

4 Pillars Pharma Distributors Can Stand On

(Source: Edited excerpts from an article published by IBS)

Despite a recent global economic downturn, the world pharmaceutical market is currently estimated to be valued at around US\$300 billion and rising, according to the World Health Organization (WHO). In a recent post, the WHO states that more than a third of the market is controlled by 10 large drug companies located in the US (6) and Europe (4), and that, combined, the Americas, Europe and Japan will comprise 85% of the market into the foreseeable future. According to the post, pharma companies spend one-third of their revenues on marketing, estimated at about double what is spent on research and development, implying that competition in the pharmaceutical industry is fierce.

The website, SelectUSA, reports that there are more than 5,000 new medicines currently in development worldwide, with nearly 70% being studied in the US. Spurred by various tax benefits along with US Food and Drug Administration reforms paving the way for faster drug approvals, new drugs are entering the US, and consequently the world, at a rapid rate. This includes generic drugs, replenishing product pipelines, as ongoing patent expirations open the door to what is expected to be unprecedented growth in generic sales over the next five years; one report pegs the market for generics to hit US\$137 billion by 2017.

The opening sets the stage for broad industry expansion into emerging markets, such as Brazil, Russia, India and China, where population growth and healthcare reforms are building momentum for growth in generic alternatives. On the darker side, counterfeit medicines are also flooding the market, as Internet sales become more popular and emerging economies open their doors to free trade. These random mixtures of harmful, toxic substances are not only illegal, but extremely dangerous, and governments worldwide are scrambling to respond. Recent track-and-trace requirements have emerged worldwide to counteract the flow. In Europe, the EFPIA, EAEPIC, GIRP, EDQM and PGEU are working toward a standardized identification solution, while in the US, the FDA and DEA are instituting drug monitoring systems meant to protect the population. In both cases, the new laws will place a burden on drug manufacturers, wholesalers, pharmacists and distributors in the years ahead.

Given this global backdrop, what can pharmaceutical distribution companies expect as they plan for business over the next five years? What trends will affect the supply chain and how should proactive distributors respond? The eBook, *The Right IT Prescription for Today's Pharma Supply Chain*, looks at four key pillars necessary to ensure competitive relevance in the pharmaceutical industry over the next five years. These solutions are generally presented in response to current trends, but are also practical, affordable and available now. They are:

1. *An Intuitive Enterprise Solution*, capable of managing the proliferation of healthcare products from a growing number of manufacturers typically stored in a pharma distribution center.

(continued on page 2)

In Brief . . .

- ◆ **IMS Health**, a leader in global information and technology services, announced revenues for the second quarter were US\$802 million, an increase of 8.1%. Technology services revenue grew 13.8% in the second quarter on a reported basis, and up 14.3% from the same period last year. Income declined from US\$47 million to US\$24 million year over year. This is attributable to higher restructuring charges in 2016

- ◆ **Mylan** has announced that it has completed the settlement of its recommended public offer to **Meda's** shareholders to tender all company shares to Mylan. Meda shareholders accepted Mylan's offer, and shares were acquired by Mylan according to the terms of the offer, making Meda a controlled subsidiary of Mylan.

- ◆ **Jo-Jo Drugstores** (China) has announced plans to expand its retail pharmacies to 100 stores over the next 12 months. The pharmacies will be located in Hangzhou with some stores being rebranded while others will be new. "We are excited to expand our retail pharmacy network in Hangzhou" said *Mr. Liu Lei*, Chairman and CEO of Jo-Jo. China Jo-Jo is a leading China-based pharmacy with retail, wholesale and online distribution of pharmaceutical healthcare products. As of July 26, 2016 it operated 62 retail pharmacies.

- ◆ **Cardinal Health** posted revenues of US\$121.5 billion for fiscal year 2016, an increase of 19%. Fourth quarter revenue for the pharmaceutical segment increased 14% to US\$28.2 billion, attributed to existing and new pharmaceutical distribution customers, and performance from specialty business. Revenue for the pharmaceutical segment increased 19% to US\$2.5 billion for the full year. Separately, Cardinal Health announces the 13 winners of the first multi-year *E3 Patient Safety Grants* given by the Cardinal Health Foundation. The winning organizations will

(continued on page 3)

New Trends Are Emerging

(Sources: Edited extracts of an article prepared by David Salazar on a presentation given by Doug Long, IMS Health VP industry relations, and published by Drug Store News)

Specialty pharmacy continues to dominate, but new trends are emerging, according to IMS Health VP industry relations Doug Long in a presentation that looked at the state of U.S. spending on prescription drugs and the future of the marketplace.

