Drug Channels Update: Things to Watch in 2017

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12TH LIFE SCIENCES
TRADE and CHANNEL STRATEGIES

December 13, 2016

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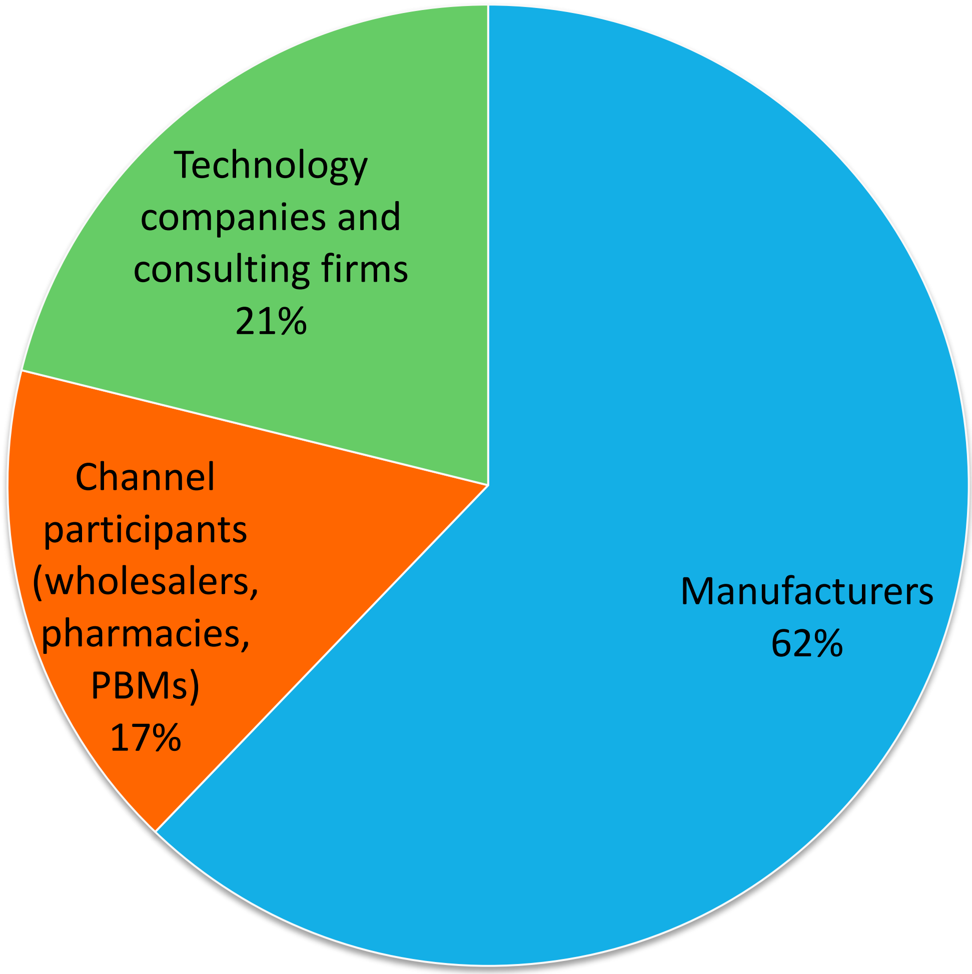
Who is attending T&CS 2016?

