

The 2019-20 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

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Drug Channels Institute

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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

[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 *2019-20 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 2019-20 REPORT

For pharmaceutical wholesalers, 2019 offered relative stability after a volatile and challenging period. The industry is confronting a diverse set of business, political, and legal challenges, some of which have persisted for years:

- Vertical and horizontal mergers and acquisitions are reshaping the pharmacy and PBM industries, leading to unprecedented consolidation and shakeout among wholesalers' customer base. Wholesalers' smaller pharmacy customers face mounting pressures on their prescription profits.
- Payers and PBMs are tightening their management of specialty drugs, pressuring such key wholesaler customer groups as independent specialty pharmacies, dispensing physician practices, and hospital pharmacies.
- List prices for brand-name drugs are growing at rates slower than historical norms. Deflation in generic drug prices continues, though the rate of change has steadied.
- After years of delay, a market for provider-administered biosimilars has begun to develop. Biosimilars' adoption rates are growing, and their prices are declining.
- The federal government and multiple states are pursuing new policies aimed at introducing the commercial importation of drugs intended for foreign markets.
- Regulatory efforts to remove the role of rebates in the drug channel system failed. List prices remain a core component of intermediary compensation. The prospects for legislative action remain highly uncertain.
- Wholesalers have ceased major acquisition activity. The large wholesalers have collectively written down \$6 billion for their unsuccessful diversification efforts: AmerisourceBergen for its compounding services, Cardinal Health for its medical products manufacturing, and McKesson for its international distribution and pharmacy businesses.
- Wholesalers' potential financial liabilities for the opioid crisis are becoming clearer. However, their culpability for their role in the distribution of opioids is not known.
- Cell and gene therapies are poised to transform the treatment for many serious and previously untreatable conditions—and to create new channel models.

We project that U.S. drug distribution revenues for the Big Three public wholesalers—AmerisourceBergen, Cardinal Health, and McKesson—will reach \$482 billion in 2019. However, gross margin for drug distribution will decline for the fifth consecutive year, though ongoing revenue growth will continue to moderate the reduction in gross profits.

Understanding an Evolving Channel

This *2019-20 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*—our 10th edition—is the most comprehensive, fact-based tool for understanding and analyzing the U.S. pharmaceutical distribution industry.

This definitive, nonpartisan resource thoroughly updates our annual exploration into the industry’s interactions with—and services for—other participants in our healthcare system. The report synthesizes a wealth of statistical data, research studies, financial information, and my own unique business consulting experience. It will aid pharmaceutical manufacturers, wholesalers, pharmacists, pharmacy owners, hospital executives, pharmacy buyers, benefit managers, managed care executives, policy analysts, investors, consultants, and many others.

This 2019-20 edition contains the most current financial and industry data along with detailed information about the strategies and market positions of the largest 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. The information allows you to assess differences among the public wholesalers’ business organizations, strategies, and financial performance. Where appropriate, financial data have been restated based on new disclosures.

What’s New in the 2019-20 Report

The 2019-20 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors retains the structure of last year’s edition, and the chapters correspond to those of previous editions.

New material in this 2019-20 edition includes:

- A new [Section 5.7](#) examines the financial factors that determine executive compensation at each of the Big Three wholesalers.
- [Chapter 6](#), which covers the forces of change facing drug distribution, has been expanded. Notable additions include:
 - The material in [Section 6.1](#), which analyzes the pharmaceutical industry outlook, adds new material on wholesalers’ strategic reaction to these changes.
 - A new [Section 6.2.5](#) discusses the potential impact of commercial importation of drugs intended for foreign markets.
 - A new [Section 6.3.4](#) examines channel disruption for cell and gene therapies.
 - Our analysis of the biosimilar market in [Section 6.4](#) includes new data that track adoption curves against four reference products.

- [Chapter 3](#) contains new data about the structure and operations of the hospital market.
- [Chapter 8](#) analyzes newly disclosed financial information about Cardinal Health’s business segments and its relationship with UnitedHealth Group’s OptumRx business.
- The report offers 19 more exhibits than last year’s edition.

Structure of the 2019-20 Report

The 2019-20 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors analyzes the industry in a preface and three major sections, comprising nine total 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 8) 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, and analyzes the products that wholesalers sell. It also identifies the major full-line wholesalers and specialty distributors, and it provides the latest data on their market share and revenues.
- [Chapter 2: Channel Role for Retail, Mail, and Specialty Pharmacies](#) (page 29) 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 also analyzes how wholesalers work with larger pharmacies, including our updated analysis of the large generic sourcing consortia between wholesalers and the largest pharmacies. [Section 2.4.](#) (page 54) 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 60) 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 92) 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, as well as wholesalers’ gross profits from brand-name vs. generic drugs. This chapter also explains how brand-name drug price inflation affects wholesalers’ profits.
- **Chapter 5: Financial Stability and Cash Management** (page 118) 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 5 includes a section—new for the 2019-20 edition—explains executive compensation at the Big Three wholesalers.
- **Chapter 6: Forces of Change for Drug Distribution** (page 136) updates our analysis of key industry trends that will impact the market structure and economics of the pharmaceutical wholesaling and specialty distribution industries. It presents the outlook for net prescription drug spending, brand-name and generic pricing, and reform of the drug channel system.

Chapter 6 separately examines trends affecting pharmacy dispensing channels and buy-and-bill channels, including market, regulatory, and legislative issues. It also considers the current status and outlook for pharmacy-dispensed and provider-administered biosimilars.

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 182)
- **Chapter 8: Cardinal Health** (Page 202)
- **Chapter 9: McKesson Corporation** (page 214)

How to Use the 2019-20 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. 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**

We offer more than [450 endnotes](#), most of which have hyperlinks to original source materials. The report also includes a list of the [Acronyms and Abbreviations](#) (page 234) used within it.

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 2019-20 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*.

Adam J. Fein
October 2019

P.S. [Click here for post-publication errata.](#)

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