How the Generic Wave and Specialty Boom will Reshape Drug Channels

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The U.S. Drug Market in 2018

- Generics are 90%+ of prescriptions
- Specialty drugs are 50% of manufacturer sales
- Public funds + exchanges ~ 50% of spending
The Generic Wave is Ending

**GENERICS, SHARE OF U.S. PRESCRIPTIONS, 2003-2018**

- 2003: 54%
- 2004: 54%
- 2005: 54%
- 2006: 54%
- 2007: 72%
- 2008: 72%
- 2009: 72%
- 2010: 72%
- 2011: 72%
- 2012: 72%
- 2013: 86%
- 2018E: ~91%

Source: IMS Health, April 2014. Includes branded and unbranded generics.
Payers are more actively managing specialty drug costs in response to spending growth

Pharmacy Benefit Drug Trend, Traditional vs. Specialty

Source: Pembroke Consulting analysis of Express Scripts Drug Trend reports, various years
Four Ways that Payers Are Challenging Pharma

1. Generics First
2. Cost Shifting
3. Formulary Management
4. Channel Management
Payer Control via Pharmacy Benefit Networks

**Open**
- Consumer’s out-of-pocket costs are the same at all pharmacies in a payer’s network

**Preferred**
- Consumer’s out-of-pocket costs are lower at a pharmacy that (1) reduces the payer's costs, or (2) increases the payer’s control.

**Limited**
- The consumer must use the specific pharmacies or dispensing formats that the payer designates

**Number of Pharmacies in Network**
- More than 60,000
- More than 60,000 total; 5,000 to 25,000 preferred
- Traditional: Less than 20,000
- Specialty: Less than 5

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Preferred Networks Dominate Medicare Part D

**Medicare Part D PDPs with Preferred Pharmacy Networks, 2015**

- Preferred Cost Sharing Network: 87%
- Open Network: 13%

n=1,001 Prescription Drug Plans (PDPs)

**Retail Pharmacy Participation in the 26 Major Medicare Part D PDPs with Preferred Networks, 2015**

- Walmart: 20
- Kroger: 19
- Walgreens: 14
- Safeway: 10
- CVS/pharmacy: 8
- Target: 7
- Rite Aid: 2


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Payers Want Specialty Channels to Change

INFUSED THERAPY SOURCING AT ONCOLOGY PRACTICES, BY DISTRIBUTION CHANNEL, 2014

CURRENT CHANNELS ────► PAYERS’ PREFERRED CHANNELS

Buy-and-Bill by Provider: 64%
Specialty Pharmacy Fulfillment: 30%
Patient Acquisition/Other: 6%

Buy-and-Bill by Provider: 39%
Specialty Pharmacy Fulfillment: 55%
Patient Acquisition/Other: 6%

Excludes responses labeled as “Unsure.”
Source: Pembroke Consulting analysis of The Managed Care Oncology Index, Zitter Health Insights, Summer 2014.
Strategic Responses by Drug Channels

- Consolidation
- Alliances
- Diversification
- Globalization
Diminishing Options for Traditional M&A

Retail, Mail, and Specialty Pharmacies
Top 5

Pharmaceutical Wholesalers
Top 3

Specialty Distributors
Top 2

Pharmacy Benefit Managers
Top 4

Hospital Group Purchasing
Top 3
Wholesale, Retail, and Mail Align for Generic Scale

SHARE OF U.S. GENERIC PURCHASING VOLUME, BY ORGANIZATION, 2014

- WBA + AmerisourceBergen, 28%
- Mckesson-Celesio + Rite Aid, 26%
- Red Oak (CVS Health-Cardinal Health), 23%
- Express Scripts (with Econdisc*), 7%
- Other, 16%

WBAD = Walgreens Boots Alliance Development GbMH
* Econdisc Contracting Solutions is a group purchasing organization that includes Express Scripts, Kroger, and Supervalu.
Source: Pembroke Consulting analysis of RBC Capital Markets data
340B Hospitals Align with Pharmacies

TOTAL 340B CONTRACT PHARMACIES, 2000-2014

Data show contract pharmacies as of July of each year.
Available at: http://www.drugchannels.net/2014/07/one-in-four-us-pharmacy-locations-is.html
# Everyone Wants to be a Specialty Pharmacy

