



The Evolution in Drug Wholesaling and Distribution

(Source: an article prepared by Jeffrey Woldt on AmerisourceBergen and published by Chain Drug Review)

The following are edited excerpts from comments made by Steve Collis, CEO of AmerisourceBergen – who is also Chairman of the IFPW Foundation – reflecting on the transition his company has made to address future markets in which it operates.

AmerisourceBergen Corp. has done much to redefine the role of the pharmaceutical wholesaler in recent years. The company has augmented its core drug distribution operation with a variety of capabilities that better position it to help business partners throughout the supply chain succeed. AmerisourceBergen today is a provider of global specialty logistics; consulting and patient services; and support to pharmacies, physician offices, oncology practices and hospitals, as well as a traditional drug wholesaler.

“Throughout the organization we like to define ourselves as the place where knowledge, reach and partnership shape health care delivery,” Collis says. “It is a fitting description because, when you look at our knowledge of specialty, our knowledge of reimbursement, our knowledge of policy issues, our knowledge of the health care environment and pharmaceutical care, we certainly possess that.”

Collis and his management team set about capitalizing on those strengths to create a differentiated offering in a market where, Collis acknowledges, AmerisourceBergen faces formidable competitors in McKesson Corp. and Cardinal Health.

“We’ve got three very good companies that are already dependent on drug distribution as their core business, but we all have different strategies around it,” he says. “AmerisourceBergen wants to expand globally through our specialty businesses, and we’re interested in expanding our relationship with multinational manufacturers. Our goals are to increase market share with important customer groups like health systems and retail pharmacies, and find smart adjacencies that are focused on pharmaceutical care.”

An example of the company’s strategy is the US\$2.5 billion acquisition of MWI Veterinary Supply. The transaction made AmerisourceBergen a powerhouse in a field related to its core business that is burgeoning around the world. “MWI is the premier supply chain company in animal health, with leading positions in both the companion and production markets,” Collis said at the time. “Animal health is a growing market in the U.S. and internationally, and it is a logical extension of our pharmaceutical distribution and services businesses. Utilizing AmerisourceBergen’s knowledge of manufacturer and provider services, our global reach and partnership philosophy, combined with MWI’s expertise in veterinary and agricultural markets, we will collaboratively launch the next generation of superior animal health products and services together.” The thinking behind the MWI deal reflects AmerisourceBergen’s broader strategic vision. The company puts a premium on new ideas, new expansion opportunities and new business alliances.

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♦ **Cardinal Health’s** interventional vascular business, **Cordis**, along with the **Cardinal Health Foundation**, will donate 11 million yen (US\$105,500) to **Save the Children Japan** to assist with restoration efforts for children and families affected by earthquakes that have struck Japan’s Kumamoto and Oita prefectures since April 14 this year. Cardinal Health Foundation will also match 50 percent of all donations from Cardinal Health employees around the world to aid with relief in Japan.

♦ **China’s National Health and Family Planning Commission** have released a list of 32 children’s medicines to be fast-tracked for importation to mainland China in a decision announced June 1st. These drugs are used to treat a wide range of conditions, including cardiovascular disease, and endocrine, blood and nervous disorders. Most have passed clinical trials and have been used in Hong Kong, Macao and Taiwan for years but have failed to be imported to the rest of China due to current rules which require clinical tests in mainland China.

♦ In a report released by **Frost & Sullivan**, projections for the retail health care market will reach US\$4 billion by 2022, up from US\$1.35 billion in market revenue in 2015. The report also notes that the driver in this growth stems from rising healthcare costs and lack of access to primary care, as well as rising premiums and higher deductibles among insured patients.

♦ As part of its ongoing evolution, **Walgreens Boots Alliance** has announced changes to its senior management roles and responsibilities. **Ornella Barra** (Executive Vice President of Walgreens Boots Alliance and President and Chief Executive of global Wholesale and International Retail) and **Alex Gourlay** (Executive Vice President of Walgreens Boots Alliance and President of Walgreens) have been appointed

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“Ever since I became CEO, we really wanted to partner more with customers and find ways to help them be successful by focusing the organization more on patient care,” says Collis. “That’s especially important for independent customers, whether they be oncologists or pharmacies. They are as challenged as they’ve ever been. They’re worried about exclusion. They’re worried about policy issues. They’re worried about narrow networks.” One of the primary ways that AmerisourceBergen assists independent drug stores is through Good Neighbor Pharmacy, a network of more than 3,200 members who benefit from services in such areas as managed care, business coaching, store design, third-party contracting and reimbursement networks, and merchandising, in addition to financing and supply chain functions.

“What I’ve seen globally is that the wholesaler is the most important business relationship that an independent pharmacy has,” says Collis. “We’re very proud of Good Neighbor Pharmacy (GNP). It’s a dynamic program, and we’re carrying on investing in it. We have to make sure that those community pharmacies stay relevant when it comes to areas like specialty pharmacy, when those products lend themselves to a community approach.

