Media Briefing on the Biopharmaceutical Supply Chain

January 9, 2020

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We See Amazing Science,
But It’s Overlooked in Washington

Exciting Advancements in Biopharmaceutical Labs Across the U.S.

The Washington Post — **Cancer death rate posts biggest one-year drop ever**

CBS — **Newly approved drug being called ‘game changer’ for people who suffer from hemophilia**

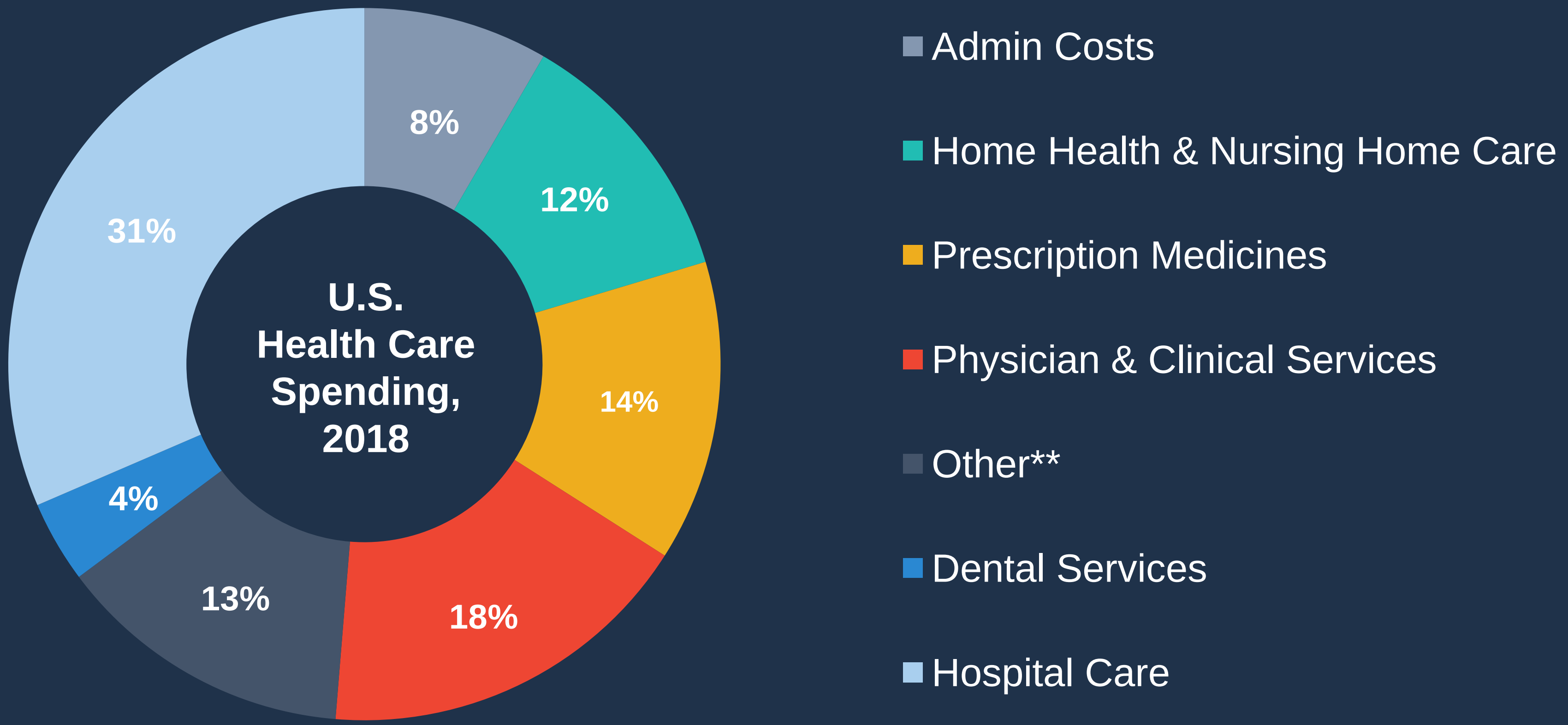
REUTERS — **Drug developers take fresh aim at 'guided-missile' cancer drugs**