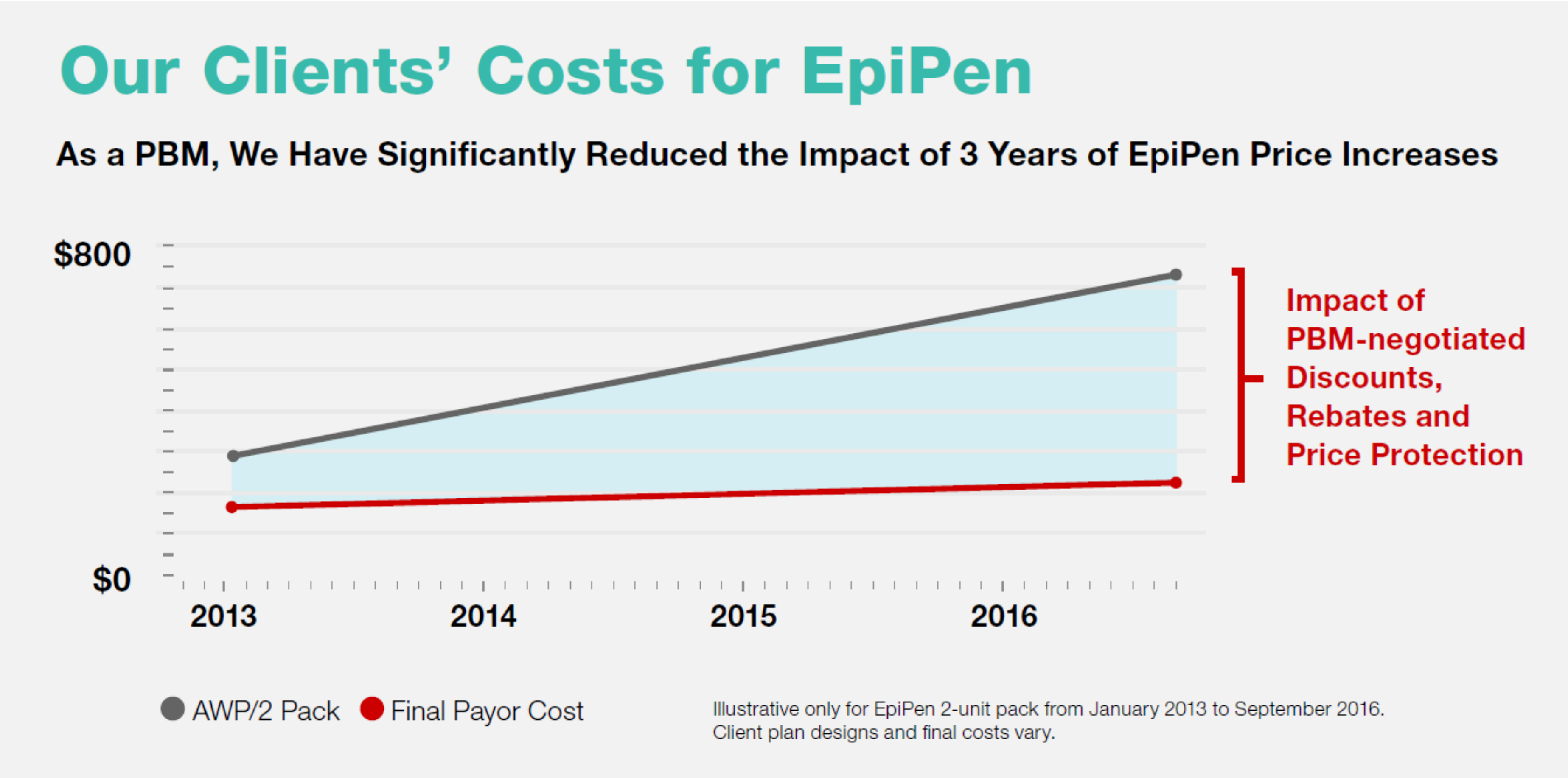


Based on registrations through December 5, 2016.

For Your Consideration: Hot Topics in 2017

- Gross-to-Net Bubblenomics
- Drug Pricing Brouhaha
- Politics!
- Wholesaler Profit Pressures
- Biosimilar Channel Realities

