# Drug Channels Outlook: Things to Watch in 2018

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13TH LIFE SCIENCES
TRADE and CHANNEL STRATEGIES 2017

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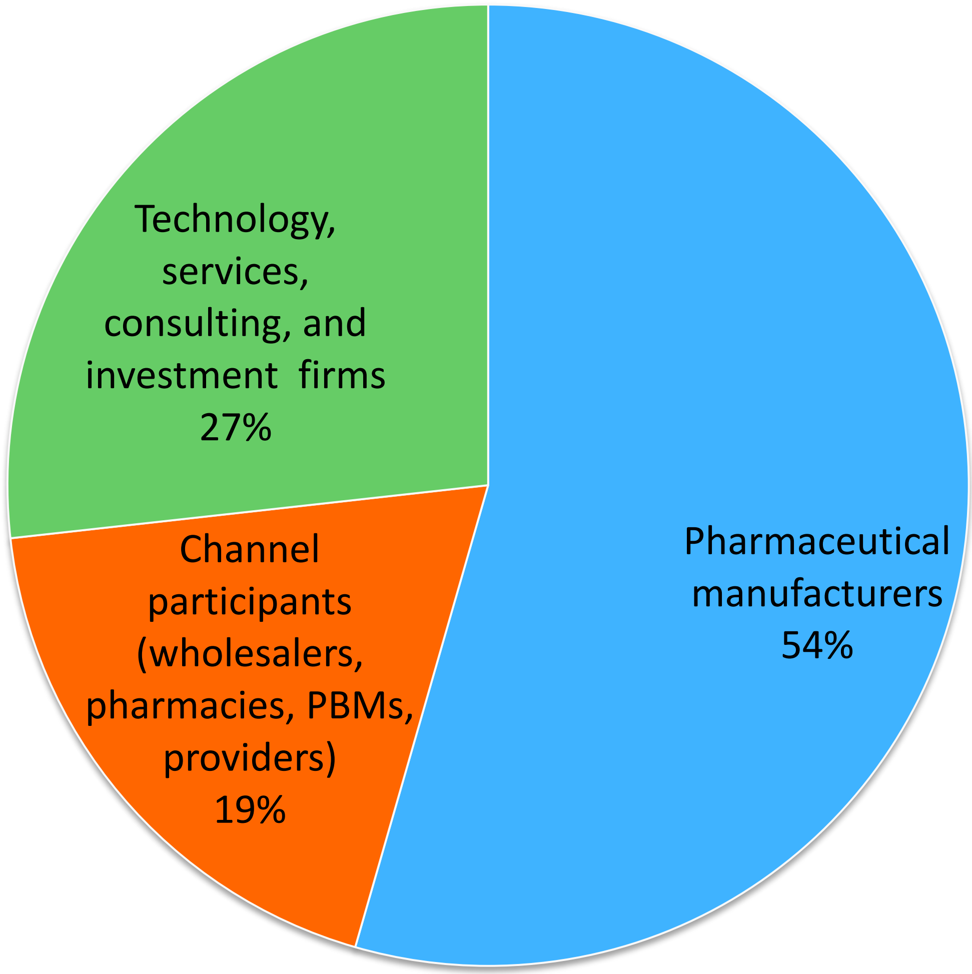
# Who is attending T&CS 2017?




Based on registrations through December 8, 2017.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# Adam's 2017 Photo Album


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# For Your Consideration: Hot Topics in 2018

- Gross-to-Net Bubblenomics: POS Rebates?
- Vertical Merger Mania
- 340B Becomes Strategic
- Specialty Pharmacy 3.0
- Generic Channel Disruption
- Amazon (Or Not)


