

Cardinal Acquires RainTree Oncology Services

(Sources: Barclays Research and Drug Channels Institute)

Cardinal Health has acquired RainTree Oncology Services, a large community oncology physician practice GPO. As a reminder, RainTree signed a three-year distribution agreement with Cardinal in January 2015 (the contract was incidentally won from Metro Medical, which was later purchased by Cardinal in April). The acquisition, according to Barclays, will help CAH partially close the gap between its physician office oncology business and the larger AmerisourceBergen (ABC) and McKesson (MCK) specialty GPOs. Barclays expects GPO ownership will be key to creating a speculative distribution value proposition for biosimilars. Given the small size and nature of the deal, transaction details were not released.

The RainTree acquisition comes on the heels of Cardinal's purchase of specialty distributor Metro Medical in 2015 and patient access and support hub Sonexus Health (manufacturer services) in 2014. Barclays' Specialty Market Model suggests oncology is the fastest growing therapy within the specialty market, growing at 16% CAGR from 2015-2020 (as compared to 12% for the total specialty market). They believe RainTree will help Cardinal reach its goal of generating specialty revenue of US\$8 billion in FY16 (up from over US\$5 billion in FY15), of which specialty distribution will contribute roughly US\$5 billion.

RainTree helps Cardinal continue to narrow the gap with ABC and MCK's specialty GPOs. As mentioned above, RainTree builds on CAH's recent acquisition of specialty distributor Metro Medical in 2015 and provides Cardinal with even higher exposure (and alignment) with physician offices. The privately-held, California-based company had been the largest independent community practice GPO prior to its acquisition by Cardinal, noting the majority of large community practice GPOs are owned by pharmaceutical distributors:

- Cardinal Health operates Vital Source and gained the Bellwether Oncology Alliance GPO from its acquisition of Metro Medical last year. The company will now also own and operate the RainTree GPO – representing 8% market share in the Specialty Distribution Market (SPM).
- AmerisourceBergen's Oncology Supply, ASD Healthcare (a specialty distributor of blood products, dialysis items, and vaccines), and Besse Medical (a specialty distributor focusing on non-oncology therapeutics such as rheumatology, urology, and ophthalmology) each operate community practice GPOs – a 26% share in the SPM;
- McKesson owns the Onmark GPO which expanded with the US Oncology acquisition in 2010. The company has 19% share in the SPM space.

RainTree improves Cardinal's position for the eventual entrance of biosimilars. Barclays' expectations are that biosimilar economics for distributors will mirror brand economics in many

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- ◆ **Mediq**, a Dutch-based provider of international healthcare services, has acquired direct to patient ostomy and specialty pharmaceuticals distributor **Globomedica** in Switzerland for an undisclosed sum. Mediq already serves healthcare institutions in Switzerland but views the acquisition as an important platform to expand into other direct-to-patient services.

- ◆ **Walgreens Boots Alliance** is reportedly eyeing the Australian retail pharmacy market, having registered its trademark with IP Australia late last year and looking at options to expand, including establishing a Boots franchise network and gaining distribution for its health and beauty brands in local pharmacies. Pharmacy ownership restrictions in Australia have prevented market entry in the past but are due to be revisited. If they are maintained, Walgreens Boots would also consider establishing a new franchise under the Boots banner or establish a partnership with one of the existing wholesalers (likely Sigma or API). The group is also interested in acquiring or distributing Australian health and beauty brands to deliver across its retail network, including 13,000 company-owned pharmacies in eight countries, and its wholesale network, which supplies more than 140,000 pharmacies, health centers and hospitals in 12 countries.

- ◆ At its Annual General Meeting held on March 14 in Helsinki, **Oriola-KD's** reported that its net sales increased by 0.9% to €1.63 billion / US\$1.81 billion and operating profit excluding non-recurring items increased by 3.0% to €60.8 million / US\$ 67.5 million in 2015. Operating profit was €62.6 million / US\$69.5 million for the year.

- ◆ US drugstore chain **CVS** has opened its first **MinuteClinic** walk-in medical clinics inside **Target** stores in North Carolina. The Target-based clinics have been rebranded and converted to MinuteClinic and join 30 additional MinuteClinic locations in the Charlotte area and 15 in the Raleigh-Durham area inside select CVS Pharmacy stores.

- ◆ **Cardinal Health, Target** and **Walmart** were all selected as
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settings (and will trail oral solid generic conversion economics by a wide margin). Further they believe distributors may be able to obtain higher margins in the community setting as GPOs and may exert influence on which products are utilized by physicians.

RainTree's strength in oral oncology is the real prize, according to Adam Fein of Drug Channels Institute. "As I discuss in Inside McKesson's Acquisition of Biologics Specialty Pharmacy, oncology practices now operate significant specialty pharmacies for dispensing of patient administered oral oncology products and patient self-injectable drugs. The deal also prevents RainTree from being acquired by a competitor."

In 2015, Cardinal Health became the exclusive distributor of injectable, infused, oral oncolytic and supportive care specialty medications for members of RainTree Oncology Services. Cardinal Health's VitalSource GPO serves as RainTree's GPO for injectable and infused medications.

