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Vol. 25, Vol. 5 International Federation of Pharmaceutical Wholesalers March 2, 2018

Walgreens-AmerisourceBergen Deal: 3 Takeaways

(Source: an article prepared by Karen Appold and published by Managed Healthcare Executive)

Though initial discussions ended without a deal, the report that Walgreens Boots Alliance (WBA) was in acquisition talks with AmerisourceBergen generated reviews by "industry experts" with three takeaways from any future deal:

1. *The move is an effort to stay competitive.* Walgreens, like other traditional players in healthcare, is reacting to the potential havoc Amazon and other tech giants could inflict on its business. "It's bulking up like its competitors," says David Friend, MD, MBA, chief transformation officer and managing director, The BDO Center for Healthcare Excellence & Innovation, a healthcare risk advisory firm. Amazon has already secured drug-wholesaler licenses in more than a dozen states, signaling its inevitable entrance into the mail-order pharmacy business. In January, Amazon announced that it's creating a healthcare organization with JPMorgan and Berkshire Hathaway to tackle employee healthcare costs. On Feb. 13, Amazon announced that it is ramping up its medical supply business.

The Walgreens-AmerisourceBergen deal would streamline its supply chain and enable it to cut costs. "We expect these types of mergers to continue at a clipping pace," Friend says. In a recent survey BDO conducted with NEJM Catalyst, 81% of healthcare leaders at organizations directly involved in care delivery said they expect innovative mergers to continue disrupting the industry in the next three years. Forty-two percent predicted Amazon specifically would have a "significant impact" on healthcare. Others predicted to have such impact were CVS-Aetna (50%), Optum-DaVita (33%), Google (27%), and Apple (22%).

2. *The approach reflects a move toward vertical consolidation.* The move toward having consumers cover out-of-pocket costs, coupled with consumer demand for pricing transparency, is driving much of the consolidation in the market, says Anthony Chambers, a director in the healthcare and life sciences practice at West Monroe Partners, a business and technology consulting firm. "The old consolidation model of horizontal integration to gain efficiencies has either not panned out or has been stopped by regulation," he says. "Consequently, vertical integrations are now in play. If horizontal integrations promised less friction across the value chain, vertical integration would seem to prioritize speed to delivery over market size." Additionally, value-based care has had the unintended consequence of increasing drug prices in some cases. Although specialty drugs, biologics, and gene therapies have hit the market at a premium, they do work really well. "Many of these drugs require complex administration and support, which is driving growth in the specialty pharmacy market," Chambers says. "Pharmacy benefit managers (PBMs) and pharmacies are seeing erosion of their top line."

3. *Numerous effects on the pharmaceutical industry will occur.* A

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- **Oriola Corporation** (Finland) announced changes to Oriola Group's management team which include the following new appointments: *Robert Andersson*, CEO (effective March 1st); *Thomas Gawell*, Vice President, Healthcare Business; *Helena Kukkonen*, CFO (effective March 12th); *Jukka Makela*, Vice President of Development; *Tija Silver*, Vice President of Human Resources, *Anders Torell*, Vice President of Consumer Business; and, *Kimmo Virtanen*, Executive Vice President of Services Business.
- **Walgreens Boots Alliance** and **Express Scripts Holding Company** announced the expansion of their group purchasing efforts, including specialty brand drugs in effort to take advantage of potential savings of biosimilars in the coming years. Their efforts will be supported by **ValoremRx Specialty Solutions, LLC**, which will source specialty pharmaceuticals. The sourcing of these products will be aimed at simplifying the global supply chain and lowering costs for patient and clients of both Walgreens and Express Scripts.
- The **American Pharmacy Purchasing Alliance** and **H.D. Smith** announced a partnership that will allow APPA members to access H.D. Smith's full product line including its 9,000 generic Rx items. Members will also be able to take advantage of H.D. Smith's consultant-style account management in order to further their already-successful businesses. "We have a unique offering to the community pharmacy market, and especially buying groups who partner with us," said *Bob Appleby*, H.D. Smith president. "As a wholly-owned subsidiary of AmerisourceBergen, we can offer pharmacies the H.D. Smith experience we are known for,

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China's Mixed Ownership Model by Sinopharm

(Source: An article prepared by Huang Kexin and published by Economic Information Daily)

According to the data released by the 2018 Working Conference of Sinopharm Group, the company achieved operating revenue of RMB3500 billion (US$550.5 billion) for the full year of 2017, representing an increase of 10.25% over the same period of the previous year. Sinopharm maintained its double-digit growth, which is above the market average. In the meantime, the company's influence in the industry rose in 2017, moving it to number 6 in the world's top 500 ranking.

