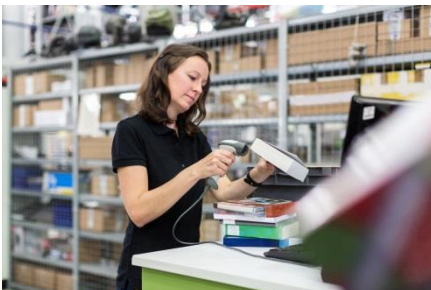


# The 2018-19 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

Adam J. Fein, Ph.D.  
Drug Channels Institute

October 2018

Full report available at <https://drugch.nl/wholesale>



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## ABOUT THE AUTHOR

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Adam J. Fein, Ph.D., is the CEO of Drug Channels Institute (DCI), a leading management educator for and about the pharmaceutical industry. DCI is a subsidiary of Pembroke Consulting, Inc.

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His popular and influential [Drug Channels](#) website is the go-to source for definitive and comprehensive industry analysis, delivered with a witty edge. Drug Channels is the only place where you'll find a serious discussion of PBMs, drug pricing, and pharmacy economics, all explained with humor and a healthy dose of pop culture.

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## ABOUT DRUG CHANNELS INSTITUTE

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[Drug Channels Institute \(DCI\)](#) is a leading provider of specialized management education for and about the pharmaceutical industry.



Drug Channels Institute combines Dr. Fein’s expertise and cutting-edge analysis—such as this *2018-19 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*—into comprehensive, interactive e-learning modules that offer your team a thorough grounding in crucial industry topics. These online learning tools explain highly complex economic and business data and concepts so you can:

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## INTRODUCTION AND GUIDE TO THE 2018-19 REPORT

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For pharmaceutical wholesalers, 2018 has been volatile and challenging. These companies have been confronting a diverse set of significant business, political, and legal challenges:

- Regulators, lawmakers, investors, and payers are closely and publicly scrutinizing the profit models of drug channel intermediaries
- List prices for brand-name drugs are growing at historically slow rates, pressuring a core economic driver of wholesalers' profits
- Deflation in generic drug prices continues, though the rate of decline is slowing as inflationary excesses are squeezed out of the market
- The largest specialty pharmacies are using their leverage over wholesalers to extract additional pricing concessions
- The impact of regulatory changes to the Medicare Part B program and the 340B Drug Pricing Program on wholesalers' business in the buy-and-bill market is not yet known
- Biosimilars are not delivering additional profits for wholesalers and seem unlikely to do so in the near future
- Amazon has made a major investment in the U.S. drug channel, creating uncertainty about its intentions and the potential for industry disruption
- Each large wholesaler is encountering challenges with diversification efforts: AmerisourceBergen with its compounding services, Cardinal Health with its medical products manufacturing, and McKesson with its international distribution and pharmacy businesses
- Wholesalers are facing fresh Congressional inquiries and additional lawsuits over their role in the distribution of opioids

We project that U.S. drug distribution revenues for the Big Three public wholesalers—AmerisourceBergen, Cardinal Health, and McKesson—will reach \$453 billion in 2018. However, gross margin for drug distribution will decline for the fourth straight year, though the reduction in gross profits is being moderated by ongoing revenue growth.

This *2018–19 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*—our ninth edition—will help you understand these forces of change. I thoroughly update our annual exploration into the industry's interactions with—and services for—other participants in our healthcare system. This definitive, nonpartisan resource remains the most comprehensive tool for analyzing the economic and business realities of U.S. pharmaceutical distribution.

The report synthesizes a wealth of statistical data, research studies, financial information, and my own business consulting experience. This unique resource will benefit pharmaceutical manufacturers, wholesalers, pharmacists, pharmacy owners, hospital executives, pharmacy buyers, benefit managers, managed care executives, policy analysts, investors, consultants, and many others.

## Structure of the 2018-19 Report

*The 2018-19 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors* analyzes the industry in three major sections, comprising nine total chapters. It provides an up-to-date, fact-based analysis of this dynamic industry and how it works. This year's report retains the structure that we used in last year's edition, and the chapters correspond to those of previous editions. Some sections and chapters have been expanded or reorganized to better cover the latest industry developments.

We have updated all market and industry data with the most current information available. This 2018-19 edition contains the latest financial data and market positions of the largest public companies: AmerisourceBergen, Cardinal Health, and McKesson. It updates our annual analysis of each wholesaler's business segments and underlying business profitability, based upon our proprietary economic models. This information allows you to assess differences among the public wholesalers' business organizations, strategies, and financial performance.