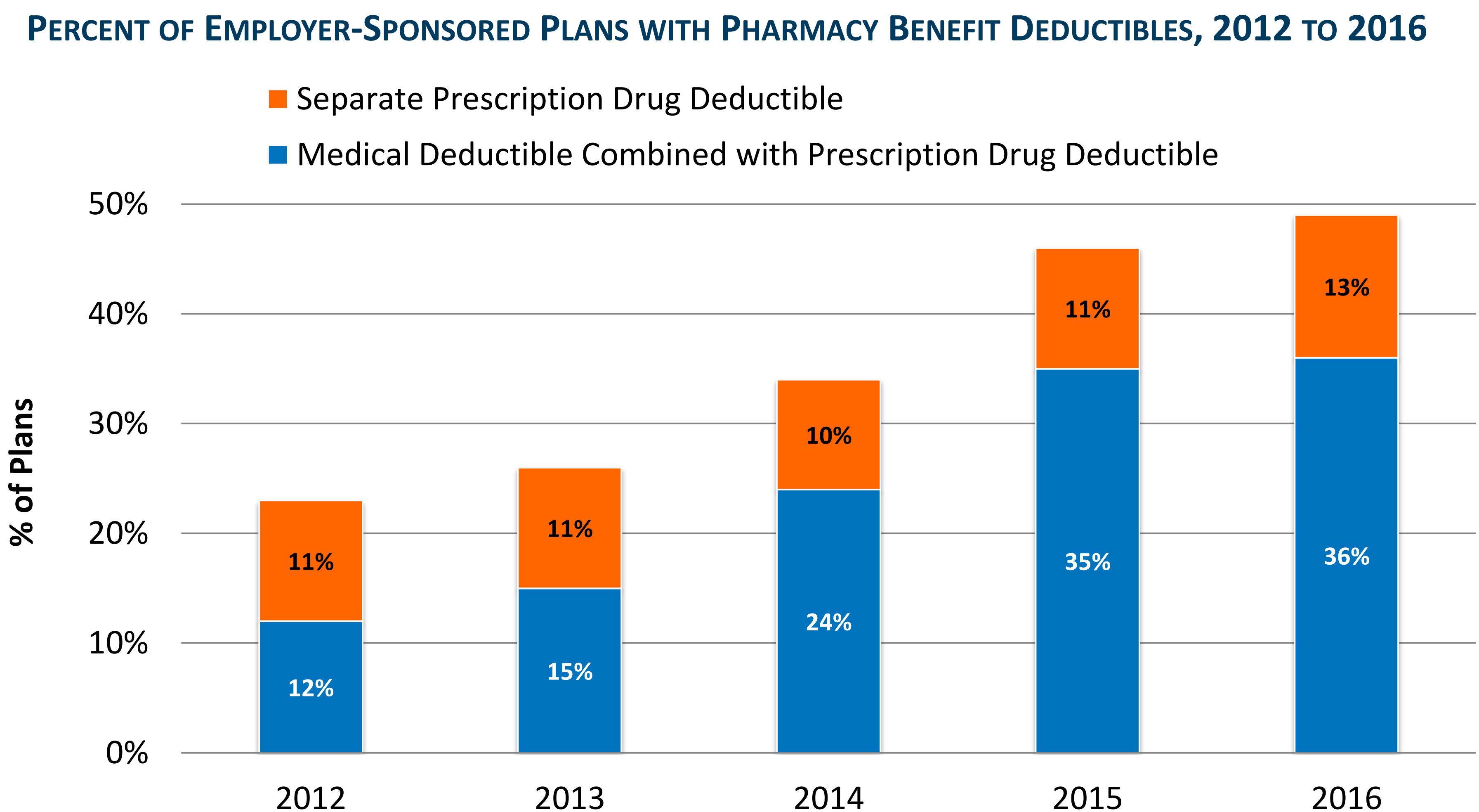
The Gross-to-Net Bubble: EpiPen Version



Source: [EpiPen: What You Need to Know](), CVS Health, October 2016

See also [Novo Nordisk Sheds New Light on PBM Rebates, the Gross-to-Net Bubble, and Warped Channel Incentives](), *Drug Channels*, December 2016

Fading First Dollar Coverage



Source: Pembroke Consulting analysis of *PwC Health and Well-Being Touchstone Survey*, various years