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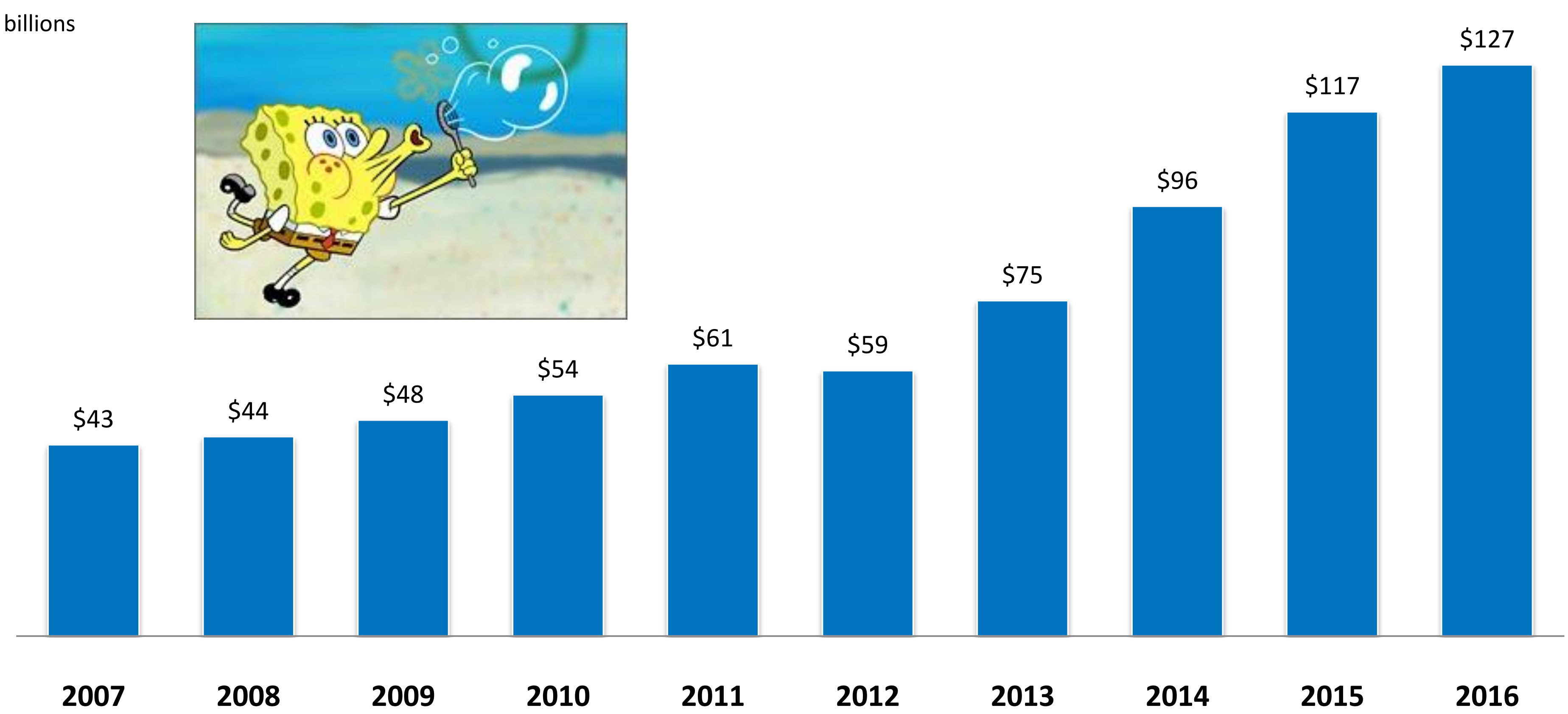
# The Great Rebate Debate: Who Benefits?

PHARMACEUTICAL MANUFACTURERS' OFF-INVOICE DISCOUNTS, REBATES, AND PRICE CONCESSIONS, 2007-2016




Source: Drug Channels Institute analysis of *Medicines Use and Spending in the U.S.: A Review of 2016 and Outlook to 2021*, QuintilesIMS, May 2017. See New Data Show the Gross-to-Net Rebate Bubble Growing Even Bigger, *Drug Channels*, June 2017 and Will CMS Pop the Gross-to-Net Bubble in Medicare Part D With Point-of-Sale Rebates?, *Drug Channels*, November 2017.

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# CMS Is Unhappy With Part D Plans and PBMs

"Part D sponsors may have weak incentives, and, in some cases even, no incentive, to lower prices at the point of sale or to choose lower net cost alternatives to high cost-highly rebated drugs when available."

"CMS is concerned that Part D plan sponsors might use their standard pharmacy network contracts in a way that inappropriately limits dispensing of specialty drugs to certain pharmacies."

See Will CMS Pop the Gross-to-Net Bubble in Medicare Part D With Point-of-Sale Rebates?, *Drug Channels*, November 2017


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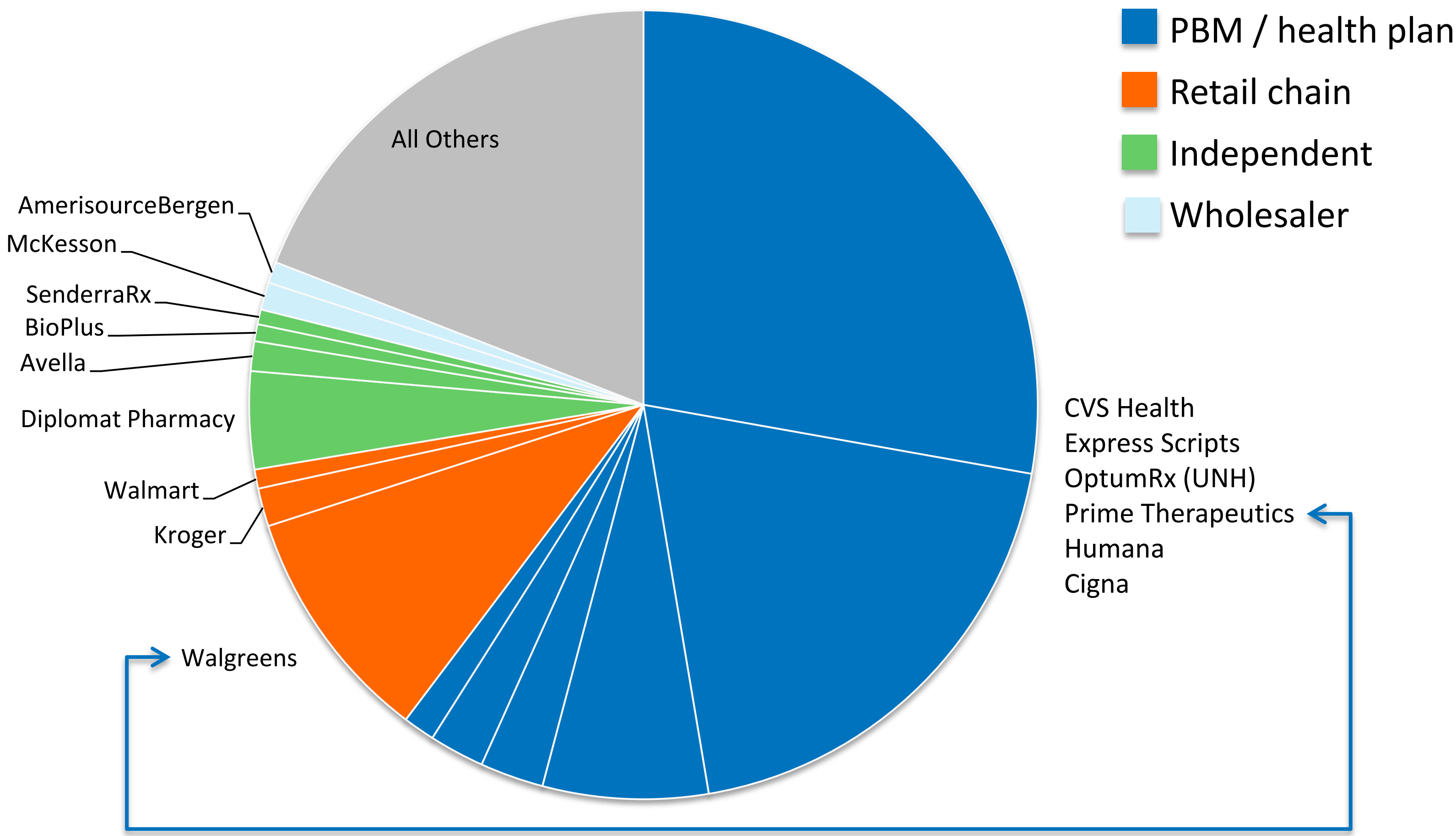
# PBMs & Insurers Still Dominate Specialty Dispensing

