FOCUS
Vol. 23 No. 22 | International Federation of Pharmaceutical Wholesalers | November 10, 2016

IFPW Welcomes New Staff Member

We are pleased to announce that George Bray joined the International Federation of Pharmaceutical Wholesalers team, effective November 1. George will dually serve as Vice President of Member Engagement for IFPW and as VP of Programs and Initiatives for IFPW Foundation. In this capacity, he will be responsible for engaging members in IFPW's initiatives and supporting the IFPW Foundation in our emerging global health activities, including those around the partnership with Gavi, the Vaccine Alliance.

We believe that George's experience and passion for the industry will allow him to influence improvements in delivering healthcare internationally, as he utilizes the knowledge and experience he's acquired over the years in collaboration with you, our members.

George recently retired from AmerisourceBergen after a long and successful career that began as a Marketing Manager for an independent wholesaler following his graduation from Indiana University. Eventually that small wholesaler became a part of AmerisourceBergen where George held progressively expanding leadership positions and which culminated in recent years as he helped strengthen the partnership between ABC and their largest and most strategic customer. He holds an MBA from The Ohio State University which he earned while living in Columbus, Ohio.

George was initially introduced to IFPW and IFPW Foundation while traveling abroad to support IFPW's GAVI partnership by providing leadership training and support to African vaccine supply chain personnel in emerging markets. He will be reaching out to members in the coming weeks to share more of his experiences – as an example of the need for our sectors' support – as he solicits feedback on both current and upcoming opportunities and seeks to identify and develop compelling opportunities for member involvement.

Welcome George! The IFPW staff and members look forward to working with you!

In Brief...

- **Profarma** (Brazil) announced Q3 revenue of R$1.2 billion (US$310 million), up 4.3% year over year. EBITDA rose 33.8% to R$38.9 million (US$11.5 million) including a 3.3% EBITDA margin. Brazil's unemployment was a continuing factor, but the pharmaceutical market historically outperformed the Brazilian economy in part because of an aging population which resulted in higher sales of generics and new medicines. Changes within Profarma's corporate headquarters and the finishing stages of retail systems' integration impacted quarterly sales by 3% to 5%.
- **Cardinal Health** reported first quarter 2017 revenue of US$32 billion, an increase of 14% year over year. There was also a decline in GAAP earnings of 14% to US$535 million. "Our first quarter results were largely as we suggested they would be, with a healthy increase in revenue and a decrease in our operating earnings large driven by conditions in the pharmaceutical distribution market," stated *George Barrett*, Chairman and CEO of Cardinal Health. "While short-term headwinds, particularly around pharmaceuticals, are quite challenging, our Medical segment had an excellent quarter building on the momentum coming out of fiscal year 2016."
- **AmerisoureBergen Corporation** announced fiscal Q4 results, with total revenue of US$37.6 billion (up 5.9%) and a fiscal year revenue increase of 8% (US$146.8 billion.) "I am pleased with the solid performance we delivered in the September quarter," AmerisourceBergen Chairman, President and CEO *Steve Collis* said. "We successfully navigated a

(continued on page 2)

Pricing Pressures in the U.S. and the Domino Effect

(Source: an article prepared by Peter Loftus and published by the Wall Street Journal)

The drug industry is showing signs it is slowing the pace of price increases, alarming shareholders worried that pressure from politicians, consumers and employers will continue to stifle pricing power. Shares of many manufacturers, wholesale distributors and pharmacy-benefit managers were attacked recently on new evidence, in corporate earnings reports, that pharmaceutical companies are electing to increase prices as sharply as they hadin previous years.

McKesson Corp., one of the largest U.S. based wholesale drug distributors, lost a quarter of its market value after disclosing that competition and a slowdown in price inflation for brand-name drugs would reduce its profits for its current fiscal year.

Shares of drugmaker Amgen Inc. dropped 10% after the company said it wouldn't be able to charge much more next year for its blockbuster rheumatoid-arthritis treatment *Enbrel*, after several years of sales gains fueled by repeated price increase.

The prospect of price moderation—while good for patients and insurers—concerned analysts and investors about the profits of drug companies and intermediaries. "There is tremendous concern in the marketplace about structural change to pricing," a Goldman Sachs analyst said on a conference call with executives of drugmaker AbbVie Inc..

Manufacturers in recent years have repeatedly boosted prices for many drugs at rates well above the broader rate of inflation, and have introduced new drugs at prices that can cost more than US$100,000 a year per patient. The rising cost burden has triggered a backlash from patients, doctors and insurers, who say the costs put drugs out of reach for some patients and strain health-care budgets. High-profile actions, including Mylan NV's repeated price increase for the emergency allergy treatment *EpiPen*, have triggered investigations by members of Congress and the Justice

(continued on page 2)

Pricing (cont.) . . .

Department. Mylan has said net pricing for EpiPen is lower than list price because it pays rebates to PBMs and insurers, and offers discounts to patients.

Companies and organizations that pay for portions of their employees' health care also have become emboldened by the public backlash and are pushing back against drug price increases via the pharmacy-benefit managers, or PBMs, that administer employee benefits, said an analyst with Sanford C. Bernstein. "There's just less money to go around," he said.

