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Trends for U.S. Drug Wholesalers in 2018

Source: Edited excerpts from an article ["blog"] prepared by Dr. Adam Fein and published by Drug Channels)

Dr. Fein highlights five significant industry trends affecting the U.S. drug wholesaling industry. He states that many of the trends have been headwinds for wholesalers. He further suggests that the profit declines and negative trends partly explain why, when compared with last year's report by Dr. Fein, the stocks of the largest public wholesalers are valued at a steeper discount to the overall stock market average. The five 2018 trends, according to Dr. Fein, are: 1) Revenue growth will continue to slow as brand-name drug inflation declines; 2) Wholesalers' profits from generic drugs will remain below historical levels due to generic deflation and pharmacy negotiations; 3) Wholesalers will be forced to alter conventional pricing and contracting approaches to address profit challenges of specialty pharmacy drugs; 4) Multifaceted partnerships will secure wholesalers' role within certain channels; 5) Wholesalers will still be unlikely to profit from biosimilars over the next few years.

With respect to altering conventional pricing and contracting approaches, Dr. Fein states, "Pharmacy industry revenues are shifting from traditional brand-name drugs to specialty drugs. We project that in 2021, specialty drugs will account for 42 percent of the pharmacy industry's revenues …. Wholesalers face three interrelated shifts in business mix: (1) specialty drugs are increasingly dispensed by a small number of large specialty pharmacies, (2) specialty pharmacies do not purchase higher-profit generic drugs from wholesalers, and (3) many specialty drugs are being launched by larger manufacturers, which pay lower fees than smaller manufacturers. All three shifts are negative for wholesalers' profits."

In reference to the 4th trend, Multifaceted Partnerships, Dr. Fein explains, "The sometimes underappreciated supply alignment among the largest wholesalers, largest PBMs and largest retail chains has strengthened since the previous edition of our report. Despite the profit pressures described above, wholesalers have secured their role for broadly distributed traditional drugs.

"Retail chains continue to shift away from self-warehousing in favor of direct-store deliveries from a wholesaler. As retailers eliminate self-warehousing capabilities, full-line wholesalers become virtually impossible to displace for traditional drugs dispensed by retail pharmacies.

"Wholesalers and retailers continue to partner via generic purchasing consortia. We estimate that in 2017, the four largest consortia will account for almost 90 percent of total U.S. generic drug purchases from manufacturers …. The scale of these combinations has shifted generic purchasing into the wholesale channel, increasing wholesalers' share of generic channel volume. When (if) Amazon enters the pharmacy market, it will likely get started by purchasing via wholesalers.

"Wholesalers will also benefit from overall market growth in provider-administered specialty products. The largest group purchasing organizations (GPOs) for physician practices are owned by the largest specialty products distributors. Such ownership creates barriers to direct sales by manufacturers. A distributor with a GPO also has access to multiple discounts, such as the combined value of GPO administrative fees and distributor discounts."

For more on Dr. Fein's analysis please visit (www.drugchannels.net/2017/12/five-industry-trends-for-us-drug.html).

In Brief...

- **Profarma Distribuidora** announced their third quarter results for 2017 with a substantial increase in consolidated revenue of 4.5% to US$359.2 million. Sales for the retail division rose by 58.7% which accounted for approximately 55% of consolidated profits. Their pharmaceutical distribution division also saw an increase in sales of health and beauty products of 44.6%.
- **Temasek Holdings Pte.** is exploring the sale of its 20% stake in **Zuellig Pharma**. Deliberations are in early stages, but if finalized, would add to the US$28 billion of health care acquisitions in Asia announced just this year, according to Bloomberg. Zuellig Pharma holds a vast distribution network in a dozen Asian markets. Temasek is believed to be seeking US$1 billion for its holding.
- **MWI Animal Health**, a division of **AmerisourceBergen**, announced that it will acquire **Northeast Veterinary Supply** (NEVESCO), a regional distributor of veterinary pharmaceuticals and medical supplies for the northeast region of the U.S. The acquisition of NEVSCO enlarge MWI's position to support independent veterinary practices and add greater value and care to animal health customers.
- **AmerisourceBergen Corporation** (ABC) announced plans to build partnerships to help fight the opioid abuse. Currently ABC provides the U.S. Drug Enforcement Agency with daily reports of all opioid-based medicine orders, including quantity, type and receiving pharmacy. ABC also reaffirmed their commitment continue to invest in its Diversion Control Team, which includes pharmacists, pharmacy technicians and form law enforcement professionals and is tasked with customer site visits, surveillance and customer product reviews. Separately, ABC also announced that civil penalties in relation to U.S. Justice Department probes have reached US$625 million.
- **GlaxoSmithKline** is looking for ways to explore the development of a current experimental cancer treatment as part of its focus to expand oncology, just two years after selling its stable of tumor therapies. A medication targeting a protein called BCMA has shown a significant response rate in the treatment of myeloma, and is viewed as twice as effective as a rival product from **Johnson and Johnson** and **Genmab A/S**.
- **Walgreens**, the pharmacy division of **Walgreens Boots Alliance** has announced a new branding under the tagline