SHARE OF SPECIALTY DRUG DISPENSING REVENUES, BY COMPANY, 2016




Source: *The 2017 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*, Exhibit 42.
Includes prescription revenues from retail, mail, long-term care, and specialty pharmacies. Excludes revenues from network pharmacies of PBM-owned specialty pharmacies and infusion services covered by medical benefit. Reflects pro-forma impact of 2016 acquisitions

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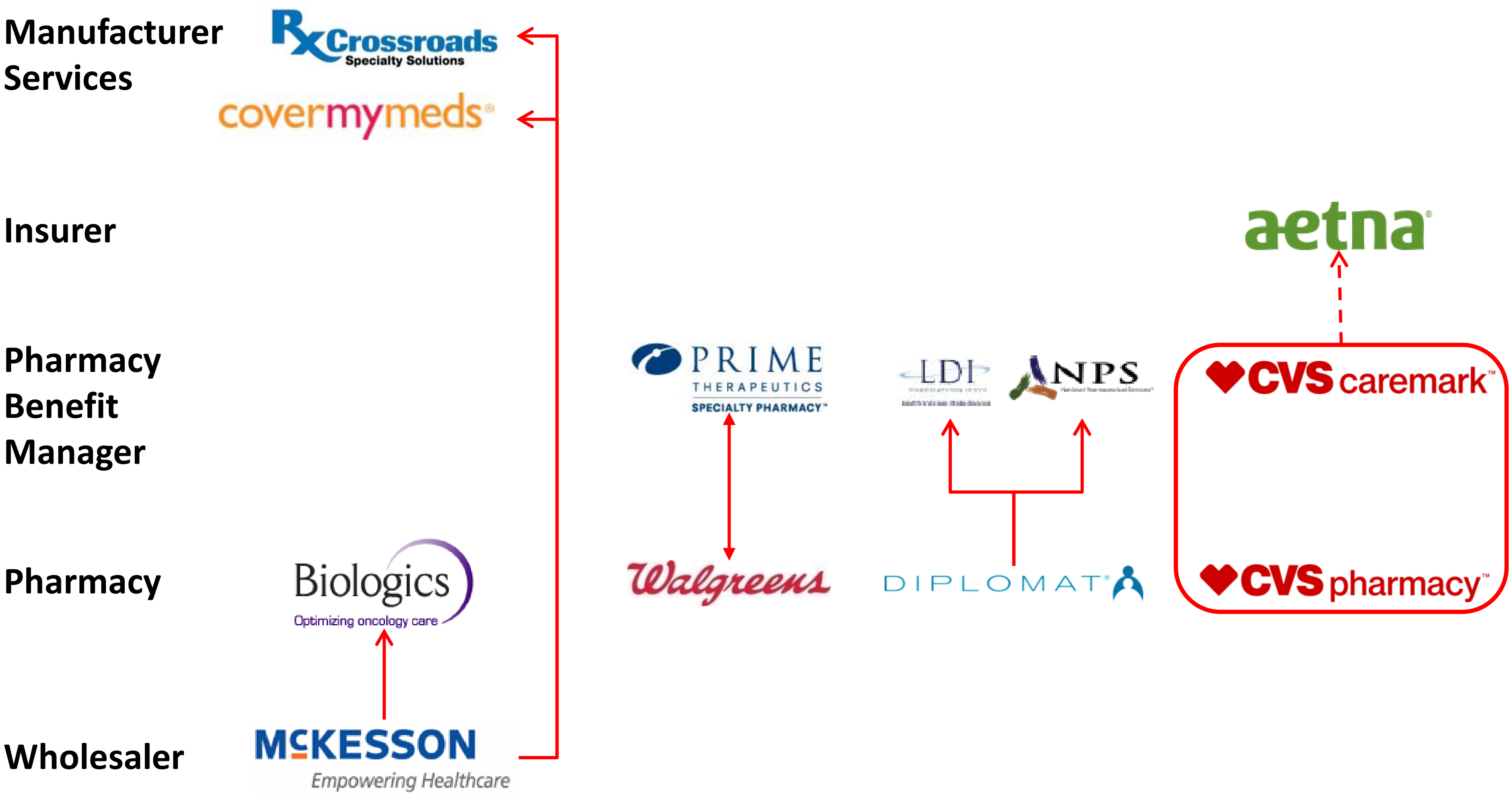
# Recent Vertical Deals Emulate Integrated Models