In February, 20 major employers including American Express Co., Macy's Inc. and Verizon Communications Inc. formed an alliance to use their collective clout to reduce health care costs—including drug costs. The group expects to test pilot projects in 2017 to help employees obtain more affordable prescriptions. Drugmakers are still able to raise prices or charge high starting prices for new drugs in certain categories, such as cancer, where there isn't a lower-cost alternative.

Pharmacy-benefit managers and insurers have increasingly chosen to exclude certain drugs from their preferred-drug lists if they have a suitable, lower-cost alternative. CVS Health Corp. in August said it would stop paying for Sanofi's *Lantus* diabetes treatment in 2017, anticipating that Eli Lilly Co. and Boehringer Ingelheim GmbH will soon begin selling a lower-cost version of *Lantus*.

McKesson said it has been forced to lower the prices it charges to independently owned pharmacies to match the prices charged by competing wholesalers aiming to grab market share.

"We have made a very significant change in our pricing practice to match where the market is today," McKesson's Chief Executive told analysts on a conference call. McKesson contracts with manufacturers to distribute drugs to customers including retail pharmacies and hospitals. Some of its contracts allow McKesson to benefit when manufacturers increase prices, by selling its inventory of a drug at the new, higher price. A slowdown in price increases is beginning to hurt its profit margins, causing McKesson's stock to plung, erasing about US$9 billion in market value, while shares of the company's main rivals, AmerisourceBergen Corp. and Cardinal Health, fell 13% and 12%, respectively.

Some drugmakers have signaled a willingness to restrain price rises, or link prices to the degree patients benefit from drugs. Allergan PLC, in response to the public outcry over pricing, said in September it would limit its price increases to single-digit percentage increases, taken no more than once a year. Drugmakers say they are facing this year more intense pricing pressure in the U.S. in certain treatment areas. Novo Nordisk A/S's American depositary receipts tumbled 13% after the Danish company cut its 2016 sales and profit forecast, citing U.S. pricing pressure, primarily for its insulin drugs for people with diabetes. "The competitive environment in the U.S. within both diabetes care and biopharmaceuticals has become more challenging, negatively impacting the price of our products," Novo's Chief Executive said on a conference call with analysts. Companies including Novo have boosted list prices for insulin in the U.S. in recent years, but much of it has been funneled back in the form of rebates to PBMs. Still, the increased prevalence of high-deductible health plans means that some patients must pay the full list price themselves for at least part of the year.

The pricing pressure may now be hitting another lucrative class: so-called TNF inhibitors, which treat rheumatoid arthritis and other autoimmune diseases. Amgen recently blamed softer net pricing for *Enbrel* next year on the need to pay higher rebates to the PBMs. Amgen said the higher rebates would help ensure that drug plans continue to reimburse for patients' use of *Enbrel*. "We'll be driving the business on volume, not on net selling price next year," said chief of Amgen's commercial operations. The concerns spilled over to Amgen's rival, AbbVie, whose drug, *Humira*, is in the same category as *Enbrel*. AbbVie reported lighter-than-expected sales of *Humira* for the third quarter. AbbVie Chief Executive told analysts there was little change in the net price of *Humira*—after rebates and discounts—in the supply contracts that AbbVie has negotiated with payers for 2017 and 2018, compared with this year. AbbVie shares dropped 6.2%.

In Brief (cont.) . . .

challenging healthcare landscape, and we continued to enhance our offerings for customers and make important investment in our infrastructure." The company's board also authorized a new US$1 billion share repurchase program.

- **Merck** opened a pharmaceutical plant in Nantong, located in China's Jiangsu province. The plant will manufacture products listed on China's Essential Drug List. Merck's investments in the Nantong plant total US$138 billion.
- In a move aimed at addressing the two challenges of discovering new options for treatment and improving chronic disease management, **Teva** and **IBM** on Wednesday announced an expansion of their e-health alliance, with both projects running on the **IBM Watson Health Cloud**. Included in the expanded partnership is a three-year research collaboration to develop cognitive technologies that will allow for a systematic approach to drug repurposing, as well as delivering scale in the discovery of new uses for existing drugs.
- Drugmaker **Pfizer** (U.S.) will close two of its three key supply sites in the United Kingdom. This will include Pfizer's manufacturing site in Park Royal, London, as well as its cold chain packaging and distribution facility in Portsmouth. The locations will be closed in 2017 and 2020 respectively, resulting in job losses totalling approximately 370. The company denied that the closings are a result of Brexit.
- **GlaxoSmithKline** realized a 23% increase in sales to GBP7.5 billion (US$9.35 billion) for its third quarter. Core operating profit jumped 35% to GBP2.3 billion (US$2.87 billion), beating expectations. This was due in part to the weak pound. Growth in sales came in at 8%, while operating profit was up 13%. Separately, *Colin Mackenzie* has been named Region Head of the Americas for GSK Consumer Health. This is in addition to his current role as Area General Manager of North America. His new role will include commercial operations of both North America and Latin America.

(China Daily, Drug Store News, PharmaTimes, Company Press Releases, and Scrip.