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Notable Quotes

"I'm going to bring down drug prices. I don't like what's happened with drug prices.“

President-Elect Donald J. Trump, 12/8/16

“[B]y your unilateral decision, you have significantly impacted our profitability…we don't think that's fair and we want to recover that lost margin “

John Hammergren, chairman, president, and CEO of McKesson, 10/27/16

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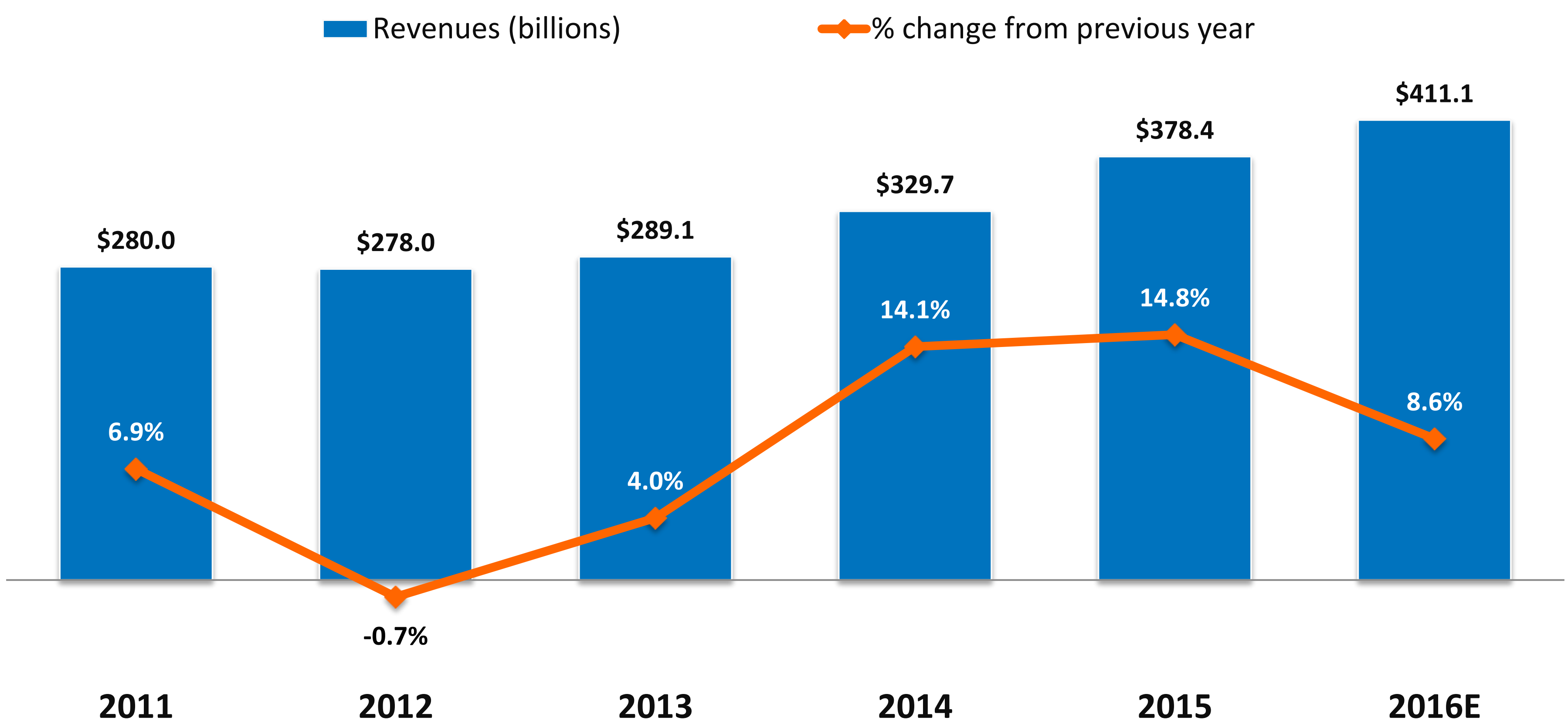
Big Three Wholesalers, U.S. Revenues, Annual Total and Growth, 2012-2016E



Data include AmerisourceBergen, Cardinal Health, and McKesson. Data are presented for calendar years. Note that fiscal years and segment definitions differ among the three companies. Revenue data include certain related businesses that are not reported separately. Revenue data exclude international drug distribution.
Source: Pembroke Consulting analysis of company reports; Pembroke Consulting estimates

This chart appears as Exhibit 8 in *The 2016–17 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*, September 2016.

