

# The 2023-24 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

Adam J. Fein, Ph.D.  
Drug Channels Institute

October 2023

*Full report available at*  
<https://drugch.nl/wholesale>



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## ABOUT THE AUTHOR

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Adam J. Fein, Ph.D., is the CEO of Drug Channels Institute (DCI), a leading source of industry research about pharmaceutical economics and the drug distribution system. DCI is a subsidiary of Pembroke Consulting, Inc.

Dr. Fein is one of the country's foremost experts on the pharmaceutical industry. He has published hundreds of academic and industry articles. Dr. Fein has contributed to, and is regularly quoted in, such national publications as *The Wall Street Journal*, *The New York Times*, *The Washington Post*, *Forbes*, and many others.



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## ABOUT DRUG CHANNELS INSTITUTE

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[Drug Channels Institute \(DCI\)](#) is a leading source of industry research about pharmaceutical economics and the drug distribution system.



DCI 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.](#)

DCI also combines Dr. Fein’s expertise and cutting-edge analysis—such as this *2023-24 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:

- 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

To learn more about how Drug Channels Institute can help your business, please contact:

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## INTRODUCTION AND GUIDE TO THE 2023-24 REPORT

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Since the previous edition of this report, the pharmaceutical channel has fully recovered from the unprecedented volatility triggered by the COVID-19 pandemic. Pharmacy and healthcare provider markets have now reached or exceeded pre-pandemic levels. U.S. distribution and dispensing channels for prescription drugs, which remained highly resilient throughout the pandemic, have now begun their next stage of evolution.

The largest pharmaceutical wholesalers continue to expand their industry position and strengthen their economic fundamentals. This 2023-24 edition of our *Economic Report on Pharmaceutical Wholesalers and Specialty Distributors* delves into the most crucial commercial, political, financial, and legal forces driving change:

- We project that drug distribution revenues for the Big Three public companies—AmerisourceBergen (Cencora), Cardinal Health, and McKesson—will reach \$700 billion for 2023. Wholesalers' U.S. drug distribution revenues are growing at double-digit rates, driven by the post-pandemic bounce back in U.S. healthcare, booming utilization of new anti-obesity medications, and shifts in procurement strategies by some large customers.
- Specialty drugs remain the key driver of pharmaceutical industry revenues and plan sponsors' spending. The ongoing growth of these products continues to pose challenges to wholesalers' traditional economic models. For some specialty products, manufacturers are selectively bypassing the wholesale distribution channel in favor of direct distribution.
- Biosimilars of provider-administered specialty drugs are growing as an important source of profits for wholesalers and specialty distributors. The biosimilar market has continued to expand as adoption grows, prices decline, and payers relax formulary limits. Wholesalers are also benefiting from generic versions of nonbiological specialty drugs.
- During the pandemic, wholesalers played a crucial role in distributing COVID-19 vaccines and antiviral therapeutics to pharmacies and providers. These products are transitioning to commercial channels, which will make their economics more similar to those of other products distributed by wholesalers.
- The stock prices of the publicly traded wholesalers continue to outperform the overall market. However, the public companies still face a valuation discount to the market.
- List prices for brand-name drugs—which directly affect wholesalers' revenues and profits—are growing at single-digit rates. Some manufacturers have begun to reduce list prices for highly rebated brand-name products. Wholesalers are adapting their business economics and channel relationships to this era of slower growth in list prices.

- Generic market pricing returned to a deflationary cycle during 2021 and 2022, after the COVID-19 pandemic added inflation pressures during 2020. However, the emergence of generic drug shortages in 2023 has triggered pockets of inflation.
- Wholesalers' revenues continue to become more concentrated with fewer, larger customers. Consolidation has encouraged wholesalers to invest in stabilizing the business of their smaller and more profitable pharmacy and provider customers.
- The physician market is being transformed by both private equity firms and the activities of large, vertically integrated healthcare organizations. These changes will further consolidate wholesalers' physician customers, while also offering wholesalers new opportunities to participate directly in the ownership of their downstream customers.
- The Inflation Reduction Act of 2022 is altering numerous aspects of prescription drug pricing in the Medicare program and triggering changes in pharmacy and provider markets. Many of these changes will negatively impact wholesalers, although wholesalers should benefit from certain aspects of the legislation.
- The Food and Drug Administration has delayed final implementation of the Drug Supply Chain Security Act (DSCSA) for one year, until November 2024.
- The largest wholesalers have begun to make annual payments to fulfill part of their financial and other obligations under the comprehensive National Opioid Settlement.
- New cell and gene therapies continue to launch. Wholesalers do not provide traditional warehousing and physical distribution services for these therapies, but they offer services that address key logistical and commercial challenges for these therapies.
- Federal and state government efforts to import drugs originally intended for the Canadian market remain stalled. Four states have submitted proposals, but the FDA has not authorized any state's plan. No major wholesaler is participating in these state proposals.