“We want to make sure that our independent practitioners get very good access to new drug launches, be that brand or be that loss-of-exclusivity products. That’s a key strategy for us. In short, I think the wholesalers have been very important to those 22,000 independent pharmacies that are still in business in the U.S.”

While AmerisourceBergen’s support has become crucial to the continued viability of the independent pharmacies and small drug chains it serves, the company has used the partnership model to great effect in its dealings with major retailers.

The most striking instance is the long-term, strategic relationship the company forged with Walgreens Boots Alliance Inc. (WBA) in March 2013. The 10-year deal — which was extended recently by three years to 2026 — built on the companies’ existing contract for specialty medications to include all branded and generic drugs, and combined their purchasing power in the pharmaceutical market through Bern, Switzerland-based Walgreens Boots Alliance Development GmbH (WBAD). In addition, WBA was granted the right to buy up to a 30% stake in AmerisourceBergen, an option it has chosen to exercise, and given a seat on the company’s board.

The partnership with WBA has been a great success, according to Collis, who notes that it has, among other things, led to a doubling in throughput at AmerisourceBergen’s 26 distribution centers in the U.S. “At our heart, we’re a distributor, and that requires us to be very efficient. Distribution is not easy to do really well,” he says. “I think we’re setting new standards in our Walgreens partnership, where we are making additional investments to ensure that the patient has the right medication at the right time, and we’re doing that in a way that has never been attempted before between a large chain and a wholesaler. “We will truly be integrated all the way back to the contracting phase to make sure that fill rates — which already represent a very high standard of service — are going to be even more elevated because we understand now, because of the relationship we have with Walgreens, what happens if that product is only available 95% of the time. It sounds pretty good, but it’s not good enough,” explains Collis.

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EY Report: Biotech Crests in 2015, But Deal Wave Expected

(Sources: an article prepared by Lisa LaMotta and published by Scrip; EY (formerly known as Ernst & Young))

Despite strong market conditions for the biotech sector in 2014 and 2015, financial conditions have been slowing in recent months due to increasing outside pressures, but consulting firm EY says the sector has a strong cushion and is poised for an uptick in M&A.

An annual report released by EY showed that the US biotech industry’s cumulative market cap reached a peak in mid-2015, going beyond US\$1 trillion, only to drop precipitously to US\$687 billion by May 2016. The report notes that of the top US pre-commercial companies, two-thirds have a lead candidate in late-stages and about a third entered the public market through an IPO in 2014 or 2015. While all of these companies had strong valuations in mid-2015, all of them declined in the first few months of 2016, with only three seeing their market cap drop less than 10%.

Pre-commercial companies aren’t the only ones being hit in the first half of 2016, biotech powerhouse Gilead Sciences Inc. has lost US\$35 billion in market cap this year. A number of factors played in to these shifting market dynamics, including increasing pricing pressures from payers that was exasperated by congressional investigations into drug pricing and the ongoing US presidential election, amongst other things. While all of this sounds like bad news, looking at the landscape from a year-to-year time perspective, it shows that the biotech industry is still ahead.

“I find it difficult to focus on annual numbers due to ebb and flow,” said EY Global Biotechnology Leader Glen Giovannetti. “There’s a natural cyclical rotation that happens in the market as generalists start to move on. Moderation is a good way to think about it.”

In 2015, the number of companies ending the year with a market-cap above US\$500 million was 117, down from 121 in 2014. Yet, the 2015 number was still well-above the 63 company average from 2007-15. Biotech employment has increased by 14%, or 25,000 people since 2010, while R&D investment increased by 74%.

EY Senior Analyst Ellen Licking calls the report “optimistic,” pointing out that not only are big commercial biotechs doing well, but smaller biotechs are growing and at a faster rate. The biotechs with less than US\$500 million in revenues increased their cumulative R&D spend by 28% to US\$15 billion, showing the robustness of their science, as well as the increased access to capital markets and deal activity in the first three quarters of 2015.

“If you look at the M&A landscape, we are seeing an increase in upfront payments overall,” noted Licking. “The companies are realizing more value at the time of the signing of the deal, which is an indicator of the fundamentals of the work in place and that smaller companies are better positioned in some ways because of the strength of innovation.” There were 30 of these pre-commercial biotechs with market caps over \$1 billion in 2015, up from 25 in 2014. The report notes that many of them have strong revenue-generating capabilities due to deal upfront and milestone payments for platform technologies, making them valuable acquisition targets in the second half of 2016.

While deal-making has slowed during the first half of 2016,

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"The scale of our business is enormously increased in the last five years, and a lot of that came from Walgreens, from really being the first distributor to do full pharmaceutical prescription care distribution for a large retailer. That, along with our WBAD relationship, really changed our industry and led to these buying consortiums and long-term contracts with customers, more integration with customers, more contracting together and global sourcing. These are some of the things that emerged from our 2013 partnership."

Contrary to concerns about the impact the deal between AmerisourceBergen and WBA might have on the timely availability of medications to other wholesale customers, Collis, who has presided over a 70% increase in the company's revenue during his tenure as chief executive, says the partnership has improved the supply chain by raising the volume of products in the system.

