

The 2022-23 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

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Drug Channels Institute

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DCI also combines Dr. Fein’s expertise and cutting-edge analysis—such as this *2022-23 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 list of our e-learning modules.](#) 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 2022-23 REPORT

By late 2022, the pharmaceutical channel—and much of our society—had recovered from the unprecedented volatility triggered by the COVID-19 pandemic. U.S. distribution and dispensing channels for prescription drugs have remained highly resilient throughout the pandemic.

Pharmacy and healthcare provider markets have now reached or exceeded pre-pandemic levels. The largest pharmaceutical wholesalers have strengthened their industry position and economic fundamentals, although they continue to confront a diverse set of commercial, political, and legal challenges. They are among the many issues we consider in the 2022-23 edition of this report:

- Growth in wholesalers' U.S. drug distribution revenues has accelerated, as pharmacy and provider markets have recovered from the disruptions of the COVID-19 pandemic. We project that U.S. drug distribution revenues for the Big Three public wholesalers—AmerisourceBergen, Cardinal Health, and McKesson—will reach \$616 billion in 2022.
- Pharmacies and pharmacists have stepped up as key providers of COVID-19 vaccines. During the first eight months of 2022, pharmacists at retail pharmacies administered more than 60% of all COVID-19 vaccines. Wholesalers played a crucial role in distributing both COVID-19 vaccines and antiviral therapeutics to pharmacies and providers.
- The market for provider-administered biosimilars reached new highs in 2022. Adoption rates continue to rise, prices have declined further, and plans are relaxing medical benefit formulary limits. Consequently, biosimilars have become an important source of profits for wholesalers and specialty distributors.
- The stock prices of the publicly traded wholesalers have rebounded compared to the overall market. This reversed a multiyear trend that began in 2015. The wholesalers' valuation discount to the market was much smaller compared to the discount measured one year ago.
- The Inflation Reduction Act, which was signed into law by President Joe Biden in August 2022, will change numerous aspects of prescription drug pricing in the Medicare program. The law seems poised to trigger changes in pharmacy and provider markets that will negatively impact wholesalers, despite significant uncertainty about the law's implementation.
- The U.S. economy's overall inflation rate reached levels not seen for more than 40 years. However, list prices for brand-name drugs—which directly impact wholesalers' revenues and profits—continue to grow at single-digit rates. Wholesalers have successfully adapted their business economics and channel relationships to the era of slower growth in list prices.

- The pharmacy market, which accounts for the majority of wholesalers’ revenues, remains intensely competitive and highly consolidated. The retail pharmacy shakeout is accelerating, as smaller competitors sell to larger companies and larger chains reduce store count. This activity further concentrates wholesalers’ revenues and encourages wholesalers to invest more in stabilizing the business of their smaller and more profitable pharmacy customers.
- Specialty drugs remain the key driver of prescription revenues for the pharmacy and PBM industries. Specialty drugs account for nearly 40% of outpatient prescription revenues—and an even greater share of payers’ net prescription costs. In the coming years, both biological and traditional specialty drugs will face increasing competition from biosimilar and generic versions of these products. The 2023 launch of the Humira biosimilars will be a market-changing event for pharmacy benefit management and specialty pharmacy.
- Generic market pricing has returned to a deflationary cycle during 2021 and 2022, after the COVID-19 pandemic added inflation pressures for oral solid generics during 2020. However, low generic prices are limiting pharmacies’ revenues and gross profits from these prescriptions.
- Wholesalers are expanding their businesses that provide services to pharmaceutical manufacturers. Since the previous edition of this report, AmerisourceBergen and McKesson made significant acquisitions that bring new services and capabilities.
- The largest wholesalers have finalized a comprehensive, \$20 billion settlement of their financial and other obligations related to opioids. This agreement has removed considerable uncertainty about wholesalers’ future financial liabilities.
- Wholesalers are pursuing divergent strategies for geographic expansion. McKesson has nearly completed its exit from the European market, while AmerisourceBergen completed its acquisition of Walgreen Boots Alliance’s European distribution businesses. Cardinal Health no longer operates any international drug distribution business, having divested its China businesses in 2018.
- Federal and state government efforts to import drugs originally intended for the Canadian market remain stalled. None of the major wholesalers are participating in these state proposals. In 2022, Florida sued the FDA over delays related to the state’s proposed importation program, while Colorado prepared to submit its importation proposal.
- New cell and gene therapies continue to launch. Wholesalers do not generally provide traditional warehousing and physical distribution services for these therapies. However, they are offering services that address some of the logistical and commercial challenges for these therapies.

Understanding an Evolving Channel

This *2022-23 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*—our 13th edition—remains the most comprehensive, fact-based tool for understanding and analyzing the large and growing U.S. pharmaceutical distribution industry.

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 2022-23 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 2022-23 Report

The 2022-23 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors retains the overall structure of previous editions, 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 2022-23 edition includes the following:

- [Section 3.4.1.](#) contains new data on hospital acquisitions and consolidation activity
- [Section 6.1.6.](#) examines how the Inflation Reduction Act could ultimately impact pharmaceutical wholesalers’ customers and business outlook.
- We have updated our financial analyses based on the new reporting segments introduced by AmerisourceBergen ([Section 7.2.2.](#)) and McKesson ([Section 8.2.2.](#)).

Material that addresses COVID-19 and its impact on wholesalers has been integrated into our analyses throughout the report. We also update sections that were introduced in recent editions:

- [Section 4.2.5.](#) analyzes how marketplace dynamics of provider-administered biosimilars affect wholesalers’ gross margins. ([Section 4.4.](#) contains our updated estimates of these profits.)
- [Section 6.1.5.](#) updates key aspects of the wholesalers’ national opioid settlement.

- [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.
- [Section 7.4.3.](#) reviews AmerisourceBergen’s entry into the European distribution market. (We consider McKesson’s exit from Europe in [Section 9.4.3.](#))

Structure of the 2022-23 Report

The 2022-23 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 9) 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 35) 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 62) 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 72) 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 120) 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 between 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 153) 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 173) 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. 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. Chapter 6 also contains material related to COVID-19, the national opioid settlement, and the Inflation Reduction Act of 2022.

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 223)

- [Chapter 8: Cardinal Health](#) (Page 244)
- [Chapter 9: McKesson Corporation](#) (page 257)

How to Use the 2022-23 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 nearly [600 endnotes](#), most of which have hyperlinks to original source materials. The report also includes a list of the [Acronyms and Abbreviations](#) (page 275) 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 2022-23 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*.

Adam J. Fein
October 2022

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

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