

Five US Health System Pharmacy Trends to Watch in 2018

(Source: An article published by McKesson (contact: Kristen Kouk, McKesson U.S. Pharmaceutical - Kristen.Kouk@McKesson.com)

The McKesson RxO™ team, a group of trusted advisors working to help hospital and health system pharmacy leaders track, manage and grow their pharmacy operations, has identified five trends it believes will impact hospital and health system pharmacies in 2018.

The article's preamble states, "As value-based care models continue to gain greater acceptance, hospital and health system pharmacies are increasingly charged with generating revenue and improving savings that contribute to the system's bottom line," said Mark Eastham, B.S., R.Ph., senior vice president and general manager, McKesson RxO. "Renewed interest in 340B, the continued growth of specialty, and the ability to leverage data and analytics to drive outcomes and operational efficiencies are some of the key trends and opportunities facing health system pharmacies in the coming year."

The 2018 trends identified by the article are: 1). Renewed Interest in 340B^(a) to Address Growing Oversight and Reimbursement Changes; 2). Access to Data and Analytics to Drive Outcomes and Operational Efficiency; 3). Continued Growth in Specialty Market; 4). Health System Pharmacies Generating Revenue. 5). Consolidation Driving Centralized Service Centers.

With respect to the 2nd trend, Access to Data and Analytics to Drive Outcomes and Operational Efficiency, the article states, "Whether health systems grow organically or through acquisitions, it is not uncommon to have a dozen or more disparate databases housing critical clinical and operational data. Organizations can use this information to make better financial, clinical and operational decisions and drive improved outcomes. However, a health system's or hospital pharmacy's analytics will only be as effective as its source data, which is why it's important that their IT platforms have electronic data exchange (EDI) functionality. If the data is not searchable or easily accessible, it cannot have a meaningful impact on patient care or help physicians make better decisions."

In reference to Health System Pharmacies Generating Revenue, trend #4, the article advocates that "As a growing percentage of health systems' revenue comes from outside the hospital, pharmacies are an increasingly important source of revenue. In addition to the obvious expansion into specialty pharmaceuticals, capturing discharged prescriptions, working with outpatient infusion clinics, optimizing 340B opportunities, maximizing patient assistance and recovery programs, and expanding retail and ambulatory pharmacy services are just a few ways pharmacies can generate revenue. The hospital pharmacy can be an overlooked piece of the revenue cycle, and given the complexities in reimbursement, many systems are leaving money on the table. Recovery solutions help hospitals ensure that the pharmacy revenue cycle is running efficiently."

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In Brief...

- ♦ **Walgreens Boots Alliance** announced that it extended its stake in **Sinopharm Holding's** (China) **GuoDa Drugstores**, China's leading retail pharmaceutical chain. The deal (which is subject to regulatory review) is valued at approximately US\$416 million and will give WBA a strong presence in China for ten years. Walgreens is also reducing its stake in Guangzhou Pharmaceuticals Corporation, a wholesaling joint venture in China to 20% in total. Separately, WBA announced a fiscal Q1 profit of US\$821 million, and revenue of US\$30.74 billion, exceeding analysts' expectations.

- ♦ **McKesson** announced that *Chris Dimos* will take over as President of Retail Solutions for **McKesson U.S. Pharmaceutical and Specialty Health**, including responsibility for **Health Mart**. He succeeds former Health Mart president, *Steve Courtman*, who is now Senior Vice President of Cigna Pharmacy, a subsidiary of Cigna. Dimos is an outspoken supporter of the independent pharmacy business model, which he believes plays an important role in patient care, as well as the healthcare network in communities.

- ♦ **AmerisourceBergen Corporation** announced that it has completed its acquisition of U.S. wholesaler **H.D. Smith** for US\$815 million in cash. The acquisition will help ABC further enhance and expand its strategic scale, drive long-term value and strengthen its support system for community pharmacies across the United States.

- ♦ **The Phoenix Group** announced a 4.7% year-over-year increase in its total operating performance for its pharmaceutical wholesale operations to €23.4 billion (US\$28.3 billion) for the first nine months of fiscal year 2017-2018. Group revenue also grew by 2.6% to €18.5 billion (US\$22.3 billion.) Of particular note was a significant rise in the company's Northern and Western European markets. Total income for the first three quarters rose to more than €1.9 billion (US\$2.3 billion.) Phoenix also opened a new 10,000 square-meter distribution facility and logistics center in Gotha, Germany in October of 2017.

Sources: Business Wire, Company Press Releases, Drug Store News

Japan to Establish Drug Distribution Guidelines

(Source: Pharma Japan)

Japan's Ministry of Health, Labor and Welfare (MHLW) on December 13 presented draft guidelines for improving pharmaceutical distribution. To ensure the effectiveness of the guidelines, the MHLW plans to set up an information service to take inquiries from the parties involved in drug distribution.

The guidelines, which are expected to go into effect in April 2018, will be issued through a notification after being finalized based on the council's discussions on the same day. In its proposal to drastically reform the NHI drug pricing system, the

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Japan (cont.)...

government announced plans to draft guidelines for improving the drug distribution environment in anticipation of annual market price surveys and NHI price revisions.