In the opinion of Shi Shengyi, the deputy general manager and spokesman of Sinopharm Group, this achievement is inseparable from Sinopharm Group's active efforts to promote the reform of mixed ownership and the company's continued exploration in market-oriented programs. "The pharmaceutical industry is a highly open, fully competitive and professionally segmented industry," Shi Shengyi told reporters. The company, a centrally-run enterprise in a competitive market, has recognized that mixed ownership reform at the subsidiary level is necessary. Further the

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Walgreens & AmerisourceBergen (cont.)...

combined company, and others like it, could also mean less concern around supply chain risk for drug manufacturers and distributors as well as their partners on the care continuum, Friend says. Nearly all (97%) of the largest 100 companies listed on the NASDAQ Biotechnology Index cited supply chain concerns as a risk to business in their most recent 10-K filings, according to the 2017 BDO Life Sciences RiskFactor Report. Those concerns included issues with product manufacturers and distributors around product quality, shipping, availability, and costs. If more drug distributors join forces with their drug manufacturers, they'll have a clearer window into product quality, availability, and prices. This could lead to a safer, more reliable and more efficient supply chain for the entire industry. Chambers says that drug coupons and rebates, a core source of PBM income, are drying up as drug manufacturers look to different innovative sales and marketing channels. Some drug companies are creating exclusive partnerships with specialty pharmacies to deliver to patients. In some cases, they are creating standalone specialty pharmacy entities that only serve their drug product portfolios. "These 'alternative verticals' present an almost direct-to-consumer drug product delivery," he says. "We haven't seen it yet, but the next step for the alternative verticals would be an expansion of partnerships into the payer side."

China's Mixed (cont.)...

company intends to improve corporate governance as the principal objective in structuring a modern enterprise system. In the process, relationships, rights and responsibilities of the corporate headquarters will be clarified. As examples, enhancements in corporate governance, improvement in operational controls, establishment of mutual coordination among shareholders, and the development of a market-oriented approaches that are aligned with each subsidiary's assets and market know-how. At the end of 2017, there were more than 660 mixed-ownership enterprises in the Group, accounting for more than 90% of the Group's activities. The combined operating income, profits and total assets of the mixed-ownership enterprises contributed to over 85% of the Group's financial results.

Shek Yi-Sheng said Sinopharm Group's reform will include preparation, in several ways, for different business situations and markets. In 2003, Sinopharm Group chose to reorganize the pharmaceutical market, as one of its highest priority, and formed a joint venture with Shanghai Fosun Pharmaceutical (Group) Co., Ltd., a private-owned company, as a strategic investor. After the IPO in Hong Kong in 2009, Sinopharm Group and Fosun Pharma have appointed directors to Sinopharm in proportion to their shareholdings, forming board committees with independent directors, creating an effective control structure in balance between state-owned capital, private capital and public capital. After more than 10 years of development, Sinopharm's revenue increased from 8.1 billion yuan (US$1.27 billion) in early 2003 to 258.4 billion yuan (US$40.6 billion) in 2016. Its market reach covers the whole country and its market share ranks first in the country. The company's market capitalization ranks fourth among global pharmaceutical distribution enterprises, according to Sinopharm. Since then, Sinopharm Group has further implemented the mixed ownership model in the field of medical device distribution.

In 2014, the Group conducted an overall restructuring of its affiliated, Sinopharm Group Company, and selected strategic cooperation with private-owned enterprises, realizing diversification of property rights for each enterprise. Mixed ownership injected new vitality into the enterprises. After the system reform, Sinopharm accelerated the investment in mergers and acquisitions of medical device commercial enterprises across the country. It actively built a nationwide distribution network of medical devices and consumables logistics, making it the largest medical device distribution enterprise in China.

In addition to actively engaging strategic investors, Sinopharm Group also invests in private-owned enterprises with strong potential for growth, realizing proactive 'blending' of state-owned capital with private owned enterprises. In 2013, Sinopharm Group invested in a privately-owned enterprise, and became a controlling shareholder of China Traditional Chinese Medicine (now renamed as "Chinese Traditional Medicine"), a Hong Kong listed company. Chinese Traditional Medicine transformed from a privately-listed company into a mixed ownership enterprise with a state-owned holding - the original private shareholders and public equity. As a capital operation and industrial development platform for the chinese medicine business, the reorganized Chinese medicine has successfully implemented mergers and acquisitions of famous traditional Chinese medicine enterprises such as Tongjitang Pharmaceutical and Tianjiang Pharmaceutical in 2013. From 2012 to 2016, after 4 years of reorganization, the total compound annual growth rate of Chinese Traditional Medicine assets in China reached 82.01% and the compound annual growth rate of operating income reached 58.63%. The shareholder value of both state-owned and non-public shareholders greatly increased.

By promoting mixed ownership, Sinopharm Group has been able to use hundreds of billions of social-capital resources and significantly magnify the function of state-owned capital. While maintaining and increasing state-owned assets, Sinopharm Group has driven social capital development, promotion of industry consolidation and structural adjustment of the pharmaceutical industry. Sinopharm Group continues to integrate industrial resources through mixed ownership, capital operation and it has jointly established a nationwide pharmaceutical and medical equipment distribution network with private-owned enterprises. This process, as stated in the article, has "optimize market stock, reduce vicious competition and substantially increase industry concentration."

In Brief (cont.)...

with additional access to the resources of AmerisourceBergen."

- **Roche** and **Flatiron Health**, Inc. have signed an agreement under which Roche will acquire all shares of Flatiron Health. Roche currently owns 12.6% of Flatiron, a privately-held healthcare technology and services company. The transaction is expected to close the first half of 2018.
- **Albertson's Inc.** will take over the remaining **Rite Aid** pharmacies not purchased by **Walgreens Boots Alliance**. This will make a combined operation poised to be the no. 4 retail pharmacy operator in the United States. According to figures released by Rite Aid and Albertson's, the company's combined retail pharmacy operations will generate more than US$16 billion in pharmacy sales. If the deal closes, it would create a pharmacy network of 4,345 locations, mostly on the U.S. west coast.

(Sources: Company Press Releases, Digital Journal, Drug Store News, and World Pharma News)