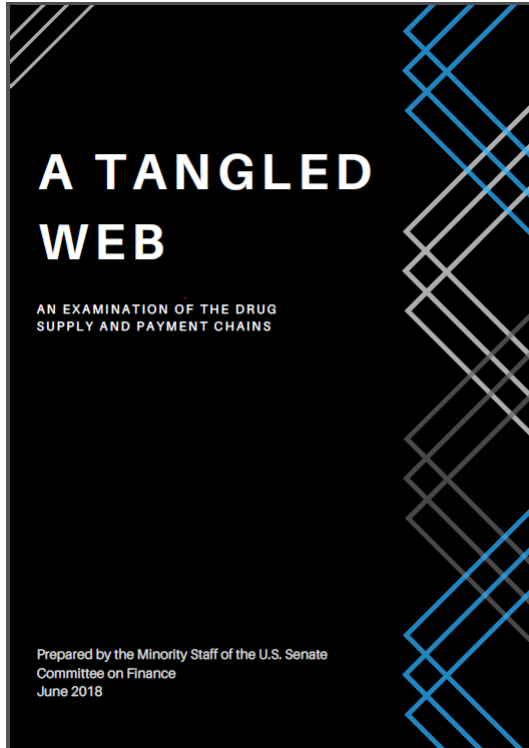


Drug Channels Outlook: Things to Watch in 2019

Adam J. Fein, Ph.D.
www.DrugChannels.net
[@DrugChannels](https://twitter.com/DrugChannels)



