

The 2021-22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

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Drug Channels Institute

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Drug Channels Institute combines Dr. Fein’s expertise and cutting-edge analysis—such as this *2021-22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*—into interactive e-learning modules that offer your team a thorough grounding in crucial industry topics. [Click here to view a module list.](#)

These online learning tools explain highly complex economic and business data and concepts so you can:

- Make better decisions to achieve your business goals
- Improve relationships with key accounts
- Understand your customers, channels, and the economics of the U.S. pharmaceutical industry

Drug Channels Institute also hosts live video webinars during which Dr. Fein discusses trends and policies that affect the pharmaceutical industry and its channels. [Click here to view our current and previous video webinars.](#)

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INTRODUCTION AND GUIDE TO THE 2021-22 REPORT

In 2021, the pharmaceutical channel—and, for many, our way of life—began to recover from the unprecedented volatility triggered by the ongoing COVID-19 pandemic. As we documented in the previous edition of this report, U.S. distribution channels for prescription drugs were highly resilient during the height of the lockdowns in 2020.

Pharmacy and healthcare provider markets have rebounded to near pre-pandemic levels. Amid considerable uncertainty about the ultimate resolution of the pandemic, however, wholesalers continue to confront a diverse set of commercial, political, and legal challenges:

- Overall demand for prescription drugs has remained robust throughout the pandemic period. Wholesalers' U.S. drug distribution revenues have continued to grow at mid-single-digit rates.
- Wholesalers are playing a crucial role in distributing the multiple vaccines and therapeutics for COVID-19. Pharmacies and pharmacists are playing a crucial role in administering COVID-19 vaccines.
- The pharmacy industry remains intensely competitive, pressuring prescription profits. Wholesalers' retail pharmacy customers are undergoing a shakeout that is reducing the number of U.S. pharmacy locations and further concentrating wholesalers' revenues.
- Specialty drugs account for nearly 40% of outpatient prescription revenues—and an even greater share of payers' net prescription costs. Payers and PBMs continue to tighten their management of specialty drugs, thereby pressuring independent specialty pharmacies, physician practices, and hospitals. These actions have further consolidated the specialty pharmacy industry.
- The adoption of provider-administered biosimilars has accelerated significantly over the past year, as prices drop and plans relax medical benefit formularies. Wholesalers are now generating meaningful financial benefits as competition ramps up.
- List prices for brand-name drugs—which directly impact wholesalers' revenues and profits—continue to grow more slowly than they have historically. Wholesalers have successfully adapted their business economics and channel relationships to this era of slower growth in list prices.
- The largest wholesalers have jointly announced a comprehensive, \$21 billion proposed agreement that would settle most of the opioid lawsuits filed by state and local governmental entities. Once this agreement is finalized, it will remove considerable uncertainty about wholesalers' potential financial liabilities.

- Wholesalers are pursuing divergent strategies for geographic expansion. During 2021, McKesson began to exit the European market, while AmerisourceBergen acquired a majority of Walgreen Boots Alliance’s European distribution businesses.
- Generic market pricing has stabilized after the periods of rapid inflation and deflation prior to 2016. Wholesaler profits have benefited from this stability, though low generic prices are limiting their pharmacy customers’ revenues and gross profits from these prescriptions.
- Federal and state government efforts to import drugs originally intended for the Canadian market remain stalled.
- New cell and gene therapies are being slowly adopted, although traditional channel participants (including wholesalers) appear to be playing a limited role in delivering these novel therapies.

Understanding an Evolving Channel

This *2021-22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*—our 12th edition—remains the most comprehensive, fact-based tool for understanding and analyzing the large and growing U.S. pharmaceutical distribution industry. We project that U.S. drug distribution revenues for the Big Three public wholesalers—AmerisourceBergen, Cardinal Health, and McKesson—will reach nearly \$550 billion in 2021.

This definitive, nonpartisan resource thoroughly updates our annual exploration of 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.

