

Today's Pharmaceutical Wholesalers Are More Than Supply Chain Businesses

(Source: Edited excerpts from an In Vivo Article)

Although this article is focused on the U.S. company, AmerisourceBergen (ABC), through an interview between In Vivo and the company's CEO, Steve Collis, it is indicative of the evolution that is taking place globally in the pharmaceutical distribution markets. We have taken the liberty of editing Mr. Collis' remarks and placing his remarks in the third-person, accenting the general development of pharmaceutical wholesaling, worldwide.

Profound changes have been made in the business missions of ABC and other pharmaceutical wholesale companies. ABC's portfolio has been broadly diversified, for example, which includes: the expansion of their global footprint via the 2012 acquisition of World Courier, a global leader in specialty logistics; significant additions to the analytics and consulting services of Xcenda and Lash Group, a patient support services company; the company's provider-focused businesses such as ION Solutions, to support ABC's service offerings to community oncology physician practices; entry into the animal health market with the 2015 acquisition of MWI, a leading global distributor of veterinary medicines; the purchase of PharMEDium, also in 2015, which brought the AmerisourceBergen guarantee of safety and reliability to the growing field of compound medicines; 2013's groundbreaking distribution deal with the Walgreen Boots Alliance pharmacy network, which was recently renewed to 2026 and now includes a significant stake in the US Rite Aid pharmacy chain as well; and most recently, the purchase of H.D. Smith – a best-in-class private distributor with facilities across the country and a diversified customer base. These transactions strengthened ABC's core business, expanding and enhancing the company's strategic scale in U.S. pharmaceutical distribution. The objective being an increased access to high quality care and a healthier future for patients - the most important outcome from AmerisourceBergen's transformation and an objective shared by pharmaceutical distributors worldwide.

Size, however, does not insulate ABC from an intensely competitive set of conditions across all the company's lines of business. In 2017 much of the company's capital investment was focused on improving their data and IT infrastructure and expanding their distribution network. ABC recently built and opened six new distribution centers to better meet the rise in prescription volume and address the needs of their specialty medicines customers. These investments are necessary to maintain the company's position as a high-caliber performer, with the scale, efficiency and extra margin of competitiveness required in a tight market. The level of automation in the new facilities will accelerate the service growth to the company's customer base. At the same time, however, ABC is also committed to investing in areas that represent a new strategic opportunity, where the impact is measured in terms of unleashing future growth rather than supporting day-to-day performance.

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In Brief...

- ◆ **McKesson Corporation** has completed its acquisition of **CVS Health Corporation's RxCrossroads**, a service provider to biotechnology and pharmaceutical manufacturers. The all-cash deal, valued at US\$735 million, will provide **McKesson's Specialty Health Solutions** business with a strong driver for growth over the next several years by enhancing McKesson's existing commercialization solutions for manufacturers of branded, specialty, generic and biosimilar drugs, including comprehensive patient support services, custom pharmacy solutions and third-party logistics.

- ◆ U.S. biotech **Celgene** has announced it will be acquiring **Impact Biomedicines** for up to US\$7 billion, subject to regulatory milestones as well as sales performance. Impact is the manufacturer of the kinase inhibitor *fedratinib* which has shown promise in treating the blood cancer myelofibrosis.

- ◆ **GlaxoSmithKline K.K., GlaxoSmithKline's** Japanese operation, has announced that **Paul Lirette**, president of **GSK Pharma Canada**, will be become its new president. **Kanako Kikuchi** previously held the position, but left after just nine months. Lirette will officially take on the role once approved by GSK's board of directors at its next board meeting.

- ◆ **Pfizer** has announced that it will abandon its research into new drugs to fight Alzheimer's disease and Parkinson's disease. The decision was made based on the results of a comprehensive review by Pfizer, and will allow Pfizer to reallocate funds to areas where Pfizer has strong scientific leadership in order to have the greatest impact.

- ◆ **Allergan Plc** announced that it will cut 1,000 jobs from its workforce in the face of growing competition surrounding its blockbuster drug *Restasis*. Employees in commercial and other functions would be impacted. The company would also close more than 400 open slots. *Restasis* was accountable for US\$382.2 million in global sales in the third quarter of 2017.

(Sources: Fortune, IFL Science, Investor's Business Daily, Pharma Japan and Yahoo Finance)

China's Emerging Pharmaceutical Industry

(Source: an article prepared by Brian Yang and published by Scrip; a New York Times article prepared by Sui-Lee Wee)

Chinese biotech companies were raising their profile and increasing their appeals to investors and partners at the J.P. Morgan Healthcare Conference. After billions in investment and increased activity in M&As, China is likely to remain attractive for international companies large and small vying for a slice of investment or pursuing innovative therapies.

At this year's J.P. Morgan Healthcare Conference, roughly 3,000 delegates from China were estimated to have attended, in large part to seek deals and partnerships. Multiple events attended by Chinese biotech executives and investors were held

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Today's Pharmaceutical (cont.)...