Japanese Wholesalers' Inventory Profits Likely to Diminish

(Source: Pharma Japan)

Japanese pharmaceutical wholesalers are expected to experience lower profits from their transactions in March 2016 compared to typical years in March before the biennial drug price revisions. The reason being that during March immediately preceding price revisions in April, wholesalers usually earn handsome profits by purchasing drugs at new invoice prices, which are lower than old ones, while maintaining their delivery prices for healthcare providers. These profits have become a major source of revenue for wholesalers, and the latest move by manufacturers could cut into their bottom line in the business year ending in March.

Invoice prices between drug makers and wholesalers are updated every two years to respond to the biennial revision of the government's reimbursement prices. It has been the norm for wholesalers to buy drugs at new prices starting on March 1, and change their delivery prices for medical institutions and pharmacies on April 1 (except for pharmacy chains with strong bargaining power). This has enabled wholesalers to earn sizable "inventory margins" during this one month period.

Nomura Securities' estimates show that Alfresa Holdings and Medipal Holdings each brought in over ¥5 billion (US\$44 million) in inventory margins before the FY2014 price revision, while Suzuken chalked up over ¥4 billion (US\$35 million), and Toho Holdings around ¥3 billion (US\$26 million). Although the four wholesaling majors do not disclose specific figures for such profits, inventory margins have certainly underpinned their earnings in years before biennial price revisions.

According to wholesaler officials, 8 of 12 top Japanese drug makers by sales will push back the application of new invoice prices by half a month this March, before the FY2016 price revision is implemented in April. Takeda Pharmaceutical, Daiichi Sankyo, Mitsubishi Tanabe Pharma, Sumitomo Dainippon Pharma, and Taisho Toyama Pharmaceutical have set the transition date for March 16, while Astellas Pharma and Kyowa Hakko Kirin have changed the date to March 15, and Chugai Pharmaceutical March 14. On the other hand, Otsuka Pharmaceutical, Eisai, Shionogi, and Santen Pharmaceutical have kept the date intact at March 1.

Meanwhile, a majority of non-Japanese pharmaceutical manufacturers Novartis Pharma, Sanofi, Janssen Pharmaceutical, Bayer Yakuhin, Eli Lilly Japan, and Bristol Myers left the switchover date unchanged at March 1. MSD was an exception, with the date set for March 14, according to the officials.

From an Emergency Risk Management perspective, according to the wholesaler officials, there are two reasons why the eight Japanese companies want to delay the transition date. Under the previous model, wholesalers tried to carry as little inventory as possible at the end of February, and placed massive orders on March 1 so as to maximize their inventory margins. This could pose a major problem if a huge disaster hits the country at the end of February while inventory levels are low, possibly resulting in product shortages. To prevent wholesalers from excessively shedding their inventories, Takeda and some others have offered to refund the gap between their new and old invoice prices for products that have been purchased at old rates and that remain in

stock as of the transition date. in the wake of the "Great East Japan Earthquake."

The second reason behind the move relates to concerns that a possible three consecutive years of price revisions would adversely affect drug makers' financials. Amid these concerns, drug makers are compelled to hold down wholesalers' inventory margins as much as possible. There were times in the past where drug makers set the transition date for March 1 and still compensated for the gap between new and old invoice prices. This practice was later revised into one where the transition takes place on March 1 but without refunds by drug makers. This time, a flurry of drug makers have pushed back the date to mid-March. These gradual changes have been putting downward pressure on wholesalers' inventory margins.



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part of the **2016 National Association for Female Executives (NAFE) Top Companies for Executive Women**, which recognizes American corporations that have moved women into top executive positions and created a culture that fosters the careers of talented women. More than half of the companies on the 2016 NAFE Top 60 have four or more women on their boards of directors.

- ◆ **AmerisourceBergen** elected 10 directors to serve one-year terms on the company's board of directors at its recent annual stockholders meeting. *Steven Collis*, who has served as AmerisourceBergen's president and CEO since July 2011, was elected chairman of the board, succeeding *Richard Gozon*. The additional directors elected were: *Douglas R. Conant; D. Mark Durcan; Richard W. Gochmauer; Lon R. Greenberg; Jane Henney; Kathleen W. Hyle; Michael J. Long; Henry W. McGee; and Ornella Barra*.

- ◆ In Japan, **Gilead Sciences's** hepatitis C treatments, *Sovaldi* and *Harvoni*, will see their prices cut by 31.7% in April under a new special repricing rule for fast-growing blockbusters, the **Ministry of Health, Labor and Welfare (MHLW)** announced. **Chugai Pharmaceutical's** cancer drug *Avastin* will also be subject to the so-called "huge seller" repricing rule, and it will receive a 10.9% price cut after the reduction rate is somewhat offset by a 5% premium to reward its clinical usefulness. Meanwhile, 20 active pharmaceutical ingredients (APIs) / 44 products will go through price reductions under the existing market expansion repricing rule, cuts prices of products up to 25% when their annual sales exceed 15 billion yen and are more than twice the forecasted amount.

(Sources: AmerisourceBergen, Drug Store News, MediQ, Oriola-KD, Pharma Japan and Sydney Morning Herald)