Understanding and managing specialty drug expense

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Agenda

• Introduction
• The problem
• Solutions
• Discussion
Introduction

• $135B in revenue
• The largest pharmaceutical wholesaler to health systems
• Deepest specialty distribution expertise and offering

Mark Spykerman
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• VP Health Systems strategy
• Developed Oncology Service Line
• $2.5B PharMEDium acquisition
• Previously worked inside health systems, GPOs, distributors, and payors
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News about drug prices is increasing dramatically…

| Pricey Hepatitis C drugs threaten health care system | Valeant’s business model and business practices scrutinized | Turing Pharmaceuticals increases price of generic drug by 5,000% |

![Gilead Sciences](image1.png)  
![Valeant Pharmaceuticals](image2.png)  
![Turing Pharmaceuticals](image3.png)
...and so are drug prices

Health Systems per standard unit\(^1\) price

$’s

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1.29</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>1.27</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>1.32</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>1.45</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>1.51</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1.73</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>1.89</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>2.13</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>2.35</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>2.54</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>2.69</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>2.83</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>2.99</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) An IMS standard unit is defined as one capsule, tablet, or 5ML of liquid

Source: IMS
The pricing trend is largely driven by two forces; The generics cliff and the booming specialty pipeline

<table>
<thead>
<tr>
<th>Brand to GX conversion US</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ Billions</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>7</td>
</tr>
</tbody>
</table>

Source: Pembroke Consulting, ABC analysis

Tremendous growth in specialty

$212B

$41B

Source: Pembroke Consulting, ABC analysis
Understanding the industry structure

• Who usually get the best purchase price?
  – Those with scale
  – Those with a formulary

• How much of the US drug spend comes from hospitals?
  – 10%
  – 25%
  – 50%
  – 75%
  – 90%

• Who makes money in specialty pharmacy?
  – ??????
Hospitals and clinics purchase one quarter of all drugs in the US

2014 Total US drug spending
Total = $385B

- Hospitals: 8.5%
- Clinics: 17.5%
- Rest of Market: 74.0%

Source: IMS
And individual health systems are relatively small purchasers of drugs compared to other industry players.

2015 estimated total drug purchases

$ Millions

- Largest health system: 1,200
- Largest retailer: 30,000
- Largest PBM: 26,000

Source: ABC internal analysis
The scale disadvantage is even more pronounced in the specialty RX market

**2015 US Specialty pharmacy market sales**
Total = $98B

- CVS Health / Omnicare: 30.0%
- Walgreens: 25.0%
- Express Scripts / Accredo: 18.0%
- Diplomat: 10.0%
- Prime Therapeutics: 7.0%
- BriovaRx: 3.0%
- Humana: 3.0%
- Avella: 2.0%
- Cigna: 1.0%
- Other: 2.5%

Source: Pembroke
Not everyone is making money off specialty drugs

**FY 2015 Operating margin for leaders in industry**

<table>
<thead>
<tr>
<th>Per cent</th>
<th>Specialty Pharmacy</th>
<th>RX Full-line wholesaler</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer</td>
<td>27.9%</td>
<td>0.3%</td>
</tr>
<tr>
<td>PBM</td>
<td>4.3%</td>
<td></td>
</tr>
<tr>
<td>Retailer</td>
<td>5.5%</td>
<td></td>
</tr>
<tr>
<td>Specialty Pharmacy</td>
<td>1.4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Publicly available financial reports

If the direct financial value isn’t overwhelming, then why participate?

1) Medical value
2) Better utilization/less waste
3) Direct financial value
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It’s all about your A, B, Ds

**A**
Medicare Part A
Inpatient

**B**
Medicare Part B
Outpatient

**D**
Medicare Part D
Prescription

**Description**

- **A**: This is largely a **cost center**, drugs that fall into this category help generate good outcomes but they most often are reimbursed as a part of a DRG.

- **B**: This should be a **profit center**. It may not be easy to make money in Part B but if you run a good operation you should generate positive returns because you are getting reimbursed for each drug you dispense, “Buy and Bill”.

- **D**: This should be a **profit center**. Some health systems are doing great here but not everyone is competing as well as they could be.
  - Includes specialty RX dispensing.
Your drug spend should be viewed very differently based on the way you are reimbursed

- Manage these costs very closely because you’re revenue is not often tied to your expense
- Can you shift any of this expense to Outpatient (Part B)

Volume increases in this category should not be seen as negative. A well run physician office infusion center generates at least a 4.3% margin on all sales, often higher
- Managing inventory is still important and wastage must be minimized due to the high dollar nature of these products

- This typically includes ambulatory pharmacies and specialty pharmacies
- Volume here should also be a good thing and a good operation should generate positive returns
There are no silver bullets but there are many options

**Compete differently**
- Discounts come when you’re willing to change (i.e., Express Scripts Harvoni vs Viekira Pak)
- Part A / Part B / Part D reimbursement

**Leverage best discounts**
- 340B outpatient drug program
  - Do you qualify? Maximizing value? Compliance?
- Physician class of trade pricing in oncology
  - Do you have clinics? What class of trade are they?
- Wholesaler / GPO options?

**Change the game**
- Get bigger in pharmacy
  - Payor/provider organizations are closer to scale than hospitals and have more formulary strength
  - Most drugs flow through mail and retail, including specialty RX
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