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pharmacy Benefit Managers</strong></td>
<td><a href="http://www.accredo.com">accredo®</a></td>
</tr>
<tr>
<td><strong>Drugstore Chains</strong></td>
<td><a href="http://www.walgreens.com">Walgreens</a></td>
</tr>
<tr>
<td><strong>Health Plans</strong></td>
<td><a href="http://www.optumrx.com">OPTUMRx®</a></td>
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<td><strong>Wholesalers</strong></td>
<td><a href="http://www.usbioservices.com">US Bioservices</a></td>
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<td><strong>Physician Practices</strong></td>
<td><a href="http://www.rxtogopharmacy.com">RX to Go</a></td>
</tr>
<tr>
<td><strong>Hospital Systems and Group Purchasing Organizations</strong></td>
<td><a href="http://www.fairview.org">Fairview</a></td>
</tr>
<tr>
<td><strong>Regional/Independent Specialty Pharmacies</strong></td>
<td><a href="http://www.diplomat.com">Diplomat®</a></td>
</tr>
<tr>
<td><strong>Independent Retail Pharmacy Networks</strong></td>
<td><a href="http://www.aspn.com">ASPN</a></td>
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Source: Pembroke Consulting research
See “Seven Trends For Specialty Pharmacy’s Future: Reflections on Armada 2014”
([http://www.drugchannels.net/2014/05/seven-trends-for-specialty-pharmacys.html](http://www.drugchannels.net/2014/05/seven-trends-for-specialty-pharmacys.html))
Meet the Organized Commercial Customer

- Oncology GPO
- Mail Pharmacy
- Physician Office
- Specialty Distributor
- Specialty Pharmacy
- Patient Hub Services
- Drugstore Chain
- Clinic
- Health System
- Wholesaler
- PBM

↑ = Ownership
Examples of Organized Drug Channels

<table>
<thead>
<tr>
<th>Channel</th>
<th>AmerisourceBergen</th>
<th>CVS Health</th>
<th>Express Scripts</th>
<th>McKesson</th>
<th>Walgreens Boots Alliance</th>
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<tbody>
<tr>
<td>Wholesale Distribution</td>
<td>✓</td>
<td>✓*</td>
<td>✓</td>
<td>✓</td>
<td>✓**</td>
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<tr>
<td>Pharmacy Dispensing to Patients</td>
<td>✓</td>
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<tr>
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<td>Group Purchasing Organization (GPO)</td>
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<tr>
<td>Specialty Patient Hub Services</td>
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<td>Healthcare Provider</td>
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<tr>
<td>Paid services for Manufacturers</td>
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</table>

* Self-distribution only
** Non-US only
## Globalization of Retail and Wholesale Channels

<table>
<thead>
<tr>
<th>Company</th>
<th>North America</th>
<th>EU</th>
<th>China</th>
<th>South America</th>
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<tbody>
<tr>
<td>CVS Health</td>
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<tr>
<td>Walgreens Boots Alliance</td>
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<tr>
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</tr>
<tr>
<td>Cardinal Health</td>
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<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>McKesson</td>
<td>●</td>
<td>●</td>
<td>○</td>
<td>●</td>
</tr>
</tbody>
</table>
Commercial Implications

- PBM's and payers will tighten drug channel management over traditional and specialty drugs
- The battle for the specialty patient will intensify
- Pharmacy will face hypercompetition and shakeout
- Wholesalers will retain traditional drug channel position, but face growing risks for specialty products
- Manufacturers will struggle to organize for the pharma market’s evolution
Issues for Pharmaceutical Organizations

- The largest drug channel companies will have divided loyalties on key policy questions
- A company’s legacy market position will not always align with its future business focus
- Global interests can conflict with domestic agendas
General Resources

Get free industry updates at the Drug Channels blog (http://www.DrugChannels.net)

Adam J. Fein, Ph.D.
Pembroke Consulting, Inc., and Drug Channels Institute
September 2014

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

2014-15 Economic Report on Retail, Mail, and Specialty Pharmacies
Adam J. Fein, Ph.D.
Pembroke Consulting, Inc., and Drug Channels Institute
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COMING SOON