AmerisourceBergen has established itself as a leader in specialty medications, the cutting edge of pharmaceutical treatment. The companies that comprise the wholesaler's specialty group offer pharmacies and other providers solutions that drive efficiency, financial performance and improved patient care, while drug makers benefit from commercialization services designed to maximize the success of biotech medications at every stage of the product life cycle.

"The brand business has become a specialty business," asserts Collis, who earlier in his career spearheaded the emergence of AmerisourceBergen as a power in the specialty sector. "So many of the oral solid products that have driven our industry for years are off patent and widely available as generics, which, by the way, doesn't mean that they still aren't very important to patient care and still aren't very important to our customers."

"But if you look at where manufacturers are investing, it is so much in the specialty area. We've had wonderful examples of new immunology drugs in oncology and, of course, hepatitis C and new HIV medications that have truly had a positive impact on patient care. I'll add my voice to the many that say that sometimes the value that pharmaceutical care is providing to the system gets overlooked in the debate about the pricing."

"Now what we will see in specialty is the development of precision medicine that can, for example, target therapies to specific tumor types in cancer patients. These are areas where we think our practitioners, and, by definition, AmerisourceBergen as their partner, are going to have a big role."

Collis is optimistic that the drug therapy will play an even bigger role in health care going forward. "One of the things that's interesting is the amount of entrepreneurialism that is out there in the pharma world. There's new technology, and there's a convergence of technology and science and research that we think is going to drive the next wave of innovation. That's what will drive AmerisourceBergen's distribution operation, our services businesses, our specialty franchise and, of course, hopefully our Good Neighbor Pharmacy network."

Biotech (cont.) . . .

it hasn't stagnated completely. There were \$54bn in biotech acquisitions thus far this year, including Shire PLC's US\$32 billion takeover of Baxalta Inc. and Pfizer Inc.'s US\$5.2 billion buy of Anacor Pharmaceuticals Inc.

Giovannetti said in an interview that deals like Shire/Baxalta

spur other companies into action. "These types of deals force boardroom discussions at other companies," said Giovannetti. "They force other companies to say, 'do we have the right portfolio? What are the other targets?' They may not pull the trigger, but the conversation gets elevated." Giovannetti expects 2016 to be a "robust" year for M&A as companies realize they can pick up biotechs on the cheap while further focusing their businesses on just a few key therapeutic areas.

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to the roles of Co-Chief Operating Officers. Mr. Gourlay will oversee Walgreens and Boots, while Ms. Barra will take on the additional responsibilities of supervising Global Brands, human resources and other business services. *Ken Murphy*, currently Executive Vice President of Walgreens Boots Alliance and Chief Commercial Officer and President of Global Brands, and *Kathleen Wilson-Thompson*, Executive Vice President and Global Chief Human Resources Officers, will now report directly to Ms. Barra. *Ms. Barra is also sitting Chairperson of IFPW.*

- ◆ **Oriola-KD** and **Shire** have signed an agreement to extend their cooperation in Finland. As of June 1st, Oriola-KD has taken over the warehousing and distribution for Shire products in Finland. "This agreement further strengthens the relationship between our two companies and provides a platform for Shire to consolidate its storage and distribution requirements with one strategic partner in Finland." stated *Darren Devlin*, EU & CEEMEA 3PL Lead, Supply Chain Logistics for Shire.

- ◆ **Mediq** will successfully complete the sale of **Pharmacies Netherlands to Brocacef**, a joint venture between McKesson's Celesio and PHOENIX AG, now that approval has been given by ACM. Mediq will now focus on the delivery of medical devices and care solutions directly to patients' homes, hospitals and other healthcare institutions. Mediq is a leading international provider in 14 countries.

- ◆ The **Healthcare Distribution Management Association** (U.S.) is now the **Healthcare Distribution Alliance** (HDA). The announcement was made on June 13th effective immediately at the opening session of HDA's *2016 Business and Leadership Conference* in Colorado Springs. HDA's not-for-profit charitable research foundation, **The Center for Healthcare Supply Chain Research**, will now be known as the **HDA Research Foundation**. HDA President, *John Gray*, said "While simplifying our name, the new Healthcare Distribution Alliance brand also reflects our organization's strategic role as a supply chain leader and convener in advocacy and education."

- ◆ *Jacques Nathan*, current global head of the rheumatology business at **Sanofi, S.A.**, will become president of Sanofi's Japan operation, **Sanofi K.K.**, effective July 1, 2016. Mr. Nathan will replace *Fabrice Baschiera*, who will return to France to assume the role of International Commercial Head of **Sanofi Pasteur**. Mr. Nathan will also serve as JPAC (Japan, Australia, New Zealand and South Korea) region head of the Global Business Units for General Medicines and Emerging Markets, as well as Japan General Manager.

(Sources: China Daily USA, Drug Store News, Pharm Japan, and company press releases)