment.

Commenting on the proposed acquisition, Paul C. Julian, Executive Vice President and Group President for McKesson Distribution Solutions – who is also the current vice chair of IFPW's Board of Directors - said: "We are extremely pleased to announce the execution of an agreement to add the pharmaceutical distribution business and other healthcare assets of UDG to McKesson's European business. At McKesson, we are committed to providing our customers with more efficient delivery of healthcare products and services globally."

Marc Owen, Chairman of the Management Board at Celesio AG, said: "The acquisition of UDG's pharmaceutical distribution, home and travel healthcare businesses in Ireland and the UK, will strengthen our position in the industry. We have made this investment as part of our growth strategy which leverages the positive trajectory of the wider healthcare sector in Europe. This acquisition will also complement our broader portfolio of assets in both Ireland and the United Kingdom. We look forward to continuing UDG's tradition of excellent customer service and to working with the UDG team."

The transaction is subject to UDG shareholder approval and EU competition clearance, among other customary closing conditions.

In Brief . . .

- Adopting an Internet of Things (IoT) approach to health care, where connectivity creates opportunities for improved economic benefit – **Cardinal Health** has opened a 20,000 sq. ft. Healthcare Supply Chain Innovation Lab in Concord, Massachusetts. The research and development facility aims to reduce the US$5 billion in waste in the health care supply chain for devices and implantables and will serve as a hub for Cardinal Health to explore innovative approaches, such as smart sensors and nearfield communication, to bring creative, acute care-centered technologies to health care's most challenging issues.
- Finnish wholesaler and healthcare service provider **Oriola Oy** and global drug manufacturer **MSD** have signed a long-term distribution and services agreement indicative of the strong partnerships between manufacturers and wholesalers around the world, MSD commented, "We value Oriola and our cooperation. Oriola provides a high-quality service and is a very cooperative partner that develops its services to meet its customer's needs. The Finnish pharmaceutical distribution model guarantees a high standard, reliable and professional distribution channel to pharmacies and hospitals." Separately, Oriola-KD launched a new online drug store in Sweden this month, www.kronansapotek.se, offering Kronans Apotek's (its retail pharmacy chain's) product assortment, traded goods, OTC and prescription medicines. According to *Eero Hautaniemi*, President & CEO of Oriola-KD

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US Generic Market Update

(Sources: IMS Health; an article prepared by David Salazar and published by Drug Store News; and, drugchannels.net)

As of June 2015 generics only made up 10% of spending growth for the year - down from 42% in 2011 - yet generics still accounted for 17% of spending and 83% of prescriptions, according to IMS Health data.

The number of generic prescriptions dispensed has been growing since 2010, though that growth has slowed. For the first six months of 2015, 83.2% of total prescriptions dispensed were generics, versus 82.1 % in 2014 - slower than a 5% jump between 2011 and 2012. Although modest, the total number of generic prescriptions is increasing by 3.2% as the total number of branded prescriptions decreased 5.6% for the first six months of 2015, with about 27% of the growth in generics being due to injectables.

In the coming years, IMS expects generic prescription demand to top out at about 90% of total prescriptions. However, one trend that might prove problematic is generic price inflation due to three factors, according to IMS Health. Firstly, there is an increased emphasis on quality of products as a result of regulation; companies who have to invest more into their quality systems might be compelled to raise prices in an effort to mitigate the cost of this investment. Secondly, generic companies on the whole have had fewer new product launches, which are one of the biggest drivers

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UK Government Changing Its Drug Pricing Agreement

(Source: an article prepared by Sten Stovall and published by Scrip)

Less than two years after the first ever cap on UK National Health Service drug prices was agreed upon, the Department of Health has announced it wants to change a central part of the pact on grounds it does not provide the NHS with adequate savings or price transparency.

In November 2013, the British Department of Health (DoH) and the Association of the British Pharmaceutical Industry (ABPI) agreed to a new five year Pharmaceutical Price Regulation Scheme (PPRS) under which prices on December 1, 2013 for branded medicines on sale to the publicly funded health service were to be held flat for two years, with growth rates of 1.8% allowed in the subsequent two years and 1.9% in the final year. The PPRS took effect on Jan. 1, 2014.

The parties at the time also agreed on a new parallel statutory pricing scheme applied to companies that choose not to join the negotiated voluntary PPRS pricing agreement. That statutory scheme, which currently applies to about 10% of the branded medicines used in the UK, imposes a cut of 15% in the maximum price of branded medicines on sale on Dec. 1, 2013 for companies that did not sign up to the new PPRS scheme. It is that statutory element of the pact which the DoH wants amended.

