

## A Look into the Future

(Source: A report prepared by IQVIA Institute for Human Data Science, titled: 2018 and Beyond: Outlook and Turning Points)

[The report describes ten predicted changes that will impact global health in 2018 and beyond and highlights impactful areas where stakeholders are using evidence and technology to solve the problems of human health. This report focuses on facts and data, and attempts to bring evidence to topics often hotly debated and discussed in the public realm. Key themes include trends in innovation, technology and healthcare spending.]

“Global health is poised to meet a series of key turning points, and changes seen in 2018 will mark the key inflections that drive the outlook for the next five years and beyond. The types of medicines being developed, the way technology contributes to health, and how the value of healthcare is calculated are all markedly changing. Innovation is a key theme, including the way regulators of medicine and applicants filing for approval will increasingly support clinical submissions with real world data. A wave of cell and gene therapies are bending the definition of what constitutes a drug, both clinically, and in terms of expectations of outcomes, duration of treatment and costs. Technology itself can be a treatment, and mobile apps are newly appearing in treatment guidelines as a key feature of future care paradigms. Furthermore, mobile technology can be an enabler of telehealth communication that brings providers and patients together at substantially lower costs than traditional consultations. In recent years, concerns about escalating medicine costs have captured significant attention. In 2018, some of the key drivers of medicine spending growth appear to be slowing spending rather than driving it upward. The causes of slowing growth are directly linked to payers concerns about budgets and to newly emerging mechanisms to adjudicate value and thus limit the potential for out-of-control spending growth.”

The following are the key findings of the report:

1) *Invoice spending in the developed markets will reach over US\$650 billion by 2022, while net spending will remain flat.* Over the past five years, branded drug net spending in developed markets has risen from US\$326 billion to US\$395 billion. In total, 87% of the US\$69 billion of net growth has come from the United States. In 2018, net brand spending will decline in developed markets by 1-3%. This has the effect of reducing net spending overall on brands in developed markets by approximately US\$5 billion to a total of US\$391 billion in 2018. While the absolute share of spending from new medicines may be small, control of pricing and access to new drugs is a key point at which payers can influence drug spending trends for the longer term.

2) *Branded specialty drugs will drive all growth in 2018, while traditional growth declines.* The past decade has seen a sustained shift in the focus of new medicines towards specialty pharmaceuticals. These are defined as those medicines treating chronic, complex or rare conditions, among other criteria.

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## In Brief...

- ♦ **CV Protek** was named top pharmaceutical distributor in Russia by IQVIA. According to IQVIA, CV Protek has taken measures to strengthen the company's vertical market and keeps abreast of market trends. In 2017, CV Protek accounted for 18.4% of direct sales market share, with a 7.1% increase in direct sales.

- ♦ The **National Association for Female Executives** has named **Cardinal Health** one of the “*Top 70 Companies for Executive Women*” based on its work to help develop female executives and prioritize their efforts with the same level of importance as other business imperatives. “When leader identify their own blind spots and how to overcome these barriers together, they are more supportive and accountable for sustaining change in the organization,” stated Cardinal Chief Diversity Officer, *Lisa Guitierrez*.

- ♦ **Amryt Pharma** (Ireland) signed a distribution agreement with Middle East wholesale distributor **Pharaon Healthcare-Droguerie Mecury SAL**, one of the leading full-service distributors in the region. Amryt, who is focused on rare and orphan diseases and has an exclusive distribution agreement for *Lojuxta* in Lebanon, Jordan and Syria, hopes to take advantage of Pharaon's excellent footprint in the marketplace as well as their decades of experience.

(Sources: Company Press Releases, Irish Times)

## Vertical Integration in the US Drug Delivery System

(Sources: an article prepared by Jessica Merrill and published by Scrip, an article prepared by David Salazar and published by Drug Store News and data from the U.S. Government's Centers of Medicare and Medicaid Services)

Express Scripts Holding Co., the largest pharmacy benefit manager in the US is poised to be acquired by the health insurer Cigna Corp. for US\$67 billion in cash and stock, including US\$15 billion in Express Scripts debt. The company, which is based in St. Louis, was incorporated in 1986. It grew into a power player and became a dominant leader with the acquisition of rival Medco Health Solutions Inc. in 2012, which more than doubled the size of its business and strengthened the PBM's specialty pharmacy position. In 2013, the first full year after the merger closed, the company reported revenues of US\$104.1 billion. Growth stagnated over the next four years; Express Scripts reported flat revenues in 2017, at US\$100.1 billion.

The news is reverberating across the pharmaceutical industry as stakeholders adjust to decipher what this latest consolidation in an ongoing wave will mean for the way drugs are managed and distributed to patients. “PBMs can succeed in many different types

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## Future (cont.)...

Specialty share of global spending has risen from 19% in 2007 to 32% in 2017. For the tenth consecutive year, specialty medicine growth exceeded traditional medicines in developed markets. In the ten developed markets, specialty represented 39% of spending in 2017, totaling US\$297 billion. Specialty share in developed markets will continue to rise, albeit more slowly than the last few years, and surpass half of medicine spending in 2022 in the United States and in four out of the five key European countries: France, Germany, United Kingdom and Spain.