As of May 2016, moving annual total spending had grown 9.9% over full-year 2015 spending, reaching US\$438 billion. About 36% of total spending was attributed to specialty products, and about 6% went to generics — a far cry from 2012 when generics made up 28% of all drug spending.

These numbers, according to Mr. Long, reflect two trends: a large amount of innovation is being seen in the pharmaceutical space, with 943 new active substances expected to launch by 2020; and, at the same time, the number of traditional drugs losing their

(continued on page 2)

Four Pillars (cont.) . . .

2. *A Reliable Ordering Process*, integrated across multiple sales channels and powerful enough to handle the thousands of orders that hit pharma distribution centers every business day.

3. *Specialized Warehouse Capabilities*, flexible enough to rapidly respond to changing global medical emergencies, recalls, disasters and shifting market dynamics.

4. *End-to-End Track-and-Trace Technology*, in compliance with emerging anti-counterfeiting legislation and integrated across the supply chain with the capacity to maintain specialized handling and on-time shipping requirements.

Pharma distributors who possess strengths in these four areas will be well-positioned to vie successfully for the expanding opportunities opening in today's growing, complex and extremely lucrative pharmaceutical marketplace, according to IBS' eBook, "*4 Pillars Pharma Distributors Can Stand On*," which can be obtained at the website, www.IBS.net.

New Trends (cont.) . . .

patents is shrinking and, therefore, there will be fewer opportunities by 2020. Long said, "What's happened is we're starting to run out of generic small-molecule opportunities, and innovation has come back." He continued, "When you get to 2019 to 2020, the generic opportunities start to dry up. There will be fewer loss of exclusivity in small molecules than [the first few years of the 2010s]."

Alongside the lack of expiring small-molecule patents comes the expected advent of biosimilars. The first biosimilar launched last year, with two launches expected this year. This may just be the beginning as companies develop less costly alternatives to pricey biologic drugs — biosimilars save an estimated 15% to 30% on biologics. However, the biosimilars market will not look like the generics market, Long said. "The biggest pipelines in biosimilars are held by brand companies, so this is going to be a brand market," Long noted. "It's not going to be anything like the small-molecule generic business."

As these changes take place, demand for prescriptions is increasing, with an additional 42.4 million prescriptions being filled for the year-to-date as of May 2016. IMS Health predicted an overall increase of 1.8% to 2.2% in total prescriptions by the end of the year, with the expectation that retail and mail-order pharmacies will likely exceed the average increase.

ABC is Launching New Pharmacy Programs

(Source: Press Release)

AmerisourceBergen is launching several new programs to help independent pharmacies improve business performance while meeting growing patient need. "At AmerisourceBergen, we are championing the independent pharmacist," said president of Good Neighbor Pharmacy, Brian Nightengale, RPh, Ph.D. "Whether it is hearing feedback from our customers about how to improve their buying experience or delivering new solutions to enhance business profitability and patient care, we are fully committed to supporting the success of independently owned community pharmacies."

The company has highlighted three new solutions designed to drive improved results across the entire pharmacy — from frontend sales to backend operational performance. Advocacy Resources: As part of AmerisourceBergen's ongoing support for independents, the company has added a resource, OurIndependentVoice.com.

The newly launched website provides pharmacists a centralized place to access tools and resources to join advocacy movements that impact care in the community setting, research policies impacting independent pharmacy, access letter templates and write to legislators, and connect with other pharmacists and pharmacy organizations.

Specialty at Retail: The rapid growth of specialty products provides a natural intersection for community pharmacies to provide personalized patient care in complex therapies. These specialty products often have a high burden of administrative tasks that can be challenging for an independent pharmacy to operationalize economically. AmerisourceBergen is developing a specialty at retail program that will allow member pharmacies to better service patient needs while diversifying revenue streams. Through this program, independent pharmacies will be able to focus more on patient care instead of spending time and resources navigating administrative tasks.

FrontEnd Retail Excellence: Good Neighbor Pharmacy is offering its members comprehensive services to optimize front-end sales, including access to business coaching, manufacturer promotions, point of sale (POS) data and reporting tools, and Retail Remedy, a monthly publication with news, tips, and product specials focused on retail strategies.