But rather than a flat rate of price cuts, the department now says it wants a payment system with the payment - by companies against sales, after first deducting discounts and value added tax, set - at between 10% and 17%, applying to new as well as old products sold. It is the department's preferred choice of a menu of four options. The department feels that these proposals for the statutory branded medicine pricing scheme, which applies to companies that choose not to be in the PPRS, will create a more level playing field between the two schemes. Further, the spokesperson said that this is part of the ongoing consultation of the statutory arrangement reached at the end of 2013, as the DoH kept that option open.

The department further said it is keen to see companies already in the PPRS remain there, "to deliver its agreed objectives of stability and predictability." Consultations will now begin between the government and drug makers for the next three months. The health department hopes to have an agreed upon outcome in December. The department also said the exercise will be complicated, but necessary. DoH acknowledges that it is currently difficult to realign the schemes because of the differences in the mechanisms used to make savings, and the differential effect that the statutory scheme price cut has on companies, depending upon the levels of discount they offer the NHS.

The UK government in its consultation paper listed four the options for discussion. Its preferred choice, entailing a payment system with the payment set between 10% and 17% that applies to new as well as old drugs, which is known as Option 2a. This preferred choice, it said, has the advantage over a higher maximum drug price cut. It would deliver the highest level of additional NHS savings of all the options, estimated at £113 million (US$172 million) in 2017/18. The three other options are: (1) A further cut in maximum price for existing branded drugs; (2) A further cut in maximum price including that for new products not listed December 2013; Or, (3) a percentage payment by companies replacing the existing price cut arrangement for products listed December 2013. "Regardless of which option we decide to take forward as a result of this consultation, we need a transparent way of controlling the maximum price. As companies can choose to move between the statutory scheme and the PPRS, we consider that it is important that we have transparency," the department's consultation document said.

U.S. Generic (cont.) . . .

of their revenue. If fewer products are being launched, there's an incentive to charge more for existing medication. Thirdly, inflation is driven by customers' increased purchasing power, which triggers manufacturers to make up costs.

Further complicating the state of the generics market is the continued move of prescription drugs to OTC status. In the past two years, *Nexium, Flonase* and *Rhinacort* have all made the switch, making consumer access to them easier and prescriptions unnecessary. As of last May, Eli Lilly and Co. and Sanofi entered a licensing deal and announced an anticipated 2018 OTC launch of erectile dysfunction drug *Cialis*.

But, one of the trends with the most potential and uncertainty is the September launch of the first U.S. biosimilar, *Zarxio* (*filgrastim*), by Sandoz. The court ruling that approved the drug's launch also put a six-month delay between approval and launch for all future biosimilars.

Over the past three years, the big three U.S. wholesalers—AmerisourceBergen, Cardinal Health, and McKesson—have established novel generic purchasing relationships with their largest Customers:Walgreens Boots Alliance (with AmerisourceBergen); The Red Oak joint venture between Cardinal Health and CVS Health; McKesson's OneStop generic program, which is now utilized by Rite Aid. In 2015, McKesson established McKesson Global Procurement & Sourcing Limited, a London-based subsidiary focused on manufacturer negotiations. These three buyers accounted for more than three-quarters of total U.S. generic drug purchases from manufacturers.

In Brief (cont.) . . .

Group, the company will have a strong focus on the development of digital channels in order to even better respond to customers' needs and this web store completes the service offering of its over 300 pharmacies, providing consumers with an alternative channel to fulfil their needs.

- **McKesson** and **Albertsons**, a leading US food and drug store chain, have signed a 5-year distribution agreement to include the sourcing and distribution of both branded and generic pharmaceuticals, as of April 1, 2016 to Albertsons' network of nearly 1,700 pharmacies across 33 states.
- Major Japanese pharma firms, including **Eisai** and **Takeda**, have announced new initiatives to boost research into neglected tropical diseases, in line with a steady increase in research activity in this area by companies in the country.
- South Korea has granted approval to **Gilead's** *Sovaldi* as a therapy for adults with genotype 1, 2, 3 or 4 chronic hepatitis C. It remains to be seen as to whether all four genotypes will be covered by the national health insurance scheme and at what price the drug will be sold in the country, as the company negotiates for government reimbursement.

(Sources: Cardinal Health, Drug Store News, IFPMA, Oriola-KD, Pharm Asia News and Scrip)