

Amazon to Enter U.S. Healthcare Market

(Sources: press releases and an article prepared by Nick Wingfield, Katie Thomas and Reed Abelson and published by the New York Times)

There have been continuous rumors and speculations about Amazon entering into the U.S. healthcare market, as reported in earlier issues of FOCUS. The key question has always been, if they decide to enter the market, what model would they use. That part of the speculation has been answered, at least for the first phase: Amazon, along with Berkshire Hathaway and JPMorgan Chase, will form an independent not-for-profit healthcare company to serve their combined 1.2 million employees in the United States.

It is unclear how extensively the three companies will overhaul their employees' existing health coverage. The new venture will initially focus on technology for "simplified, high-quality and transparent healthcare," the companies said. They did not elaborate on the strategy, but said they are searching for a chief executive officer. While the alliance will apply only to their employees, these corporations are so closely watched that whatever successes they have could become models for other businesses.

Major U.S. employers have attempted for years to solve the high costs and complexity of healthcare and have grown increasingly frustrated as Congress has deadlocked over the issue, leaving many of the difficult issues to private industry. About 151 million Americans get their health insurance from an employer.

The partnership brings together Amazon, the online retail giant known for disrupting major industries; Berkshire Hathaway, the holding and investment company led by the billionaire, Warren Buffett; and, JPMorgan Chase, the largest bank in the U.S. by assets. This alliance is moving into a market where the lines among distinct business segments, such as pharmacy, insurers and providers are increasingly blurry. The alliance indicated that this healthcare initiative, which is in its early stages, would be "free from profit making incentives and constraints," but did not specify whether they would create a nonprofit enterprise. The tax implications were also unclear because so few details were released.

Jamie Dimon, the CEO of JPMorgan Chase, said in a statement that the effort could eventually be expanded to benefit all Americans. "The healthcare system is complex, and we enter this challenge open-eyed about the degree of difficulty," Jeff Bezos, Amazon's founder and CEO, said in a statement. He further stated, "Hard as it might be, reducing healthcare's burden on the economy while improving outcomes for employees and their families would be worth the effort." Warren Buffett of Berkshire Hathaway stated, "The ballooning costs of healthcare act as a hungry tapeworm on the American economy. Our group does not come to this problem with answers. But we also do not accept it as inevitable." Each of the three companies brings symbiotic strengths – Amazon: logistics and technology; Berkshire Hathaway: insurance; JPMorgan: finance.

Some who negotiate health coverage on behalf of large employers say that these three large organizations could make a big impact on the healthcare market. Others suggest that while they

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In Brief..

- ◆ U.S. wholesaler **McKesson Corporation** reported their third quarter results for fiscal 2018, with revenues up 7% to US\$53.6 billion year over year at third quarter GAAP earnings of US\$4.32 per diluted share, up 51% with an included tax benefit of approximately US\$370 million, related to the Tax Cuts and Jobs Act of 2017.

- ◆ On January 22, 2018, **Rite Aid Corporation** transferred 625 stores and related assets to **Walgreens Boots Alliance** and received cash proceeds of approximately US\$1.3 billion. WBA will purchase 1,932 stores in total, as well as three distribution centers and related inventory from Rite Aid. Separately, *Sebastian James* has been named Senior Vice President and President and Managing Director of **Boots**. He will take on his new role on September 1, 2018. He will replace *Elizabeth Fagan* who will be moving to a newly-created role on non-executive chairman of Boots beginning in the new fiscal year.

- ◆ **Pfizer** announced soaring fourth quarter profits of US\$12.27 billion, thanks to a huge tax benefit of US\$11.34 billion related to the U.S. tax system overhaul. Pfizer will also take a charge of approximately US\$15 billion, which will be paid in annual installments over eight years to the U.S. Treasury to cover taxes on profits held overseas.

- ◆ **Perrigo** has named *Uwe Rohroff* as the replacement for retiring CEO, *John T. Hendrickson*. Rohroff assumed the role of CEO effective January 15, 2018. He is a 25-year veteran of the pharmaceutical industry and most recently served as CEO of global manufacturer Gerresheimer AG, a position he held since 2010.

- ◆ Biopharmaceutical company **Celgene** will purchase **Juno Therapeutics** in a deal valued at US\$9 billion. Celgene currently owns 9.7% of Juno and will acquire the remaining shares of the company for US\$87 per share.

(Sources: BusinessWire, Company Press Releases, Yahoo Finance and USA Today)

Jobs Transformation by AI

(Source: An article authored by Ginni Rometty, CEO of IBM and published by the Wall Street Journal)

Today, the technologies grouped together under "artificial intelligence" are entering mainstream business and daily life. A number of recent studies, including one commissioned by IBM, indicate that history is likely to repeat itself. Some occupations will go away, and new ones will be created, but even together, those will be a distinct minority of the world's occupations.

The vast majority of the workforce today will need to change how they do their jobs. Whether it be a doctor, engineer, lawyer, music producer, teacher—or CEO—the workforce is going to do their work with the aid of analytics and forms of AI, because it will enhance the quality of the decisions made. It will be necessary in order to keep up with the speed of data. Learning will increase at exponential rates, for knowledge in every field is growing more

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Amazon (cont.)...

may provide healthcare for their 1.2 million employees, the model that they adopt may not have a strong influence the largest insurers and pharmacy benefit managers, who oversee the benefits of tens of millions of Americans.