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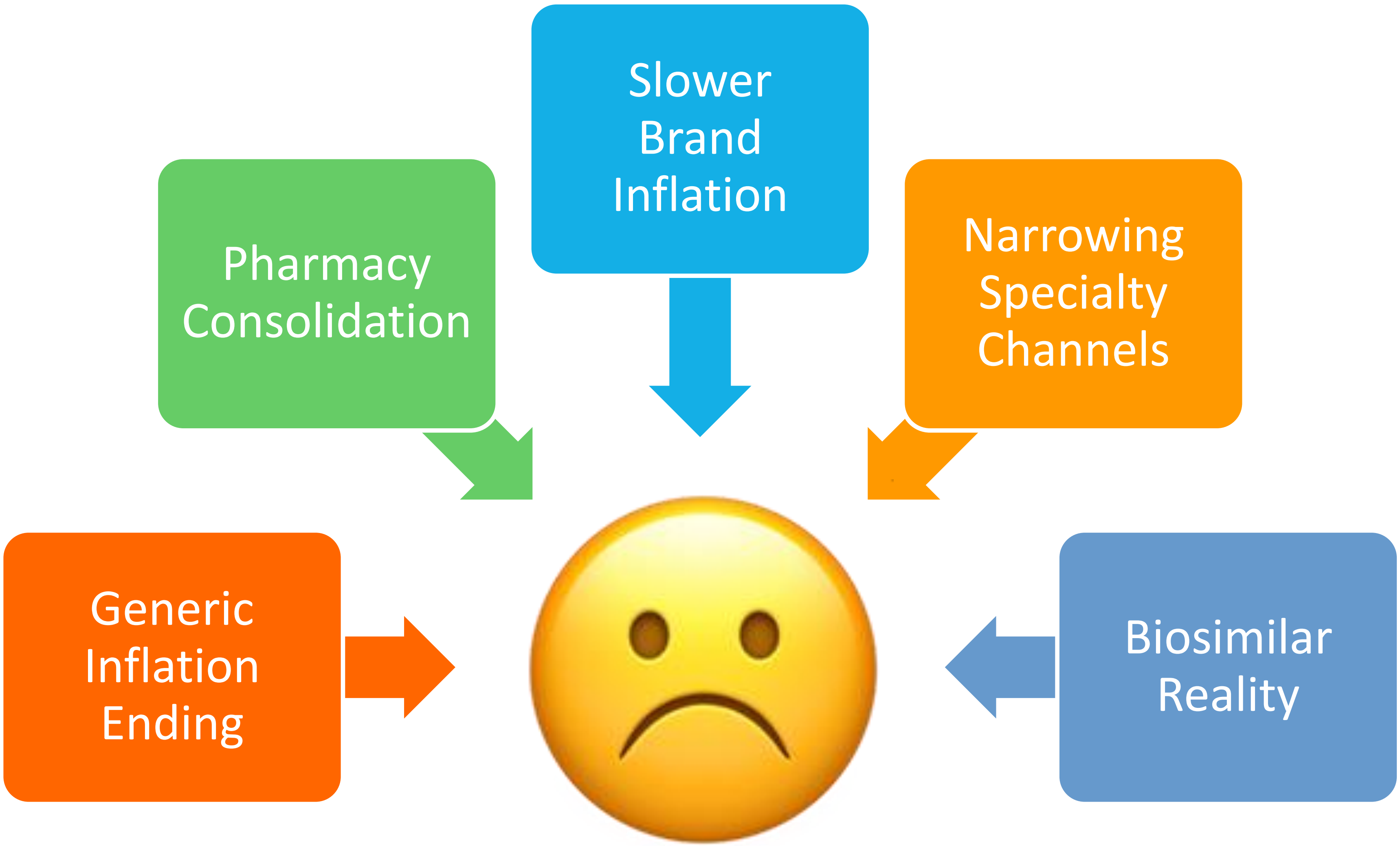
What Worries Wholesaler CEOs