Drug Channels: a unifying force for our divided nation

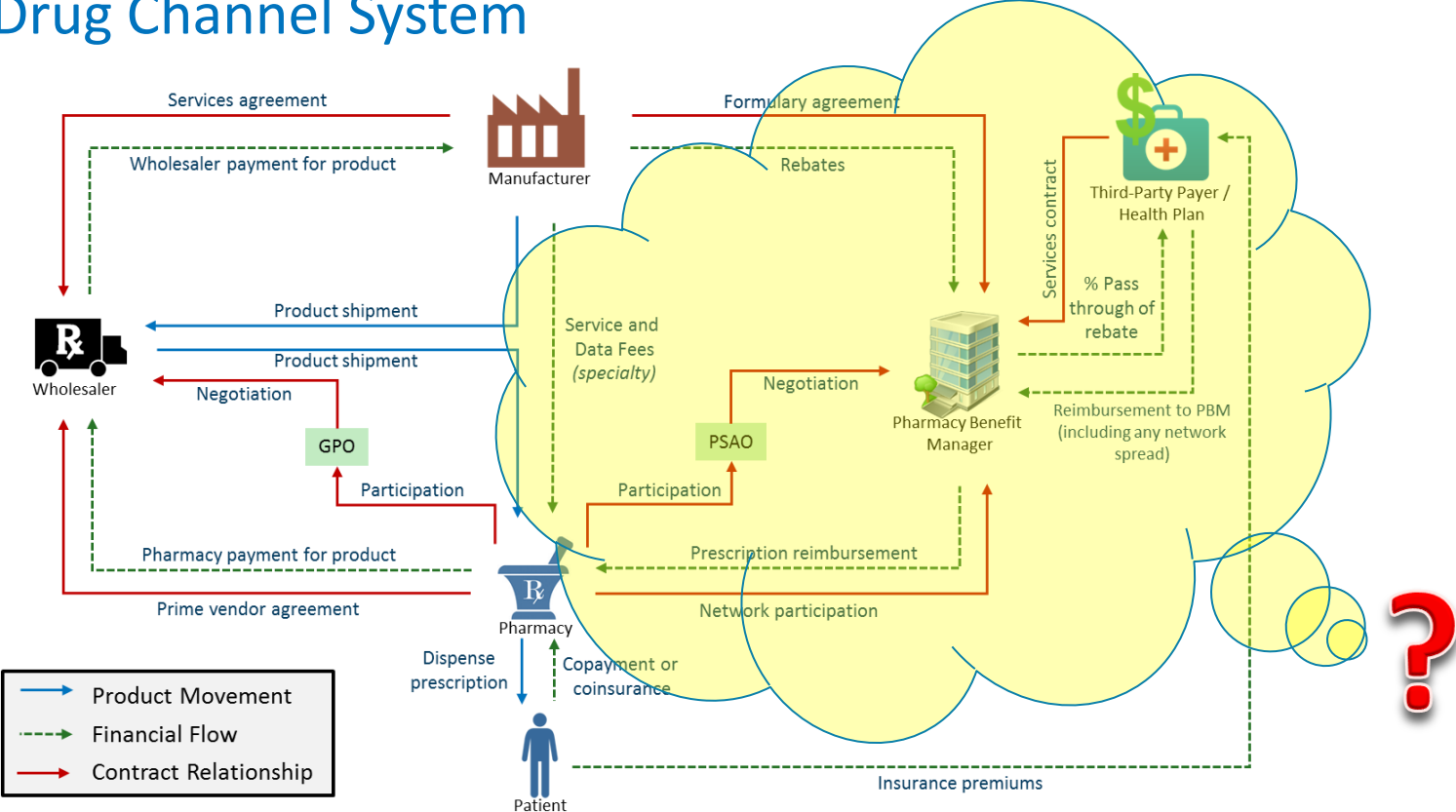


Drug Channels author
Adam J. Fein, Ph.D.
(artist's rendition)



Source: [Democrats and Republicans Agree: Drug Channels Is Awesome!](#) Drug Channels, July 2018

Our Crazy Drug Channel System



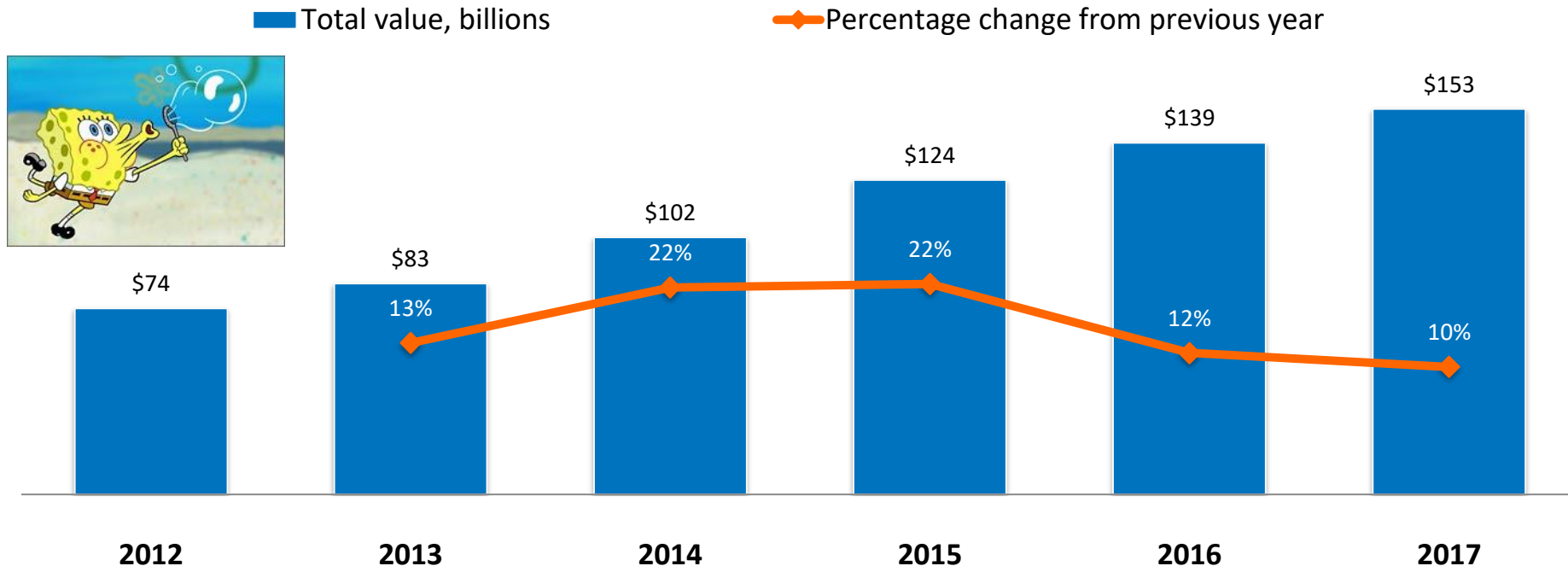
GPO = Group Purchasing Organization; PSAO = Pharmacy Services Administrative Organization
 Source: Fein, Adam J., *The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*, Drug Channels Institute, 2018. Chart illustrates flows for Patient-Administered, Outpatient Drugs. Please note that this chart is illustrative. It is not intended to be a complete representation of every type of product movement, financial flow, or contractual relationship in the marketplace.