A management consultant said, “This is not news in terms of jumbo employers being frustrated with what they can get through the traditional system.” He expressed reluctance to the notion that this new company would have more success getting lower prices from hospitals and doctors. “The idea that they could have any sort of negotiation leverage with unit cost is a pretty far stretch.”

The alliance has not developed a strategy to address the healthcare system. People briefed on the plan said the executives of the three companies decided to announce the initiative with only a partial concept, so they can begin hiring staff for the joint venture.

Jobs Transformation (cont.)...

rapidly, and will continue to do so for the foreseeable future.

AI—better understood as “augmented intelligence”—complements, rather than replaces, human cognition. It will become essential for transforming what is already being done, and it will open a new landscape of the possible, helping solve some of society’s perennial challenges, from curing disease, to protecting personal data, to securing critical infrastructure and more. Machines that learn will make both themselves and humans smarter than can ever be imagined. Because of this, industries face an imminent, profound transformation of the workforce. The question is: are corporations ready? Are they retraining their people, including their professionals, and helping them develop new skills? Are they developing new models of work? Jobs like cybersecurity, data mining or app development don’t necessarily require four-year college degrees, but they will need specific skills that aren’t being widely taught yet.

Are school systems and universities adjusting? It isn’t just about teaching coding and creating the new curricula of data science and machine learning. Are medical schools, law schools, schools of public policy and business schools changing what and how they teach? The next technology revolution promises to be every bit as consequential as previous shifts, from the steam engine to the internet. However, this will happen only if AI is ushered into the world responsibly and thoughtfully. At the top of that list is the issue of skills. It will be the issue of our time, and education must be fundamentally revamped to address it. That’s not just a job for schools. It requires every sector working together—business, academia, government and civil society—to ensure a future that belongs not just to the few, but to all.

U.S. Pharmaceutical Industry Under Attack Re Opioid Crisis

(Sources: Scrip and In Vivo)

Cardinal Health Inc. had counted 100 lawsuits as of Oct. 30 from government agencies – one state, one Native American tribe and multiple counties and municipalities, according to its latest quarterly report. These and similar lawsuits accuse the three largest health-care distributors – including AmerisourceBergen Corp. and McKesson Corporation – along with manufacturers, of fueling the over-prescribing of addictive opioids.

On Dec. 15, Columbus, Ohio joined hundreds of governments that have added to the number since then, including counties and municipalities in Texas and Louisiana. Several Indiana cities sued recently. Nearly 200 cases against manufacturers, distributors and others have been consolidated in U.S. District Court in Cleveland, Ohio. The federal judge overseeing the case urged all parties to work together on ways to prevent overdose deaths, the Associated Press reports.

Mike Kaufmann, who was recently promoted to the position of CEO of Cardinal Health, said in a recorded session with analysts at the J.P. Morgan Healthcare Conference. “We’ve been committed to doing the right thing for an incredibly long time.” Former Cardinal CEO George Barrett pushed back on opioid accusations at the company’s annual meeting in November, saying it was “profoundly disappointing” that people lay blame on distributors instead of genuinely seeking answers to a complex problem. “The company is known by those in health care and anybody who knows us as a company that is extraordinarily attentive to making the system work behind the scenes,” Barrett said then in response to a shareholder question on the company’s reputation. “You could not find a (leadership) team that more deeply understands our responsibility.”

Cardinal is “second to none” at understanding buying patterns of its customers, Kaufmann said, meaning it can spot anomalies that might mean diversion. “We really focused on knowing our customers in detail, whether that’s visiting the customers, looking at the analytics of what they’re buying from us, and educating our sales staff,” he said. “We feel we’ve done things incredibly well and have reached out to the all right folks over the years.” All in all, Cardinal is in “an incredibly good position” to fend off the accusations, he said.

AmerisourceBergen’s CEO, Steve Collis, stated in an interview with In Vivo, “Right now, AmerisourceBergen is on the front line of the opioid addiction crisis. We have had to face some negative comments about facilitating access to addictive painkillers. It has prompted us to think hard internally and, from that, we are committed to doing more than we have done to date in adapting our practices in concert with the rest of the public health community. Since 2007, we have reported to the DEA and stopped shipment of tens of thousands of suspicious orders, and have provided daily reports of all opioid-based medication orders to the DEA including the quantity, type and receiving pharmacy of each order that has been shipped. Beyond ongoing transparency, we announced and reinforced a series of operational commitments to address diversion and combat abuse. These include ongoing enhancements to digital tools that help us identify and stop shipment on orders that are deemed suspicious; continued multi-million dollar investment in a best-in-class Diversion Control Team; and, continued commitment to existing practices of taking no action to market or create demand for opioid-based medicines.”

The 2018 CEO Roundtable Registration is Now Open!

Check your email for your invitation and join us
April 9th & 10th at the Pierre Hotel in New York
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