See the following *Drug Channels* articles:

- Inside McKesson's Acquisition of Biologics Specialty Pharmacy
- Why CVS Health and Express Scripts Sold—and McKesson Bought—a Specialty Hub Business
- Why the Walgreens/Prime Deal Could Transform the PBM Industry
- Diplomat Sees Declining DIR Fee Impact—and Perhaps Readies a PBM Strategy.
- The CVS-Aetna Deal: Five Industry and Drug Channel Implications



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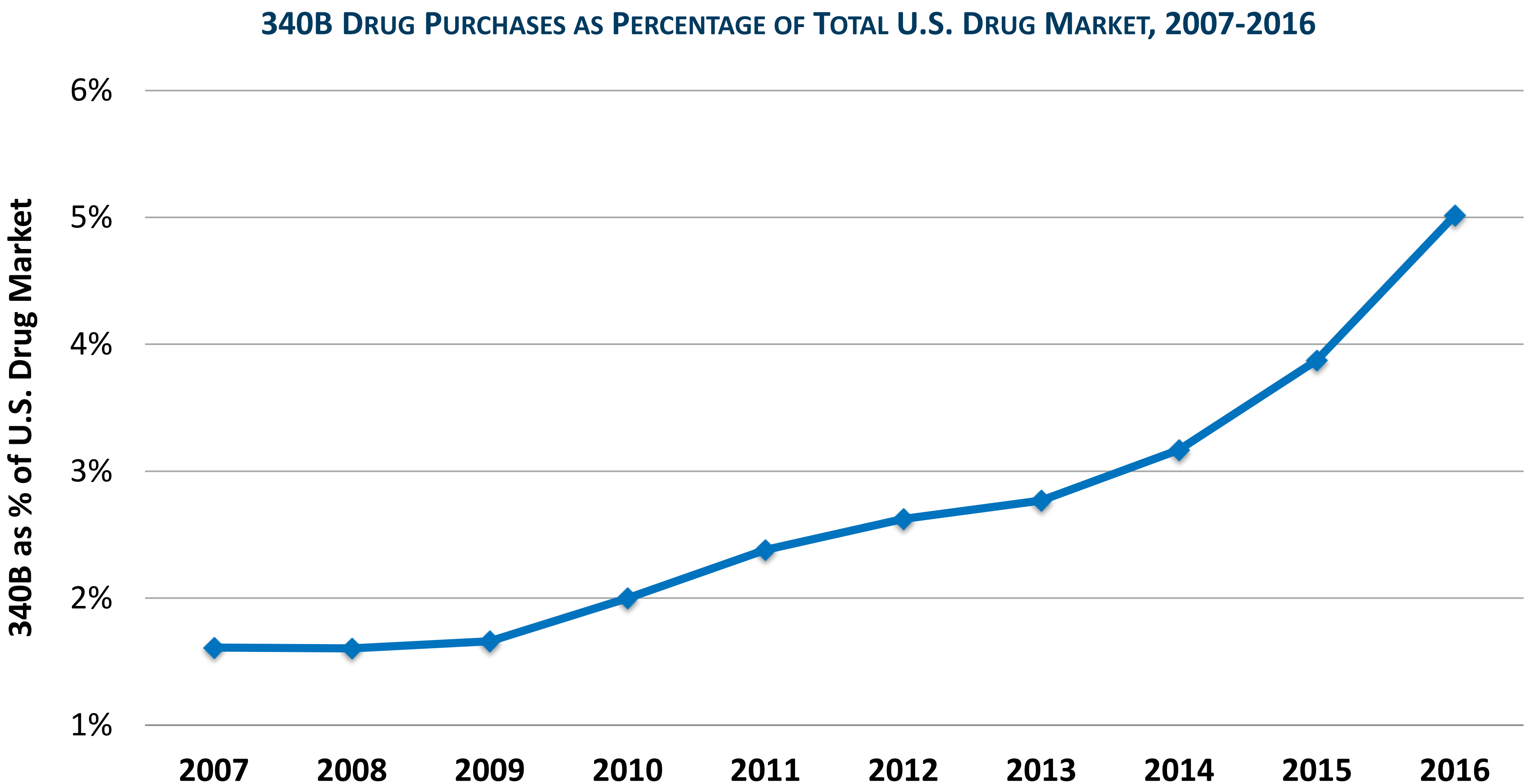
# 340B Gets Real




Source: Drug Channels Institute analysis of data from 340B Prime Vendor managed by Apexus. Dollar figures in billions. 340B data show value of purchases at or below the discounted 340B ceiling prices and exclude sales made directly to covered entities by manufacturers. Total U.S. market measured as net spending adjusted for off-invoice discounts and rebates.

