

Amazon Continues Its Healthcare Probe

(Sources: Articles prepared by Teresa Rivas and published by Barons, and Anju Ghangurde and published by Scrip)

Amazon continues to probe the healthcare market, both in the US and now in India. Even before Amazon bought mail-order pharmacy PillPack (see July 12, 2018 FOCUS issue) and entered into a joint venture with Berkshire Hathaway and JP Morgan (see February 1, 2018 FOCUS issue), there were rumors of its ambitions in the healthcare space. With the e-commerce giant reportedly in talks with a startup called Xealth and at least two hospital networks, Morgan Stanley's Brian Nowak argues that we have the next insight into Amazon's healthcare strategy.

Amazon is said to be talking with Xealth and others about a pilot project that would allow doctors to pre-fill a basket of over-the-counter medical supplies that would be delivered to patients' homes after they're discharged from hospitals. In addition, Nowak writes, Amazon posted a job opening for a position to lead an outreach to medical products manufacturers and service providers, first in the U.S. and then internationally.

The analyst states that these discussions reinforce his earlier thesis that Amazon wants to enter the medical supplies space, which represents US\$45 billion and US\$10 billion of revenue and gross profit, respectively, on the business-to-business side alone. Nowak argues that with PillPack, Amazon can strike a partnership with Xealth to create a "one-stop private-label shop, without the stop." That would create a recurring medical prescription and supply customer base, and Xealth could allow Amazon to grow its private-label commodity, medical supply business.

With respect to India, Amazon is reported to be in early talks to invest in MedPlus, India's second largest pharmacy retail chain that comes with an online and on-ground presence and over 1,400 pharmacies across the country. Preliminary discussions have been held between the two companies, Indian news website FactorDaily reported recently, quoting unnamed sources.

Amazon, however, had no comment to offer on its potential interest, in general, in expanding into the Indian pharmacy space or any specific interest in "brick and click" combines like MedPlus. MedPlus could not immediately be reached by Scrip for a comment on the prospects for a potential deal.

Dilip Shah, secretary general of the Indian Pharmaceutical Alliance, which represents leading domestic firms, said that the "brick" (and mortar aspect) in a potential Amazon-MedPlus deal would bring existing "expertise and relationships" with pharma manufacturers. The click, Amazon's own strength, will be used to develop and expand its volume of business. The two combined will improve the reach of local pharma firms that opt to do business with Amazon. Shah also believes that a deal, if it goes through, will challenge the domination of AIOCD (the All India Organization of Chemists and Druggists), the umbrella body of such pharmacies in the country, and he expects opposition from retail chemists to a potential Amazon transaction.

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In Brief...

- ◆ **McKesson Corporation** announced financial results for Q1 FY2019, with adjusted earnings of US\$2.90 per share, an increase of 17.9% from the year-ago quarter. Revenues were US\$52.61 billion, up by 3% on a year-over-year basis. The U.S. Pharmaceutical and Specialty Solutions revenues were up 2% at US\$41 billion while European Pharmaceutical Solutions revenues came in at US\$6.9 billion, up 9% year-over-year. Medical-Surgical Solutions revenues were US\$1.7 billion, up 11% from the previous year.

- ◆ Two of Japan's largest wholesalers, **Suzuken** and **Toho Holdings**, have signed a memorandum of understanding to collaborate in specialty drugs and generics in order to streamline drug distributions. Both companies have previously distributed specialties and generics through their respective subsidiaries but hope to leverage and build their quality management and inventory management through the collaboration. As part of the deal, they will consider investing in each other's group companies in the future as well as agree to joint use of their respective customer support systems.

- ◆ Swiss drug maker **Novartis AG** will not raise prices on their medicines in the U.S. in 2018, following the lead of **Pfizer, Inc.** Pfizer pulled back on the price increases after a strong rebuke by President *Donald Trump*, in which he criticized Pfizer over reported plans to raise drug prices. Other manufacturers,

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Supply Chain Cyber Threats

(Source: CrowdStrike Inc.)

CrowdStrike, a service provider in cloud-delivered endpoint protection, announced the results of its global supply chain survey, *Securing the Supply Chain*, produced by independent research firm Vanson Bourne. The study surveyed 1,300 senior IT decision-makers and IT security professionals in the US, Canada, UK, Mexico, Australia, Germany, Japan, and Singapore across major industry sectors.

The survey concludes that although nearly 80 percent of respondents believe software supply chain attacks have the potential to become one of the biggest cyber threats over the next three years, few organizations are prepared to mitigate the risks. More specifically:

- Two-thirds of the surveyed organizations experienced a software supply chain attack in the past 12 months. At the same time, 71 percent believe their organization does not always hold external suppliers to the same security standards.

- The vast majority (87 percent) of those that suffered a software supply chain attack had either a full strategy in place, or some level of response pre-planned at the time of their attack.

- Only 37 percent of respondents in the US, UK and Singapore said their organization has vetted all suppliers, new or existing in the past 12 months and only a quarter believe with

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Amazon (cont.)...

But with India already a hot market more generally for Amazon - its Prime service added more members in India in its first year than in any previous geography in the company's history - founder Jeff Bezos said in a recent letter to shareholders - testing the waters in the retail pharmacy space would appear to be in sync with the general Amazon way of thinking. Inefficiencies in Indian pharma distribution and a highly fragmented retail pharmacy segment may well offer significant opportunities for Amazon to better serve Indian health consumers.