For Your Consideration: Hot Topics in 2019

- The Gross-to-Net Bubble vs. Channel Compensation
- A world without rebates?
- Confronting provider-owned specialty pharmacies
- Buy-and-bill revamp
- Vertical integration + Channel alliances
- Amazon (redux)

The Gross-to-Net Bubble: Who Benefits?

TOTAL VALUE OF PHARMACEUTICAL MANUFACTURERS' GROSS-TO-NET REDUCTIONS

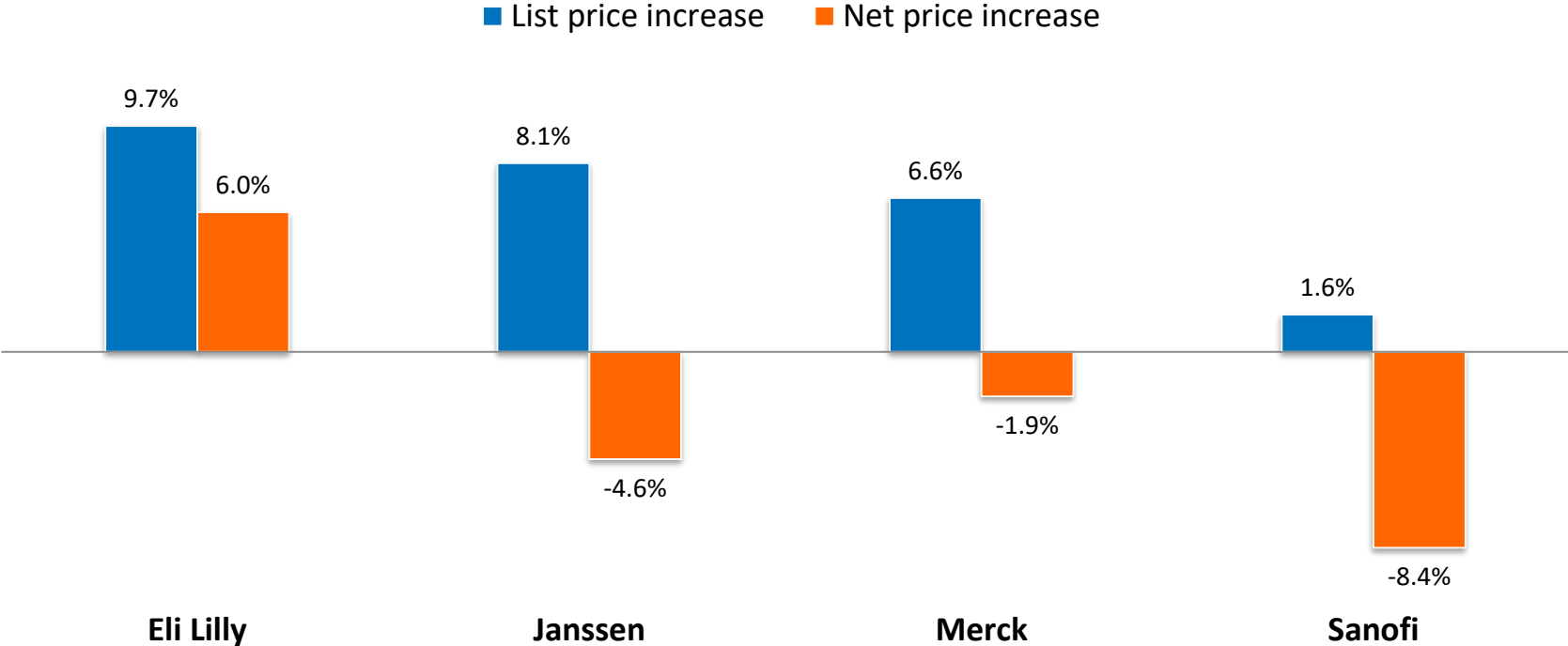


Source: Drug Channels Institute analysis of IQVIA Institute data. Gross-to-Net Reductions include the total value of rebates, off-invoice discounts, copay assistance, price concessions, and such other reductions as distribution fees, product returns, the 340B Drug Pricing Program, and more.

See [The Gross-to-Net Bubble Topped \\$150 Billion in 2017](#), *Drug Channels*, April 2018.