## Understanding an Evolving Channel

This *2023–24 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*—our 14<sup>th</sup> 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 2023-24 edition contains the most current financial and industry data. As always, we have updated all market and industry data with the most current information available. The report also updates our annual analyses of the strategies, market positions, and executive compensation of the three largest companies: AmerisourceBergen (Cencora), Cardinal Health, and McKesson. We review each wholesaler's business segments and underlying business profitability, based upon our proprietary economic models. This 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.

Effective August 30, 2023, AmerisourceBergen changed its name to Cencora and began trading under the ticker symbol COR on the New York Stock Exchange. Since this change occurred toward the end of the company's 2023 fiscal year, we refer to the business as "AmerisourceBergen (Cencora)" in the 2023-24 edition of this report. Beginning with the 2024-25 edition, we will exclusively use the name Cencora.

## **What's New in the 2023-24 Report**

*The 2023-24 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors* retains the overall structure of previous editions, and the chapters correspond to those of previous editions. Throughout the report, we have added new industry data, deepened our coverage of many topics, and added more trending information. Certain material has been reorganized to reflect the latest industry developments.

The notable new material in this 2023-24 edition includes the following:

- New data about commercial pricing and reimbursement for provider-administered biosimilars appears in [Section 3.2.2.](#) and [Section 6.4.3.](#)
- A new [Section 6.2.2.](#) reviews the evolving specialty pharmacy industry and discusses emerging challenges from direct distribution models that bypass wholesale distribution.
- A new [Section 6.3.2.](#) analyzes the acquisitions of physician practices by corporate entities and private equity
- A new [Section 6.5.](#) addresses the Inflation Reduction Act of 2022. In [Subsection 6.5.1.](#), we summarize the key provisions of the law that relate to prescription drugs. In [Subsection 6.5.2.](#), we analyze the IRA's likely consequences for wholesalers and the overall pharmaceutical business.
- We provide updated, expanded, and reorganized data about the following markets:
  - Pharmacy services administrative organizations ([Section 2.2.4.](#))
  - Group purchasing organizations for small pharmacies ([Section 2.2.5.](#))
  - Group purchasing organizations for physician practices ([Section 3.3.2.](#))



- Material that addresses COVID-19 and its impact on the wholesale channel has been integrated into our analyses throughout the report. However, we have retained and updated [Section 6.1.4.](#), which examines the distribution of COVID-19 vaccines and therapeutics.
- There are 163 exhibits in this 2023-24 edition, compared with 150 in the 2022-23 edition.

## Structure of the 2023-24 Report

*The 2023-24 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 10) 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 37) 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 65) 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 Offices/Clinics and Hospitals](#) (page 77) 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 also includes material regarding pharmacy dispensing within buy-and-bill channels.

## **SECTION II: BUSINESS ECONOMICS AND INDUSTRY TRENDS**

- **Chapter 4: Wholesaler Profitability** (page 132) 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 trends in 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 164) provides our updated analyses 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 184) 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 pharmacy and buy-and-bill markets, including trends related to vertical integration activities by hospitals, acquisition of physician practices by corporate entities and private equity, and cell and gene therapies. This chapter reviews the status of, and outlook for, pharmacy-dispensed and provider-administered biosimilars. Chapter 6 also contains material discussing importation from Canada, the national opioid settlement, and the Inflation Reduction Act of 2022 (IRA).

## **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: Cencora (AmerisourceBergen Corporation)** (page 245)

- [Chapter 8: Cardinal Health](#) (Page 268)
- [Chapter 9: McKesson Corporation](#) (page 281)

## How to Use the 2023-24 Report

***The chapters are self-contained and do not need to be read in order.*** We include extensive internal clickable hyperlinks to help you navigate the entire document and customize it to your specific needs. You can use keyboard shortcuts to return to your previous location in the document. We also encourage you to search the entire PDF document for every occurrence of a word or phrase. The shortcuts and search approach will vary based on your computer platform.

We offer more than [660 endnotes](#), most of which have hyperlinks to original source materials. The report also includes a list of the [Acronyms and Abbreviations](#) (page 300) used within it.

As always, I welcome your feedback. Please contact me if you have any questions or comments about *The 2023-24 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*.

Adam J. Fein  
October 2023

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

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