See The 340B Program Hits $16.2 Billion in 2016; Now 5% of U.S. Drug Market and What I Told HHS Secretary Tom Price About the 340B Drug Pricing Program, *Drug Channels,* May 2017.

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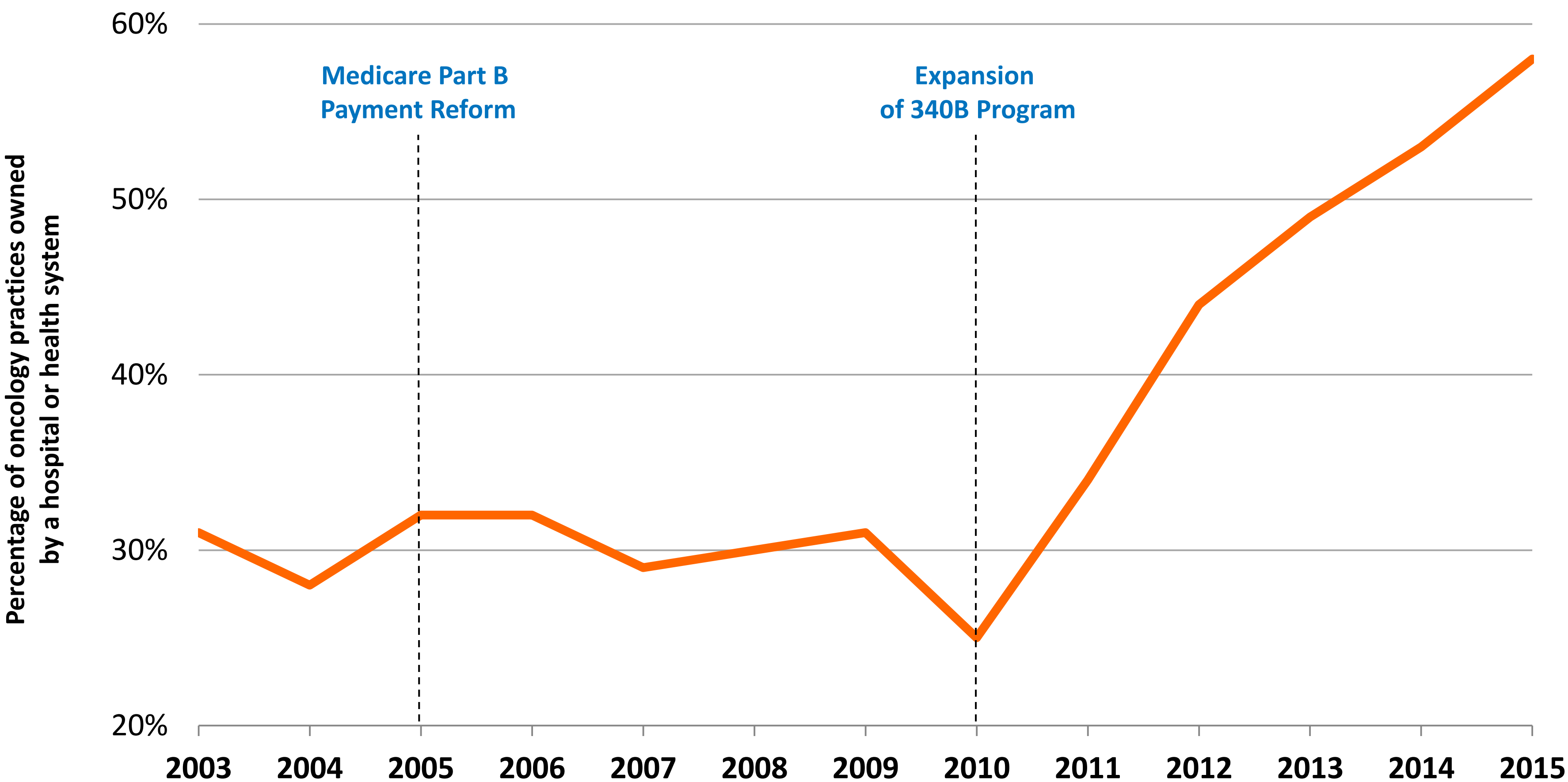
# Vertical Integration of Cancer Care




Source: Drug Channels Institute analysis of Evaluating The Role Of Payment Policy In Driving Vertical Integration In The Oncology Market, *Health Affairs*, April 2017