Here are some of the notable updates in this 2018-19 report:

- Financial data for AmerisourceBergen and McKesson have been restated, based on the new reporting structures that these two companies have introduced since the previous edition of this report
- The report addresses emerging trends, including Amazon's entry into the drug channel, the new drug pricing policies of the U.S. Department of Health and Human Services, and regulatory changes to the Medicare Part B program
- We provide new estimates for each company's market share in the distribution of specialty drugs
- We include expanded information on numerous topics, including specialty distribution, the U.S. hospital market, McKesson's non-U.S. businesses, generic drugs, and more

Here is a summary of the report's main sections and chapters:

**[PREFACE: INDUSTRY TRENDS AND KEY REPORT THEMES](#)** provides an integrated overview of the major themes that recur throughout our analysis. Each theme includes links to relevant chapters and sections within the full report.

### **[SECTION I: WHOLESALER AND CUSTOMER INDUSTRY ANALYSIS](#)**

- **[Chapter 1: Industry Overview](#)** (page 7) defines the industry, describes business differences between full-line wholesaling and specialty distribution, summarizes wholesalers' obligations under the Drug Supply Chain Security Act (DSCSA), explains wholesalers' channel

roles, discusses and quantifies the products that wholesalers sell, and identifies the major industry participants and their revenues.

- [Chapter 2: Channel Role for Retail, Mail, and Specialty Pharmacies](#) (page 26) analyzes the pharmacy market—the customer group that accounts for the majority of wholesalers’ revenues. It covers wholesalers’ services for smaller pharmacies, wholesalers’ participation in the pharmacy-PBM relationship via Pharmacy Services Administrative Organizations (PSAOs), and interactions with pharmacy buying groups. The chapter then analyzes how wholesalers work with larger pharmacies, including our updated exclusive analysis of the large generic sourcing consortia between wholesalers and the largest pharmacies. [Section 2.4.](#) (page 50) analyzes wholesalers’ role in the distribution of patient-administered drugs that specialty pharmacies dispense. We also consider wholesaler-owned specialty pharmacies.
- [Chapter 3: Channel Role for Physician Office/Clinics and Hospitals](#) (page 56) examines channels for provider-administered medications, explains the buy-and-bill system for drugs administered in outpatient settings, and describes the role and functions that wholesalers perform for hospitals, including hospitals that participate in the 340B Drug Pricing Program. This chapter also provides an in-depth consideration of group purchasing organizations (GPOs) for both hospitals and physician practices.

## **SECTION II: BUSINESS ECONOMICS AND INDUSTRY TRENDS**

- [Chapter 4: Wholesaler Profitability](#) (page 83) delves into the industry’s income statement economics to explain the underlying sources of drug distribution profits. We deconstruct buy-side and sell-side gross margin components, distinguish sell-side profits from specialty and traditional drugs, and explain distribution service agreements (DSAs) with manufacturers. We analyze overall gross margins and operating profits. This chapter also explains how brand-name drug price inflation affects wholesalers’ profits.
- [Chapter 5: Financial Stability and Cash Management](#) (page 108) provides a detailed analysis of the key metrics that illustrate wholesalers’ overall financial health. These include capital structures, debt (leverage), balance sheet assets, cash flow, return on invested capital, and stock market valuation and performance.
- [Chapter 6: Forces of Change for Drug Distribution](#) (page 122) updates our analysis of key industry trends that will impact the market structure and economics of the pharmaceutical wholesaling and specialty distribution industries.

## **SECTION III: BIG THREE WHOLESALER COMPANY PROFILES**

In this section, we analyze the latest financial data and strategies of the largest public companies. Each chapter provides parallel examinations of the Big Three public wholesalers.



We scrutinize each company’s business history, acquisitions and divestitures, business mix, profitability, largest customers, and company-specific business trends.

- [Chapter 7: AmerisourceBergen Corporation](#) (page 157)
- [Chapter 8: Cardinal Health](#) (Page 176)
- [Chapter 9: McKesson Corporation](#) (page 187)

## How to Use the 2018-19 Report

***The chapters are self-contained and do not need to be read in order.*** We include extensive internal references to help you navigate the entire document and customize it to your specific needs. There are nearly [400 endnotes](#), most of which have hyperlinks to original source materials. The report also includes a list of the [Acronyms and Abbreviations](#) (page 206) used within it.

Please note that highlighted internal references are clickable hyperlinks in the PDF document. After clicking a link, use the following shortcuts to return to your previous location in the document:

- Windows: **ALT+Left Arrow**
- Mac: **Command+Left Arrow**

To search the entire PDF document for every occurrence of a word or phrase, use the following keyboard shortcuts:

- Windows: **Shift+CTRL+F**
- Mac: **Shift+Command+F**

As always, I welcome your feedback. Please contact me if you have any questions or comments about *The 2018-19 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*.

Adam J. Fein  
October 2018

P.S. You can find post-publication errata here: <https://drugch.nl/2018-19-errata>

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