Gross-to-Net Bubble: Channel Compensation Impact

CHANGE IN LIST VS. NET PRICE, BY MANUFACTURER, 2017

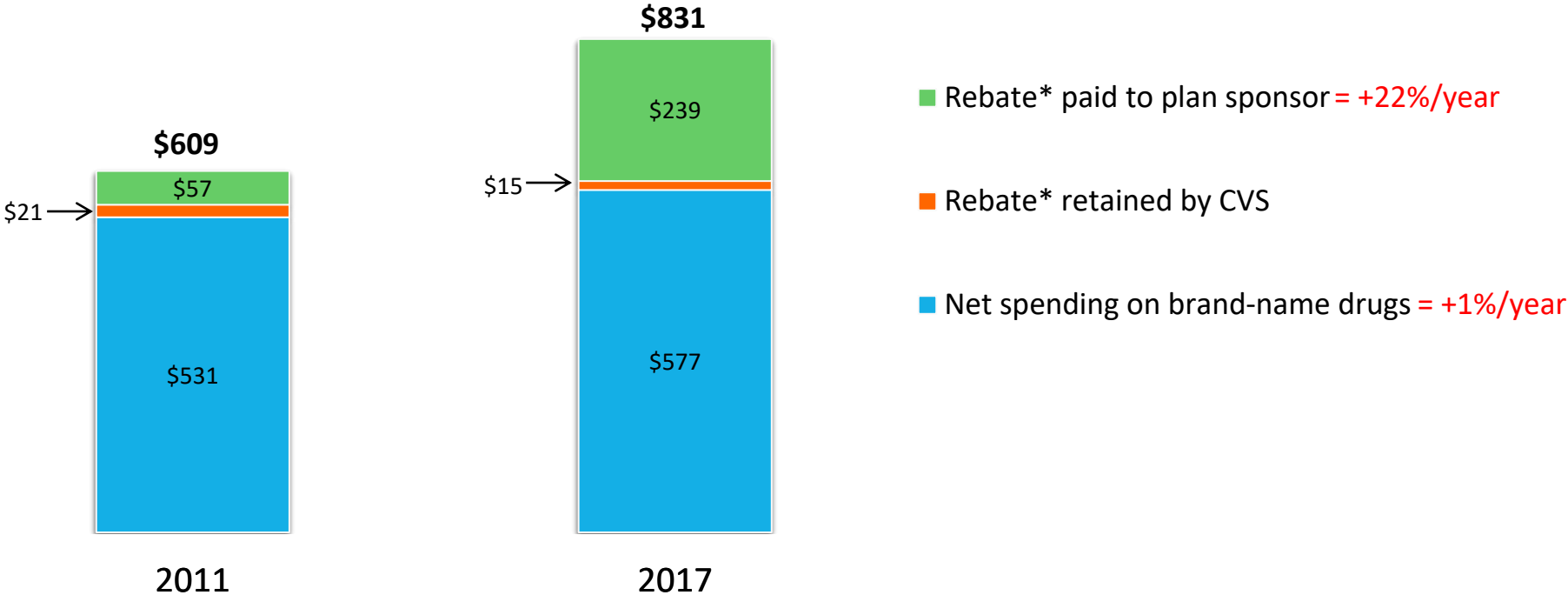


Source: Drug Channels Institute analysis of company reports. See also:

- [Payer Power: Why Eli Lilly, Janssen, and Merck Deeply Discount Their Drug Prices](#), *Drug Channels*, April 2018
- [Building a New Drug Wholesaler Compensation Model: What Happens as Brand Inflation Slows?](#) *Drug Channels*, July 2018