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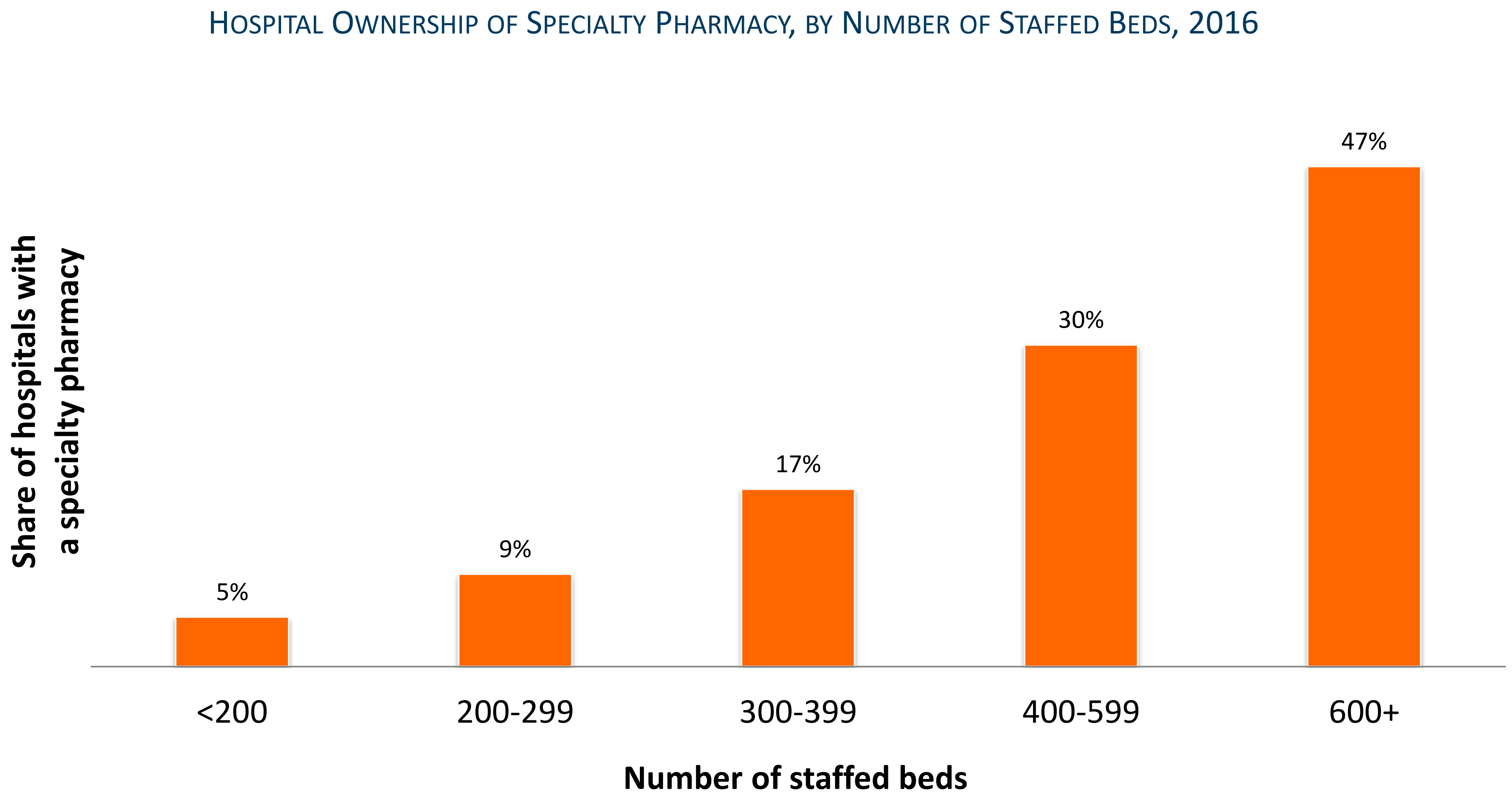
# Providers Push Into Specialty Pharmacy




Source: Drug Channels Institute analysis of ASHP national survey of pharmacy practice in hospital settings
See Why Manufacturers and PBMs Should Worry About the Growth of Hospital-Owned Specialty Pharmacies, *Drug Channels*, September 2017.