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An Evolution in the U.S. Healthcare System

(Sources: Zacks Investment Research, Drug Store News, Drug Channels.com, and Press Releases)

After weeks of speculation, CVS Health announced its decision to acquire Aetna, one of the nation's leading diversified healthcare benefits companies. The cash and stock deal is worth about US$69 billion (US$77 billion including the assumption of Aetna's debt) and will create a US$221 billion enterprise. CVS said the combined company would provide its pharmacies with access to 44.6 million people that Aetna serves, which would turn CVS Pharmacy locations into spaces for wellness, clinical and pharmacy services, as well as vision, hearing, nutrition, beauty and medical equipment in addition to its current offerings. CVS Pharmacy stores will become a hub for answering patient questions about their conditions, prescriptions and insurance coverage. The merger will create a healthcare organization with significant market share in the pharmacy, pharmacy benefit management (PBM), and health insurance businesses.

A combined Caremark-Aetna PBM will have even more leverage with manufacturers and pharmacies. CVS Caremark's largest customer is Aetna, which outsources part of its PBM to CVS Health's Caremark business. Aetna, however, controls medical and pharmacy policy, formulary design, pharmacy/medical benefit integration, rebate contracting, and many other core PBM functions. For 2016, about 70% of all U.S. equivalent prescription claims are processed by three PBMs: Express Scripts, the Caremark business of CVS Health, and the OptumRx business of UnitedHealth. This concentration helps plan sponsors and payers, who can maximize their negotiating ability by combining their prescription volume within a few PBMs.

The target of US$750 million in synergies by the second full year appears to be optimistic given that the two companies stated that there may be no revenue synergies. CVS Health emphasized the following point: "Aetna will remain a separate business unit—structurally, operationally and legally—after the deal closes. All business units will maintain appropriate firewalls."

News about a possible merger between the pharmacy giant and the health insurer had surfaced in late October when the Wall Street Journal reported that the companies were in talks. With this deal, scheduled to go through in the second half of 2018, the companies are looking to change the healthcare landscape. The announcement comes at a time when insurers are under pressure to cut medical costs while companies like CVS are facing the prospect of fierce competition especially given the rumors about tech giant, Amazon, planning an entry in this space. While there's low visibility on how Amazon expects to enter this market, its potential entry poses a major threat for retail pharmacy chains like CVS. By merging with Aetna, CVS would be able to strengthen its position in the pharmacy benefit management services, including formulary management, Medicare Part D services [the U.S. Federal Government's pharmacy program for the elderly], mail order, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management.

One key service of PBMs is the negotiation of prices with drugmakers, looking for additional rebates and discounts to lower out-of-pocket costs for consumers. Formulary coverage and exclusion lists are issued by PBMs to keep consumers aware of drugs that are covered without extra out-of-pocket costs being incurred. PBM clients include insurance companies with the focus being on providing drugs that are beneficial as well as cost-effective. By merging with Aetna, CVS will be able to expand coverage within the full scope of healthcare, including the medical benefits space. The combined company is also expected to be in a better position to negotiate discounts with drug manufacturers. Moreover, Aetna's insurance plans could help boost coverage and diversify CVS's business.

The merged companies should be well-positioned to meet the health needs of many more people, especially Americans with chronic conditions that account for more than 80% of all health care costs. Further, CVS Pharmacy locations will add additional products and services. Post-merger, CVS will find itself in the position of an integrated retailer, pharmacy benefits manager and health plan provider.

Given the changing healthcare scenario and the demand for more transparency where drug pricing is concerned, there could be more such mergers in the future.

In Brief (cont.)...

"Walgreens. Trusted since 1901", emphasizing the year the Walgreens legacy was started. The campaign focuses on the attributes of care, trust and accessibility, and will include advertising and marketing as well as a purpose to champion health and well-being in every community across the U.S.

- Ken Suzuki, president of the **Federation of Japan Pharmaceutical Wholesalers Association** (JPWA) and an IFPW Director, urged the Japanese government, if it intends to carry out the so-called "off-year" drug price revisions, that the revisions should only cover products that truly have large price discrepancies (between NHI and market prices).
- In 2016, U.S. net spending on outpatient prescription drugs was US$328.6 billion, up only 1.3% from 2015. Spending on outpatient prescription drugs in 2016 increased modestly compared to the overall national health expenditures, which increased by 4.3%. The Centers for Medicare & Medicaid Services (CMS) attributed the slowdown in drug spending to lower spending for drugs that treat hepatitis C, because fewer patients received treatment and net prices for these drugs declined. The decline is attributed to decelerating growth for diabetes drugs and higher generic dispensing rates.

(Sources: Bloomberg, Company Press Releases,Drug Store News, and Fierce Pharma)

The next issue of the FOCUS Newsletter will be sent January 4, 2018

The IFPW Staff wishes all of its members and their families a joyous holiday season and a successful New Year.

Happy Holidays!