The proposed guidelines, presented to the MHLW's "Ryukaikon" council for the improvement of ethical drug distributions, would promote single-product, single-price contracts between wholesalers and medical institutions and pharmacies for all products, and "would increase the rate of such contracts compared at least to the previous year." To cope with the increased burden of annual market price surveys and reduce the burden of price negotiations, the proposed guidelines recommend "one-year or other long-term contracts." In addition, they call on drug purchasers to refrain from demanding excessive price discounts that disregard the value of individual products.

With respect to the relationship between drug makers and wholesalers, the guidelines call for the setting of appropriate wholesalers' final purchase cost based on appropriate primary invoice prices quoted by drug makers, reflecting wholesalers' actual sales prices.

The information service the MHLW will establish will take inquiries from the parties involved in distribution regarding particular problems that impede the improvement of distribution practices based on the guidelines. The MHLW will list and compile problems reported, report to the Ryukaikon council for review, and then announce them on its website. The MHLW will hold hearings regarding problems that would have a long-term impact.

A council member who represents healthcare providers said the Ryukaikon council should list specific cases of "demanding excessive price discounts" to enable discussions. Toshihiko Takeda, director-general of the MHLW's Health Policy Bureau, said it would be difficult to clearly indicate what is excessive and what is not. He stressed the need to continue discussing the issue while the inquiries received by the information service are analyzed, saying, "Generally speaking, demanding discounts across the board that cut into wholesalers' purchasing cost regardless of the product concerned would be considered 'excessive.'"

Dr. Max Expands Its Market Position in Central and Eastern Europe

(Source: Romania Insider)

Dr. Max, a pharmacy chain operating in the Central and Eastern European region, has agreed to take over Romanian pharmaceutical group A&D Pharma. This transaction will turn Dr. Max into the leader of the Romanian pharmaceutical market. Dr. Max is controlled by Penta Investments, an international investment company owned by Czech and Slovak investors.

The transaction will be completed after getting the Competition Council's approval. The two parties have not disclosed the value of the deal. However, local mergers and acquisitions journal, *Mirsanu.ro*, reported that the Czech fund agreed to pay some €350 million (US\$422.3 million) for A&D Pharma.

A&D Pharma group was founded by Walid Abboud, Roger Akoury, Ludovic Robert and Michel Eid in 1994. The group has grown into the leader of the local pharmaceutical market, where it operates on three segments: retail, via the Sensiblu and Punkt drug store network; wholesale, via Mediplus and marketing &

sales. Mediplus is the largest drug distributor in Romania, with a turnover of €887 million (US\$1.07 billion) in 2016, while Sensiblu is among the biggest drug store chains, with sales of €371 million (US\$447.6 million) last year.

Dr. Max already operates 31 pharmacies in Romania following the acquisition of the Arta pharmacies in June of last year. With its total number of 631 pharmacies, the leading full-line wholesaler business, the Marketing & Sales service provider and more than 4,500 people employed, Dr. Max will become number one in the Romanian pharmaceutical market, the group announced in a press release.

"With the acquisition of A&D Pharma, Dr. Max is further strengthening its presence in Central Europe and is clearly expanding its leading position as an Omnichannel retail healthcare provider in Europe", said Dr. Max CEO, Leonardo Ferrandino. Dr. Max operates more than 1,300 pharmacies in Central and Eastern Europe with total sales of €1.25 billion (\$US1.5 billion). The A&D Pharma acquisition will increase the sales of Dr. Max to more than €2.3 billion (US\$2.27 billion) and the company will become a Europe-wide player employing more than 12,000 people.

Penta is a Central European investment group established in 1994. It operates mainly in healthcare, financial services, manufacturing, retail and real estate development. The fund's assets amounted to €8.5 billion (US\$10.25 billion) in 2016. Penta operates in more than 10 European countries and has offices in Prague, Bratislava, Warsaw and Munich.

Five Trends (cont.)...

The fifth trend, Consolidation Driving Centralized Service Centers, is of interest in light of the pharmaceutical industry expanding its profile and market reach. The article suggests that "the industry continues to see tremendous consolidation in all areas, including providers, payors, and vendors. Ongoing mergers and consolidation drive the need for centralization of pharmacy operations designed to help large health systems utilize a centralized hub to manage costs, improve order entry and verification, and standardize policies and procedures. Health system pharmacies have the opportunity to centralize services such as order entry, compounding, packaging, and dispensing that allows clinicians to focus on patient care and drive costs down through improved inventory management and supply chain visibility. Creating one central formulary for the system is a complex issue, but a must to ensure consistency of patient care and optimal patient outcomes. Standardizing drugs throughout a medical system reduces variation, which limits medication pick errors, increases patient safety and improves patient care."

Footnote: (a) The 340B Drug Discount Program is a US federal government program created in 1992 that requires drug manufacturers to provide outpatient drugs to eligible health care organizations and covered entities at significantly reduced prices.



**Registration for the
IFPW CEO Roundtable
at the Pierre Hotel in NYC
(April 9th & 10th)
will open on February 1st.**

For more information, contact Christina Tucker
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www.ifpw.com/meetings/2018roundtable