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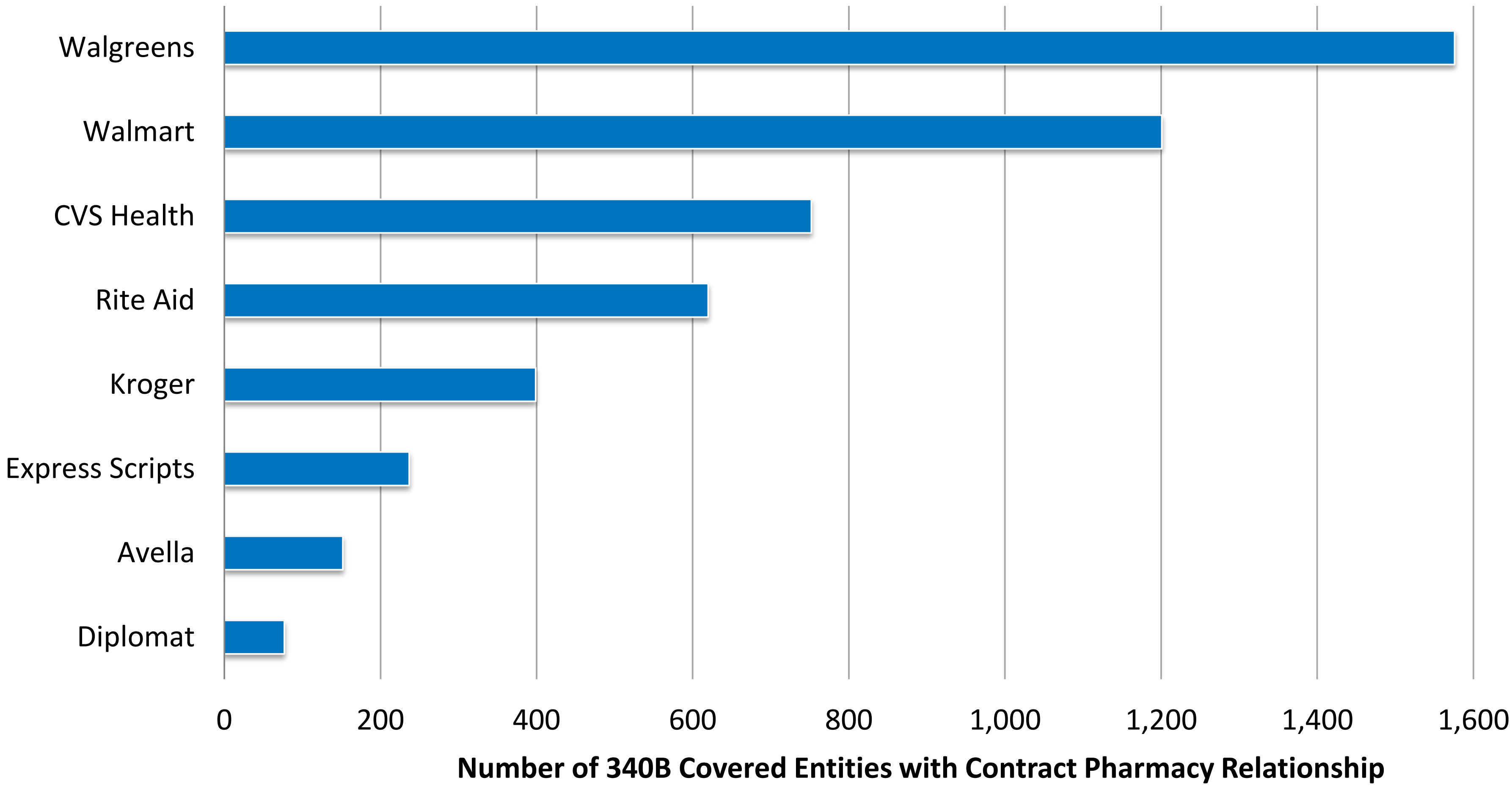
# Hospital/Pharmacy 340B Partnerships Are Booming




Source: Drug Channels Institute analysis of OPA Daily Contract Pharmacy Database (7/1/17). Figures show number of covered entities that have at least one contract pharmacy relationship with each company. Company totals are computed from combined banners (store names) in the OPA database. See The Booming 340B Contract Pharmacy Profits of Walgreens, CVS, Rite Aid, and Walmart, *Drug Channels*, July 2017.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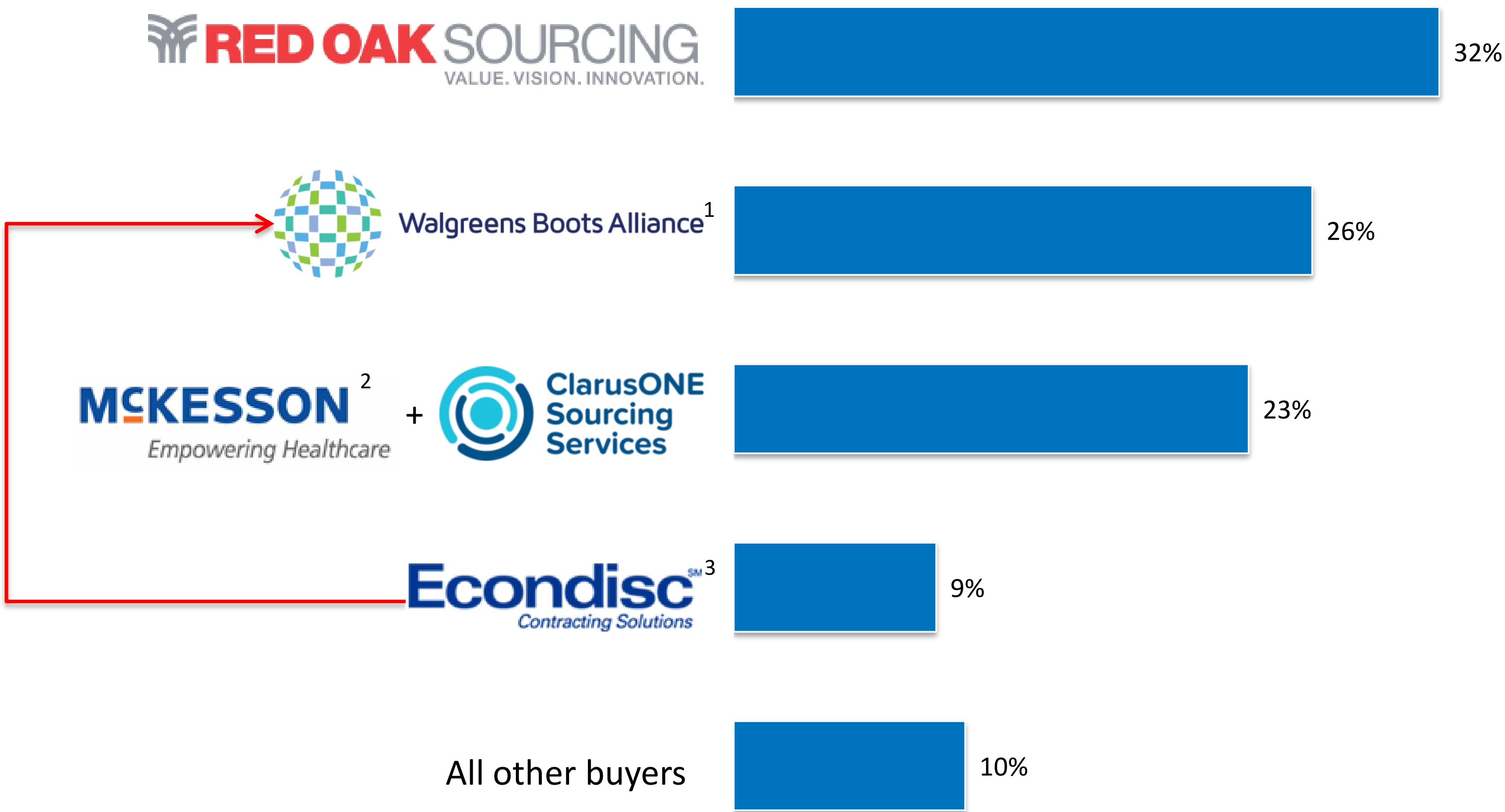
# Vertical Channel Alignment for Generics