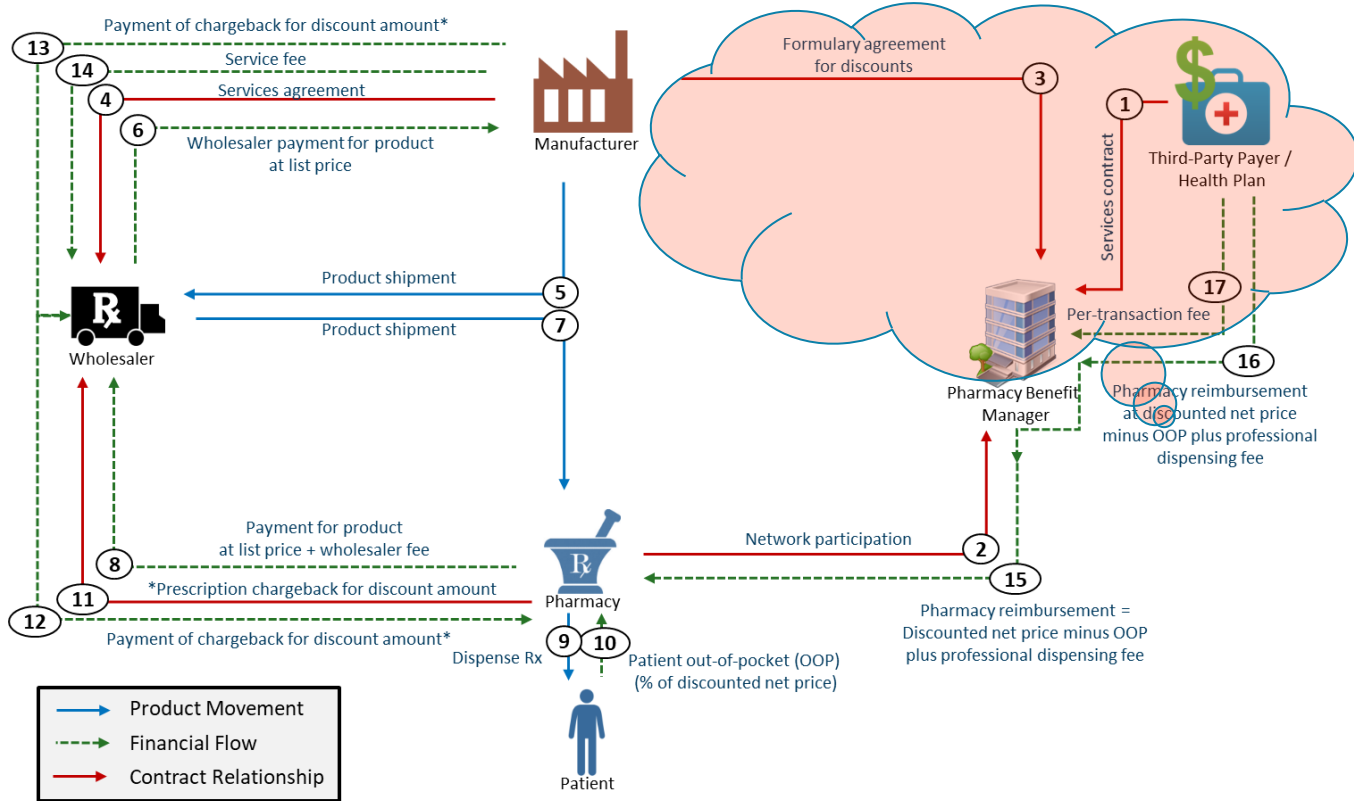
Reverse Insurance: Sick Patients Subsidize the Healthy Ones

CVS HEALTH: BRAND-NAME SPENDING AND REBATES PER COMMERCIAL LIFE



* CVS Health used the following definition: "Rebate calculation includes all rebates, including price protection, and administrative fees paid by manufacturers for commercial and MAPD clients. Excludes SilverScript." See [New Disclosures Show CVS and Express Scripts Can Survive in a World Without Rebates. Are Plan Sponsors Now the Real Barrier to Disruption?](#), *Drug Channels*, August 2018