Salil Kallianpur, a former EVP at GlaxoSmithKline PLC in India, now running a digital health consultancy, stated, "Amazon's biggest advantage in the area is that it is comfortable operating on very low margins, something that Indian retailers abhor. With the entry of Walmart [through the acquisition of Flipkart] and now Amazon, the margins will see new lows." Kallianpur predicted, adding that this bodes well for patients but not for pharma, which will see profits squeezed but "cannot escape" this business since it will be volume intensive.

Flipkart, India's largest e-commerce platform, is also speculated to be eyeing the pharmacy space, with early discussions reported with online firms like 1mg, among others.

Cyber-Attacks (cont.)...

certainly their organization will increase its supply chain resilience in the future.

- Ninety percent of respondents confirmed they incurred a financial cost as a result of experiencing a software supply chain attack. The average cost of an attack was over US\$1.1 million dollars.

While supply chain threats can occur in every sector of the economy, the industries that mostly experience these attacks are biotechnology and pharmaceuticals, hospitality, entertainment and media, and IT services. Following last year's NotPetya attack and with GDPR in effect, organizations are more concerned about vetting their suppliers and partners. In fact, 58 percent of senior IT decision-makers whose organization has vetted software suppliers in the past 12 months stated that they will be more rigorous when evaluating their partners, and nearly 90 percent agree security is a critical factor when making purchasing decisions surrounding new suppliers.

Although almost 90 percent of the respondents believe they are at risk for supply chain attack, companies are still slow to detect, remediate and respond to threats. On average, respondents from nearly all of the countries surveyed take close to 63 hours to detect and remediate a software supply chain attack, while the leading organizations aim to eject an adversary in less than two hours, also known as "breakout time," according to prior CrowdStrike research. However, the study indicates that organizations are looking to adopt leading approaches to breach protection such as behavioral analytics, endpoint detection and response, and threat intelligence, with three quarters of respondents using or evaluating these technologies.

"Fast-moving, advanced threats like supply chain attacks require organizations to adopt new best practices in proactive security and incident response. CrowdStrike Services team has been called in to support many companies that have suffered business-critical consequences as a result of these prevalent threats," said Shawn Henry, president of CrowdStrike Services and chief security officer. "The new attack methods we see today

call for coordinated, efficient and agile defenses. CrowdStrike is supporting customers with a compelling combination of endpoint protection technology, expert services, and intelligence to uncover critical investigation information faster, accelerate incident response, and enable companies to get back to business as quickly as possible."

According to Gartner, "Software- and hardware-based supply chain attacks are also trending up... Consequently, monitoring higher layers for behavior indicative of an attack is crucial to obtain better protection against advanced adversaries. EDR capabilities are a prerequisite to enable behavioral-based attack detection."

In Brief (cont.)...

including **Gilead Sciences Inc., Roche Holding AG and Novo Nordisk A/S**, sent notices to California health plans rescinding or reducing their previously announced increases on at least ten drugs.

- ♦ China is battling outrage over the revelation that hundreds of thousands of faulty vaccines were distributed by **Changchun Changsheng Biotech**, sparking a public outcry. Regulators accused Changchun of forging data during the production of approximately 110,000 rabies vaccines, and sold more than 250,000 "substandard" diphtheria, tetanus and pertussis (DTP) vaccines to medical centers in 2017. Changchun is the largest producer of vaccines (by revenue) with 110 million doses sold in 2012.

- ♦ With many biologic patents about to expire, original drug makers in Japan are wary of the launch of so-called "authorized biosimilars (ABs)." In a cautionary move against these ABs, the **Japan Biosimilar Association** urged the **Ministry of Health, Labor and Welfare (MHLW)** in 2017 to take a thoughtful and careful approach to these ABs, stating that they will have a "tremendous impact on the R&D and spread of biosimilars." *Yasuo Imura*, director of the office for startup support strategies noted in a statement there are two types of ABs – 1) "biosame" products that are manufactured under the same conditions as their originators, and 2) "biosimilar" products manufactured by different companies under licensing agreements. To date, no company has submitted "biosame" products in Japan, most likely due to companies' inability to make profits with the 50% pricing.

- ♦ U.S. manufacturer **Pfizer** is currently organizing itself into three businesses: a science-based innovative medicines unit which will include biosimilars and a new hospital business unit for anti-infectives and sterile injectibles; an off-patent branded and generic established medicines business; and, a consumer healthcare unit which will include Pfizer's over-the-counter medicines. The company announced that the organizational changes will become effective during the 2019 fiscal year.

- ♦ The U.S. FDA is advocating for the development of opioid analgesic products that are harder to manipulate or abuse. Opioids with abuse-deterrent formulations (ADFs) would ensure that types of abuse, such as crushing a tablet to inhale, or dissolve for injection, are more difficult and less rewarding for the abuser. The FDA posted a group of 43 product-specific guidances related to the development of generic drug products that includes three revised product-specific guidances for ADF opioid products.

(Sources: Drug Store News, Financial Times, Industry Week, Pharma Japan, and Yahoo Finance)