SHARE OF U.S. GENERIC PURCHASING VOLUME, BY ORGANIZATION, 2017




1. WBAD = Walgreens Boots Alliance Development GbMH. Includes U.S. volume only. Includes AmerisourceBergen volume and pro forma volume from Prime Therapeutics.
2. McKesson OneStop figures include Rite Aid and Albertsons. Excludes Celesio and other non-U.S. volume.
3. Econdisc Contracting Solutions includes Express Scripts, Kroger, Supervalu, and other retail chains. In May 2017, Econdisc agreed to partner with WBAD to purchase generic drugs.

Source: *The 2017–18 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*, Exhibit 25.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# What about... amazon ?

*High*

**Likelihood**

*Low*

Pharmacy front-end OTC/HBA (B2C) ✓

Med-surg products to providers (B2B) ✓

Pharmacy for cash-pay prescriptions

Pharmacy for third-party prescriptions

PBM/Insurer/Specialty pharmacy

Drug wholesaler

See A Reality Check on Amazon's Pharmacy Ambitions, *Drug Channels*, May 2017
and Drug Channels News Roundup: Amazon's Updated Plans, *Drug Channels*, November 2017



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# Implications and Outlook

- Politicians and the media will scrutinize the drug channel's impact on "drug prices" and consumers' out-of-pocket spending
- PBMs, pharmacies, wholesalers, health plans, and providers will battle for control of the specialty market and patient journey
- Risks will grow as organizations become suppliers, customers, prescribers, providers, payers, and channels
- The 340B program may finally be modernized—but until then, it will disrupt conventional channel relationships and strategies
- The politics of pharmacy will create deep confusion for regulators, legislators, patients, and plan sponsors
- Amazon may (or may not) change everything


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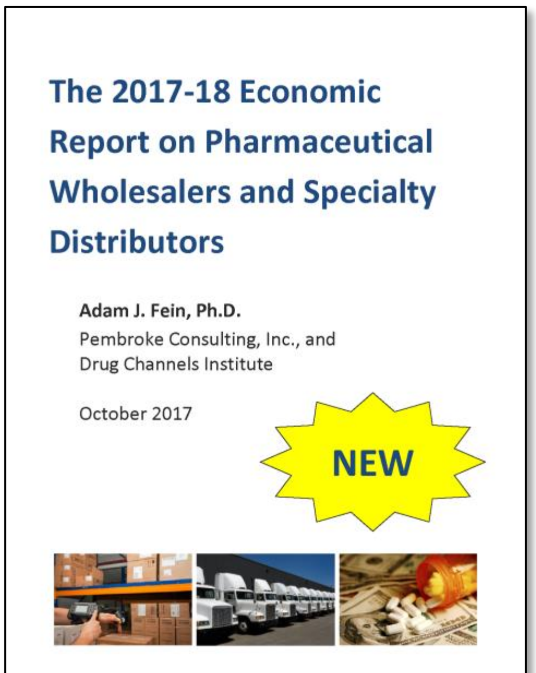
# General Resources

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 2017-18 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

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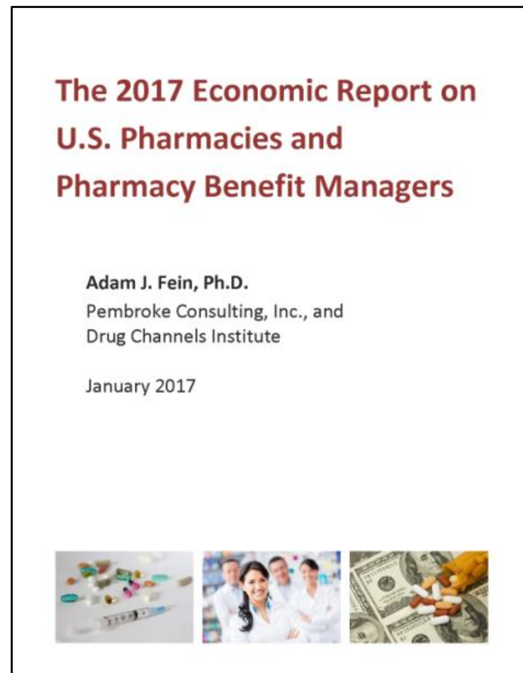
http://drugchannelsinstitute.com/products/industry_report/wholesale/


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

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


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