The Drug Channels Negotiated Discounts Model

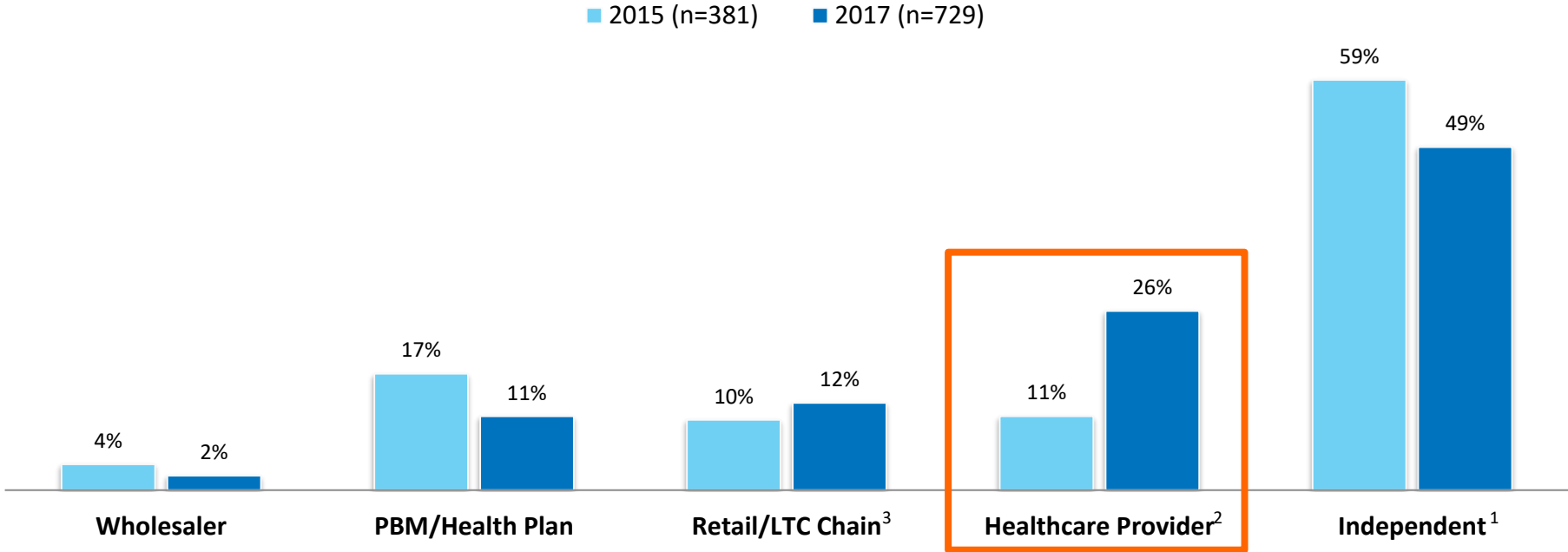


Source: Drug Channels Institute research. Chart illustrates hypothetical flows for a patient-Administered, outpatient brand-name drug.
 * The chargeback is a per-prescription discount that is specific to a patient's benefit plan design.

Details here: [The Drug Channels Negotiated Discounts Model \(https://drugch.nl/NDM\)](https://drugch.nl/NDM)

Hospitals and Physicians as Specialty Pharmacies

PERCENTAGE OF PHARMACY LOCATIONS WITH SPECIALTY PHARMACY ACCREDITATION, BY CORPORATE OWNERSHIP



LTC = Long-term care

1. Includes private independent pharmacies, pharmacies owned by private equity firms, and independently owned franchise locations.

2. Includes pharmacies owned by hospitals, health systems, physician practices, and providers' group purchasing organizations.

3. Includes pharmacy locations owned by chain drugstores, grocery chains, and national long-term care pharmacy chains.

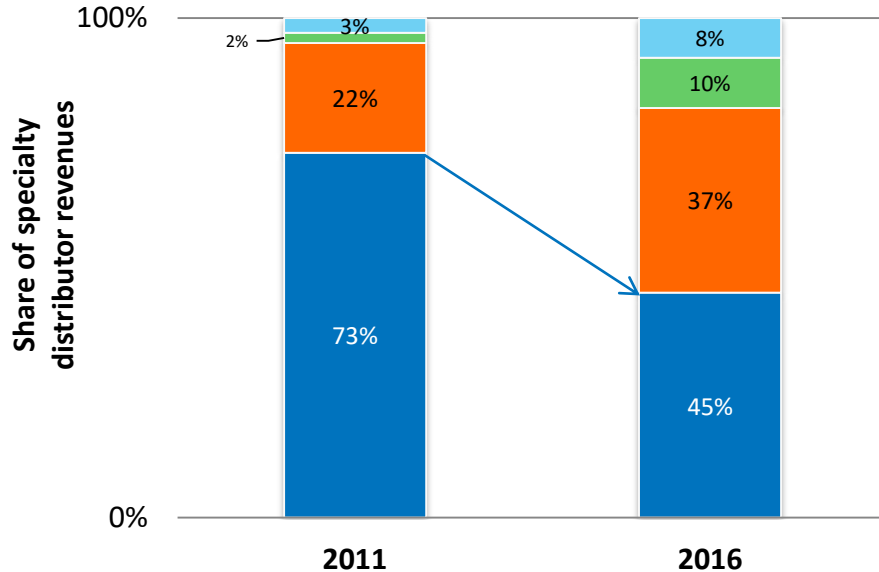
Source: [The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers](#), Exhibit 44. Figures show number of unique pharmacy locations accredited by ACHC, CPPA, and URAC at the end of the year. For comparability, data for ACHC and CPPA exclude certain accredited pharmacy spoke locations within retail chains. Figures exclude locations with provisional, conditional, and expected accreditation. Locations owned by manufacturers excluded for purposes of presentation

© 2018 Pembroke Consulting, Inc. d/b/a Drug Channels Institute. All Rights Reserved.