With respect to the possibility of Amazon entering the pharmaceutical market, ABC and other pharmaceutical wholesalers have a strategic advantage in the value-added consultative services provided to assist customers in evaluating their reimbursement exposure and sales risks; in the long-standing customer relationships that facilitate reliability and awareness of customer's purchasing history, involving a highly regulated, dangerous products; in combining historical and contemporary perspective on the mechanics of discounts and rebates; in high level of internal connectivity among different skill sets, such as required when contracting with physicians on patient support services for "high touch" specialty medicines; in the many manufacturer services provided by which the manufacturer does not have to be concerned with how their products get from point A to point B, how the customer pays for the product, determining the correct intermediary from hospital outpatient facility, to physician through to the patient; in having data available for reporting that informs stakeholders of ongoing activities; in understanding and working with government, at all levels, with respect to their influences on healthcare; in working with multi-parties in the pricing of a transaction. ABC and most other pharmaceutical wholesalers have strategic depth and resources to respond to any new challenges. In fact, the new ABC Order software system has been carefully designed to provide a reliable Amazon-like experience for their customers, but more seamlessly and at lower cost.

ABC and other pharmaceutical wholesalers worldwide have also created an alignment around the proposition that they are a specialty drug business. In this regard, they are responding to the market: the brand segment in the U.S. market consist almost entirely of biologics, specialty medicines, according to ABC. By 2020, nine of the top ten medicines in the world will be specialty products. These are different products than the small molecules or generics – they are structurally complex, often unstable, hard to manufacture and precision-tailored to treat different conditions. Therefore, patient support, the type provided by ABC and other pharmaceutical wholesalers, is vital.

At the same time, pharmaceutical wholesalers continue to manage the generics space with efficiencies and unique sourcing models, as evidenced by ABC's partnership with WBA and its recent relationship with the PBM, Express Scripts. Be it a brand, generic, a biosimilar, a biologic or the latest cell-based extraction therapy, ABC and other "wholesalers" have developed the skillsets necessary to efficiently and effectively service this evolving healthcare market.

China (cont.)...

in parallel, including the inaugural China Showcase at EBD Group's Biotech Showcase, a separate event running concurrently with the investment conference. When J.P. Morgan first started its Emerging Market track several years ago, few companies from China presented – but the China Showcase attracted 300 people in its first year.

Several factors are contributing to the booming China scene, insiders say, one being the successful initial public listings of China-based biotech companies. Beijing-based BeiGene (Beijing) Co. Ltd. was listed on Nasdaq in 2016 and has seen its shares jump

nearly five-fold, driven not only by the clinical development of its PD-1 immuno-oncology drug and PARP inhibitor cancer assets, but also deals with Celgene Corp. under which the US biotech giant will commercialize an immune-oncology asset outside China, on top of granting the Chinese commercial rights to BeiGene.

Shanghai-based Zai Lab Ltd., listed on Nasdaq in September, has also seen more deals flowing in. The company recently signed a collaboration with Five Prime Therapeutics Inc. in the U.S. to develop Five Prime's FPA144 for gastric and gastroesophageal junction cancers in China, where the two types of malignancy have high incidence rates.

WuXi Biologics's US\$500 million IPO on the Hong Kong Stock Exchange has also bolstered investors' confidence. Another factor behind the Chinese interest in JPM this year is activity in mergers and acquisitions. China's Fosun International Ltd. investment of US\$1.09 billion to acquire 74% of India's Gland Pharma Ltd., and Shanghai Pharmaceuticals Holding Co. Ltd. acquisition of Cardinal Health Inc.'s China distribution business for US\$557 million were just some of the M&A transactions involving Chinese companies. The total value of healthcare M&A deals in the country last year increased to US\$5.3 billion noted ChinaBio.

Throughout 2017, venture investment in China's biotech sector soared, doubling the 2016 figure to US\$12 billion. Although the biggest slice of the pie was in diagnostics, accounting for 28%, the pharma sector ranked a close second at 23%.

In terms of therapeutic areas, while oncology continues to dominate the deals, CNS products such as Alzheimer's disease treatments are attracting increasing amounts of capital inflows. Oncology and CNS aside, antivirals are also likely to remain a focus for investors, noted Jonathan Wang, Zai Lab's VP and head of business development, speaking during an investment panel at the China Showcase. China has the highest incidence for hepatitis B and C viral infections in the world, and novel treatments that can get to the market quickly and cost-effectively are likely to win big, he noted.

China's drug development is in the earliest stages compared to the broader industry. Experts say, however, that it is only a matter of time before China's medical companies stand beside Big Pharma giants like Pfizer and AstraZeneca. "It's not whether they are going to," said Jonathan Wang, senior managing director of OrbiMed Asia, a healthcare investment fund. "They are going to."



Mark Your Calendar for the
IFPW CEO Roundtable
 at the Pierre Hotel in NYC
 (April 9th & 10th)
 Registration opens on February 1st.
 For more information, contact
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