The Channel Challenge

- Financial flows and channel business models are built on Wholesale Acquisition Cost (WAC) list price: Payer→PBM→Pharmacy→Wholesaler→Manufacturer
- Our drug channel system encourages higher list prices—even when the net received by a drug maker is stable or declining
- Pharmacies and wholesalers do not know a drug's true net price (after third-party payer rebates)
- A manufacturer's price actions directly increase the drug channel's capital base
- Every individual manufacturer is a small portion of drug channel revenues, so none can drive major system change

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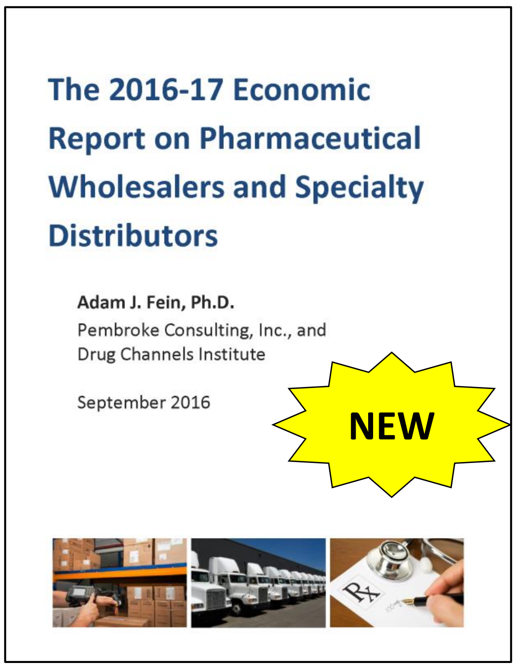
General Resources

DRUG CHANNELS
Expert Insights on Pharmaceutical Economics and the Drug Distribution System

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

@DrugChannels — Daily tweets about cool and intriguing stuff


The 2016-17 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

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Drug Channels Institute

September 2016

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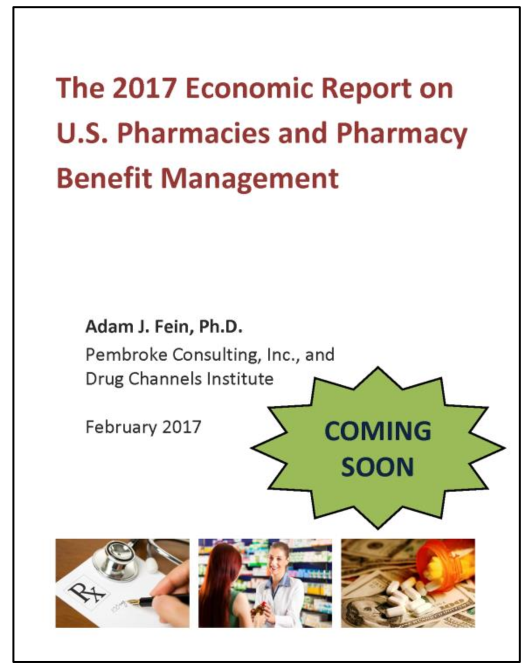
http://drugchannelsinstitute.com/products/industry_report/wholesale/


The 2017 Economic Report on U.S. Pharmacies and Pharmacy Benefit Management

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February 2017

COMING SOON

http://drugchannelsinstitute.com/products/industry_report/pharmacy/

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