Evolution of Buy-and-Bill Channels

SHARE OF SPECIALTY DISTRIBUTOR REVENUES, BY CUSTOMER TYPE

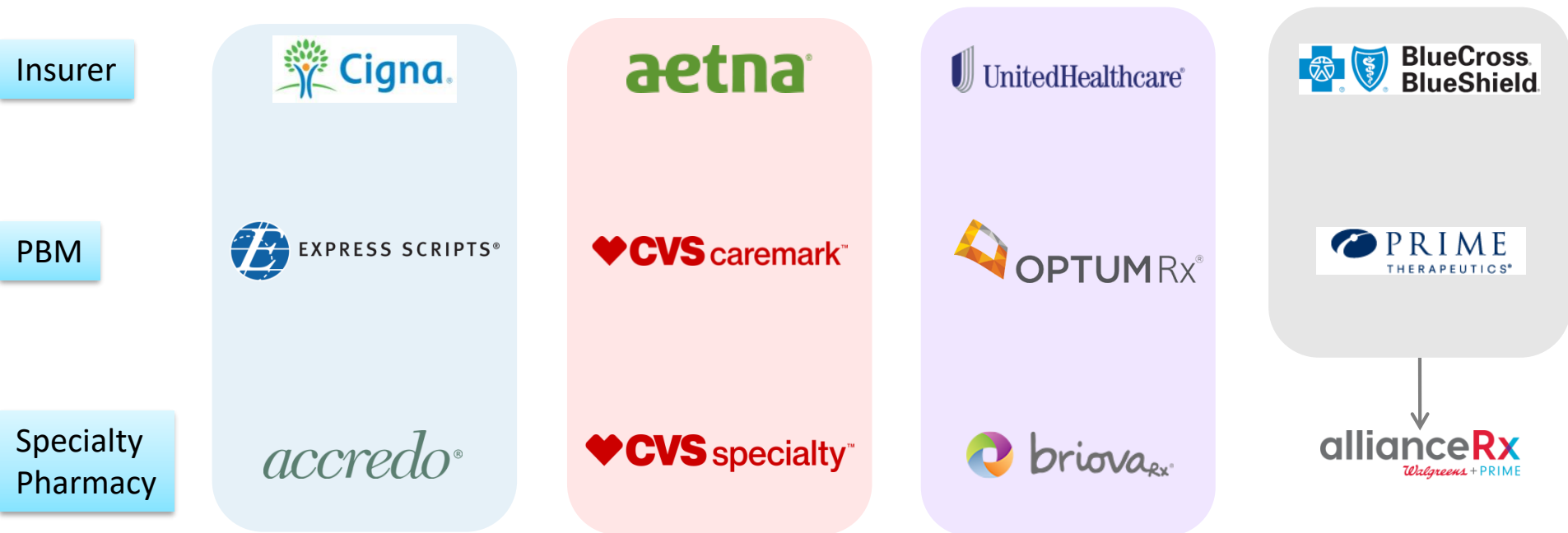
- Independent physician-owned/-operated clinics
- Hospitals and hospital-owned/-operated clinics
- Specialty and retail pharmacies
- Other



- White bagging
- Hospital vertical integration
- 340B expansion
- Site of care management
- International Pricing Index (IPI)?

Source: [The 2018–19 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors](#), Exhibit 86. Other includes home health, long-term care, government organizations, other healthcare distributors, and all other customer types.

