Drug Channels Outlook: Things to Watch in 2018

Adam J. Fein, Ph.D.
DrugChannels.net

December 11, 2017
Who is attending T&CS 2017?

- Pharmaceutical manufacturers: 54%
- Channel participants (wholesalers, pharmacies, PBMs, providers): 19%
- Technology, services, consulting, and investment firms: 27%

Based on registrations through December 8, 2017.
Adam’s 2017 Photo Album
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)
The Great Rebate Debate: Who Benefits?

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

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
PBMs & Insurers Still Dominate Specialty Dispensing


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.
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
340B Gets Real

340B Drug Purchases as Percentage of Total U.S. Drug Market, 2007-2016

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.

Vertical Integration of Cancer Care

Percentage of oncology practices owned by a hospital or health system

- Medicare Part B Payment Reform
- Expansion of 340B Program

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

Hospital Ownership of Specialty Pharmacy, by Number of Staffed Beds, 2016

Share of hospitals with a specialty pharmacy

- <200: 5%
- 200-299: 9%
- 300-399: 17%
- 400-599: 30%
- 600+: 47%

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.
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.
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.

What about... **Amazon**?

- **High**
  - 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
- **Low**
  - Drug wholesaler

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
General Resources

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

Daily tweets about cool and intriguing stuff

The 2017-18 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors
Adam J. Fein, Ph.D.
Pembroke Consulting, Inc., and Drug Channels Institute
October 2017

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

The 2017 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers
Adam J. Fein, Ph.D.
Pembroke Consulting, Inc., and Drug Channels Institute
January 2017