3) *The number of Next Generation Biotherapeutics in the pipeline and market is set to rise.* Next Generation Biotherapeutics include the latest generation of cell-based therapies, gene therapies and regenerative medicines. In 2018, between five and eight Next Generation Biotherapeutics will be approved and launched and, over the next five years, these therapies will make up 20% of the 40-45 New Active Substances (NAS) projected to be launched each year. In most cases, Next Generation Biotherapeutics will have costs approaching or exceeding US\$100,000 per patient. The challenge both for manufacturers and payers will be to create a new payment and reimbursement paradigm that maximizes access to these new therapies.

4) *Published evidence of digital health will increase over 500 percent through 2022.* In 2018, approximately 340 digital health efficacy studies will be completed and published, continuing the trend of building hard evidence to support digital tools and interventions. An acceleration of evidence building will bring an estimated 3,500 studies over the next five years and the incorporation of apps by major professional groups into practice guidelines. Alignment on the appropriate sets of features and safeguards for apps has emerged and technology innovators are advancing into the field in significant numbers. Integration with provider workflows that occur in the next five years will be critical to stakeholder adoption. The emergence of well-designed apps and mobile devices offers the potential to improve outcomes for patients, sometimes at near-zero incremental costs.

For more information on IQVIA's report, please visit <https://www.iqvia.com/institute/reports/2018-and-beyond-outlook-and-turning-points>

## Vertical Integration (cont.)...

of models, but it all comes down to the value they bring patients and clients, and we firmly believe that this is the right deal for us, the clients we serve, and our shareholders," Express Scripts CEO Tim Wentworth said in a joint conference call with Cigna announcing the merger on March 8. Cigna CEO David Cordani highlighted the opportunity to expand the insurer's integrated health services and the opportunity to have 1 billion customer touch points each year that will create value across the system. Cigna plans to establish a new business unit that will offer pharmacy and specialty pharmacy services and health management to employees, health plans and government agencies. Cigna already operates a small PBM, although the addition of Express Scripts will greatly increase the size.

What is this Vertical Integration Wave? Many of the biggest health plans are moving to integrate their own pharmacy benefit services. UnitedHealth has long operated the PBM OptumRx. More recently, CVS Health Corp., which operates the PBM Caremark, and Aetna Inc. announced a US\$69 billion merger in December. Anthem announced plans to establish an internal PBM called

IngenioRx in October when its 10-year contract with Express Scripts expires on Jan. 1, 2020. Cigna too has been looking for opportunities to get bigger through acquisition. The company was on target to be acquired by Anthem for US\$54.2 billion but the deal was blocked by federal regulators. Sweeping consolidation has been driven by rising healthcare costs and the pressure to develop synergies, as well as defend against the potential for big disruption in the space if online retail giant Amazon dives in. In January, Amazon, Berkshire Hathaway and JPMorgan Chase & Co. jarred the industry with news of a partnership to work on ways to lower health care costs. Amazon had been rumored to be interested in Express Scripts.

Jefferies analyst, Brian Tanqilut, noted the success UnitedHealth has had with an internal PBM has driven interest from other payers to follow a similar integrated strategy, particularly when it comes to integrating medical and pharmacy data. "We view the deal as favorable as the integrated medical-pharmacy benefit gives Cigna a much more competitive offering in its domestic fully insured health plan business, where medical and pharmacy claims are both paid by Cigna," Deutsche Bank analyst Glen Santangelo said. With growing costs and increasing uncertainty in healthcare, going it alone has become a daunting prospect.

To provide a perspective as to the driving force behind this vertical wave, US health expenditures in 2016 increased 4.3 percent to reach US\$3.3 trillion, or US\$10,348 per person. The overall share of gross domestic product (GDP) related to health care spending was 17.9 percent in 2016, up from 17.7 percent in 2015. The federal government and households accounted for the largest shares of spending (28 percent) followed by private businesses (20 percent), and state and local governments (17 percent). Of this 17.9 percent of GDP, prescription drugs accounted for 10 percent.

Growth in retail prescription drug spending slowed in 2016, increasing 1.3 percent to US\$328.6 billion. The slower growth in 2016 follows two years of strong growth in 2014 and 2015, 12.4 percent and 8.9 percent, respectively. This strong growth reflected increased spending on new medicines and price growth for existing brand-name drugs, particularly for drugs used to treat hepatitis C. Growth slowed in 2016 primarily due to fewer new drug approvals, slower growth in brand-name drug spending as spending for hepatitis C drugs declined, and a decline in spending for generic drugs as price growth slowed. Add to the equation the transition to value-based outcomes pricing, wherein access to medicines, in terms of affordability and adherence, becomes the cornerstone to managing overall healthcare costs and, yes, profitability for the vertically integrated organization.

"Together, our two organizations will help make the healthiest choices the easiest choices, putting health and pharmacy services within reach of everyone we serve," Express Scripts' Wentworth said. "Adding our company's leadership in pharmacy and medical benefit management, technology-powered clinical solutions, and specialized patient care model to Cigna's track record of delivering value through innovation, we are positioned to transform healthcare. We will continue to have a distinct focus at Express Scripts and eviCore [Cigna's healthcare management subsidiary] on partnering with health plans, and together, build tailored solutions for health plans and their members. Importantly, this agreement is a testament to the work of our team and their resolute focus on providing the best care to patients, and the most value to clients."