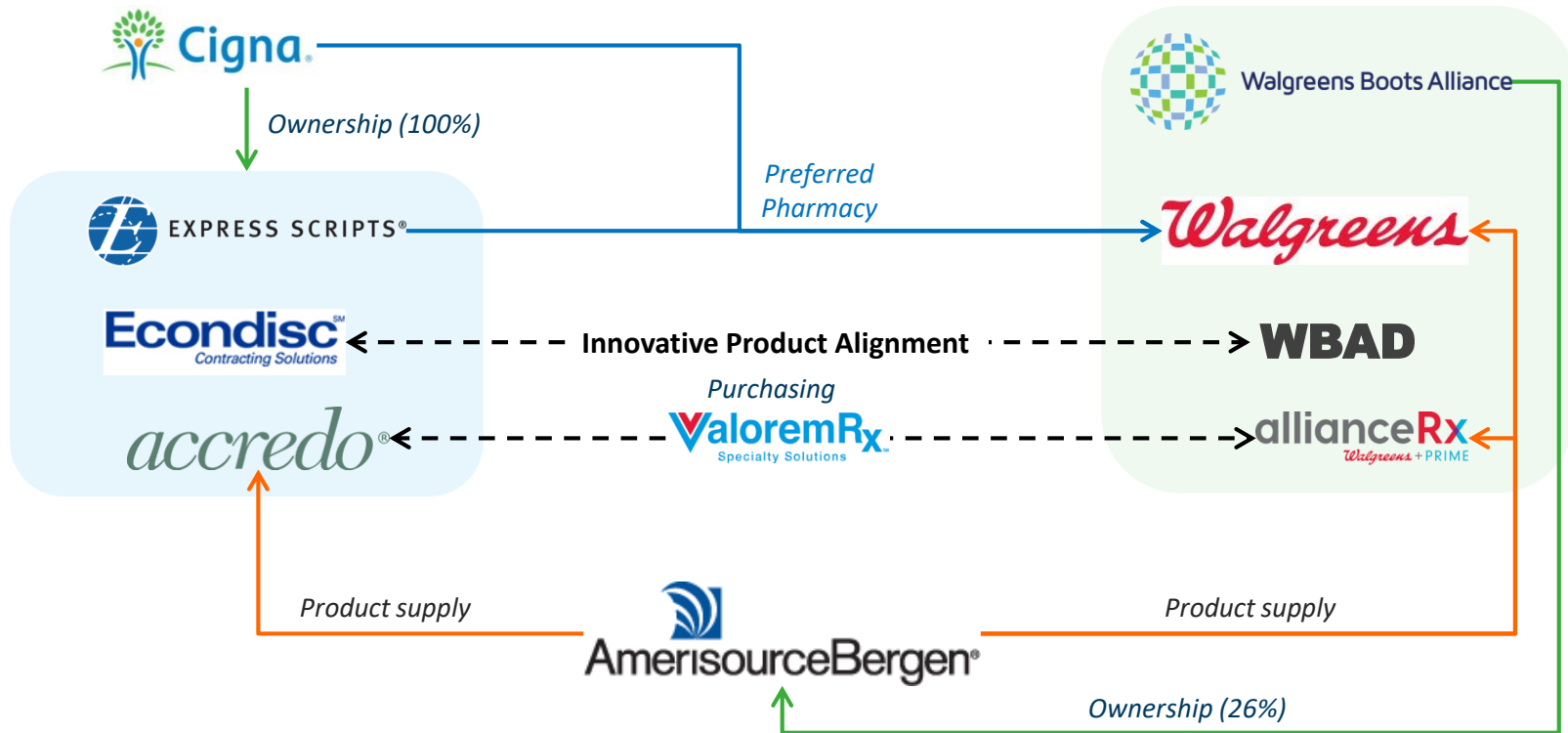
Vertical Integration to the Rescue?



See the following *Drug Channels* articles:

- [Cigna-Express Scripts: Vertical Integration and PBMs' Medical-Pharmacy Future](#)
- [The CVS-Aetna Deal: Five Industry and Drug Channel Implications](#)
- [Why the Walgreens/Prime Deal Could Transform the PBM Industry](#)
- [The Cigna-Express Scripts Deal's Intriguing Connections With—And Implications For—AmerisourceBergen and Walgreens](#)

The Complex Web of Drug Channel Alliances



WBAD = Walgreens Boots Alliance Development GbMH.

See [The Cigna-Express Scripts Deal's Intriguing Connections With—And Implications For—AmerisourceBergen and Walgreens](#), *Drug Channels*, September 2018.

What about... ?

Pharmacy front-end OTC/HBA (B2C) ✓

Med-surg products to providers (B2B) ✓

Pharmacy for cash-pay prescriptions

Pharmacy for third-party prescriptions ✓ (PillPack)

PBM/Insurer/Specialty pharmacy

Drug wholesaler

Things to Keep in Mind

- Growth rate
- Market share
- Incumbent reaction
- BS factor

See [Amazon Buys PillPack: Six Pharmacy and Drug Channel Implications](#), *Drug Channels*, June 2018 and [The 2018–19 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors](#), Section 6.2.3.

Learn More



DRUG CHANNELS

Expert Insights on Pharmaceutical Economics
and the Drug Distribution System



[@DrugChannels](https://twitter.com/DrugChannels)

Free industry updates from the Drug Channels blog
(www.DrugChannels.net)

Daily tweets about cool and intriguing stuff

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

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

October 2018



<http://drugch.nl/wholesale>

The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

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

February 2018



<http://drugch.nl/pharmacy>