Our 2021-22 edition contains the most current financial and industry data. We include detailed information about the strategies, market positions, and executive compensation of the three largest companies: AmerisourceBergen, Cardinal Health, and McKesson. The report 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 updated disclosures.

What’s New in the 2021-22 Report

The 2021-22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors retains the overall structure of last year’s edition, and the chapters correspond to those of previous editions. However, certain material has been reorganized to reflect the latest industry developments. We have also added new sections and offer expanded analyses of various topics.

The notable new material in this 2021-22 edition includes three new sections:

- [Section 4.2.5.](#) analyzes how marketplace dynamics of provider-administered biosimilars affect wholesalers' gross margins. ([Section 4.4.](#) in this edition introduces our estimates of these profits.)
- [Section 7.4.4.](#) reviews AmerisourceBergen's entry into the European distribution market. (We consider McKesson's exit from Europe in [Section 9.4.3.](#))
- [Section 6.1.5.](#) summarizes key aspects of the wholesalers' national opioid settlement.

Material that addresses COVID-19 and its impact on wholesalers has been integrated into our analyses throughout the report. We also update three sections that were introduced in last year's edition:

- [Section 6.1.4.](#) examines the distribution of COVID-19 vaccines and therapeutics.
- [Section 6.2.2.](#) highlights the effects of COVID-19 on the pharmacy industry and the derivative impact on wholesalers.
- [Section 6.3.2.](#) traces how COVID-19 has impacted the buy-and-bill and inpatient drug market, and the derivative impact on wholesalers.

This report was prepared during an uncertain time, so we expect to revisit this material in future editions. We will also continue to monitor these trends on [Drug Channels](#).

Structure of the 2021-22 Report

The 2021-22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors analyzes the industry in a preface and three primary 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 report.

[SECTION I: WHOLESALER AND CUSTOMER INDUSTRY ANALYSIS](#)

- [Chapter 1: Industry Overview](#) (page 7) 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, analyzes the products that wholesalers sell, and reviews insurance coverage of these products. This chapter 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 32) 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 wholesalers’ interactions with pharmacy buying groups.

The chapter also analyzes how wholesalers work with larger pharmacies. We include our proprietary analysis of the large generic sourcing consortia between wholesalers and the largest pharmacies. [Section 2.4](#) (page 58) 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 68) 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. It includes material regarding pharmacy dispensing within buy-and-bill channels.

SECTION II: BUSINESS ECONOMICS AND INDUSTRY TRENDS

- [Chapter 4: Wholesaler Profitability](#) (page 111) 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, biosimilar, and generic drugs. This chapter explains how brand-name drug price inflation affects wholesalers’ profits and examines wholesalers’ operating expenses, operating profits, and employee compensation.
- [Chapter 5: Financial Stability and Cash Management](#) (page 142) provides a detailed analysis of the key metrics that illustrate wholesalers’ overall financial health. These include capital structures, debt (leverage), balance sheet assets, the cash conversion cycle, wholesalers’ capital deployment and uses of cash, return on invested capital, and stock market valuation and performance. Chapter 5 also explains executive compensation at the Big Three wholesalers.
- [Chapter 6: Forces of Change for Drug Distribution](#) (page 162) updates our analysis of the key industry trends that will impact the market structure and economics of the pharmaceutical wholesaling and specialty distribution industries. It presents the outlook for the U.S. prescription market, wholesalers’ projected revenues, and brand-name and generic pricing. Chapter 6 also contains three sections related to COVID-19.

In addition, we update our analyses of ongoing trends related to vertical integration activities by hospitals and cell and gene therapies. This chapter also reviews the status of 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 202)
- [Chapter 8: Cardinal Health](#) (Page 222)
- [Chapter 9: McKesson Corporation](#) (page 235)

How to Use the 2021-22 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 [500 endnotes](#), most of which have hyperlinks to original source materials. The report also includes a list of the [Acronyms and Abbreviations](#) (page 254) 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 2021-22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*.

Adam J. Fein
October 2021

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

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