The Goals of Quality, Access and Cost

(Source: Edited excerpts from an interview with AmerisourceBergen's Peyton Howell by William Looney of the Pharmaceutical Executive)

Drug distribution today is more than just the passive physical act of moving product from factory to pharmacy—in fact, it's now one of the most "customer centric" functions in the business of health, playing a substantive role at virtually every step in the long continuum of patient care. Structural changes in the supply chain, technology advances and rising payer and patient desires for better value for money are creating new opportunities to serve customers in ways beyond what has traditionally been expected from a distribution partner. To underscore this transformation, Pharm Exec recently sat down with Peyton Howell, President for Global Sourcing and Manufacturer Relations and a key member of the executive management team for AmerisourceBergen (ABC), one of three US large integrated drug distributors. Howell highlights how the company is navigating through some unexpected headwinds on generic pricing; building a more focused organization centered on services that create patient value; taking on a more prominent role in industrywide policy and reputation issues; and investing significant sums to maintain its pole position on strategic partnerships.

Regarding the latter, Howell details important new investments underway to tighten ABC's 2013 pact with Walgreens Alliance Boots, which in May was extended for another three years beyond the original 10-year transaction frame, locking in the deal through 2026 and positioning ABC to strengthen its base in generics while bolstering its position in the high margin specialty business. Her best piece of advice is to get in touch and stay in touch—and much earlier in the product launch phase.

With respect to disruptive change in the industry, Howell stated that there is a major disruptive shift in healthcare, from a fee-for-service system, where success is measured by volume growth, to a value-based system, focused on outcomes. The industry

(continued on page 3)

Quality (cont.) . . .

consensus is that change is coming, but the real-time implications on the operational side are still not clear. ABC's response is to create more efficiency in the way it serves the customer. To get more quality-based outcomes, for fewer dollars per episode of care, ABC has a precise focus on improving access to care, even when the structure and platforms for such care are changing. Overall, ABC is convinced that pharmaceuticals drive efficiency in the health system. It's a vital, relevant message, all the more compelling given the domestic debate now taking place around high drug prices. This debate in her opinion ignores the larger picture of how the industry can work together with patients to manage the healthcare spend and improve patient outcomes.

To further this point, she stressed that generic medicines account for almost 90% of US prescriptions and are thus a key element in the drug supply chain—and in this all-important segment, pricing is going down. That's good news for the consumer, she continued. Actually, ABC in general sees lower generic pricing, despite the obvious headwinds against earnings, as an opportunity, given that one of its business priorities is to support patient access to lifesaving therapies. A robust stake in generics is complemented by ABC's strengths in the branded and specialty segments, which carries obvious appeal in meeting the access issue.

Securing the "triple aim" around quality, access and cost is, in fact, critical to Howell's own role leading ABC's Global Sourcing and Manufacturer Relations business. With reference to cost, ABC has an unrivaled position in distributing high-quality generic products that get to the patient, safely, reliably and on time. ABC knows how important generics are to payers and patients operating in a compressed reimbursement environment. In fact, ABC's proprietary generics formulary, PRxO, is structured to secure an appropriate balance between cost, quality and access.

The complete interview can be seen on Pharmexec.com, Volume 36, Issue 8, dated 1 August 2016.

In Brief (cont.) . . .

focus on engaging patients and/or their caregivers in self-care, and improving the safe use of medications during transitional periods, such as the transition from hospital to home.

- ♦ **AmerisourceBergen Corporation** announced its third quarter results for fiscal year 2016, with a 7.7% increase to US\$39.6 billion. The pharmaceutical distribution segment – including **ABDC** and **AmersourceBergen Specialty Group** – had revenues of US\$35.4 billion, up 8% over the previous year. "I am pleased with the solid performance we delivered in the June quarter," Chairman, President and CEO *Steve Collis* said. "Our most recent acquisitions, MWI Veterinary Supply and PharMEDium, have made strong contributions, and our specialty group delivered excellent performance."

- ♦ **Teva Pharmaceuticals** has announced an agreement to purchase **Allergan's Anda Inc.** Anda is the fourth largest distributor of generics in the U.S. It also distributes branded, specialty and OTC products from more than 300 manufacturers to nursing homes, hospitals, clinics, physicians' offices, and retail independent and chain pharmacies. Teva will also acquire three distribution centers as part of the deal.

- ♦ **GlaxoSmithKline (GSK)** and **Verily Life Sciences**, a division of Google's parent company **Alphabet**, have entered into a partnership agreement, resulting in the creation of **Galvani Bioelectronics**. The newly-formed company, which will be headquartered in the UK, will be involved in the research, development and commercialization of bioelectronics medicines. GSK will own a 55% while Verily will retain the remaining 45%. The bioelectronics field is aimed at tackling a wide range of chronic diseases through the use of very small implantable devices that are designed to modify electrical signals in the body, including irregular and altered impulses present in many illnesses.

(Sources: Drug Store News, IFPMA, Pharmafile, PR Newswire and company press releases)