But Washington Is Considering Policies That Would Disincentivize Continued R&D

Despite Incredible Progress, Prices and Spending Growing at the Slowest Rate in Years

Medicine Prices	Retail Medicine Spending
IMS Health & Quintiles are now IQVIA™	CMS CENTERS FOR MEDICARE & MEDICAID SERVICES
0.3%	**2.5%**
2018	2018

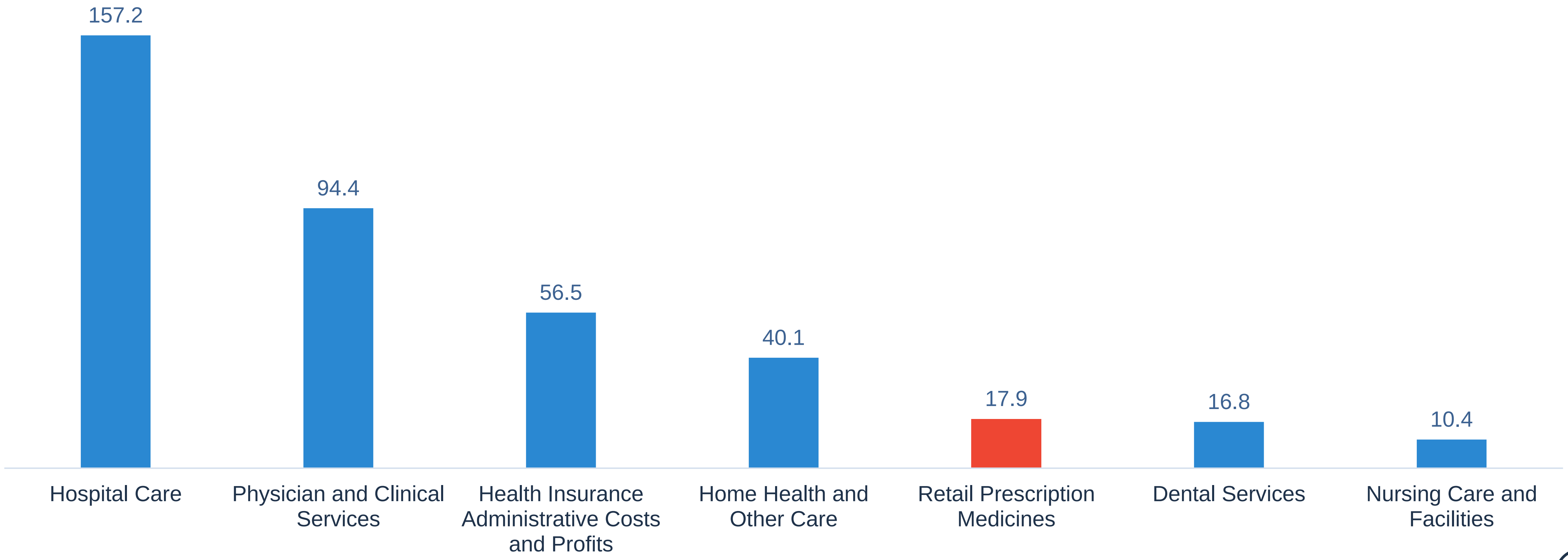
Spending on Retail and Physician-administered Medicines Represents Just 14% Of Health Care Spending



Source: PhRMA analysis of CMS National Health Expenditures data, December 2019.; Roehrig, C. "Projections of the Prescription Drug Share of National Health Expenditures including Non-Retail." Altarum, 2019.
** Other Professional Services, Durable Medical Equipment, Other Non-Durable Medical Products, Government Public Health Activities, and Investment

Medicines Were Not a Driver of Health Care Costs in Recent Years

Cumulative Spending Growth from 2015 to 2018 (in Billions)



Source: PhRMA analysis of Centers for Medicare & Medicaid Services (CMS) National health expenditure data, December 2019.

Health Insurers Shifting More Costs to Patients

Patient Out-of-Pocket Costs Increasing

2006-2018

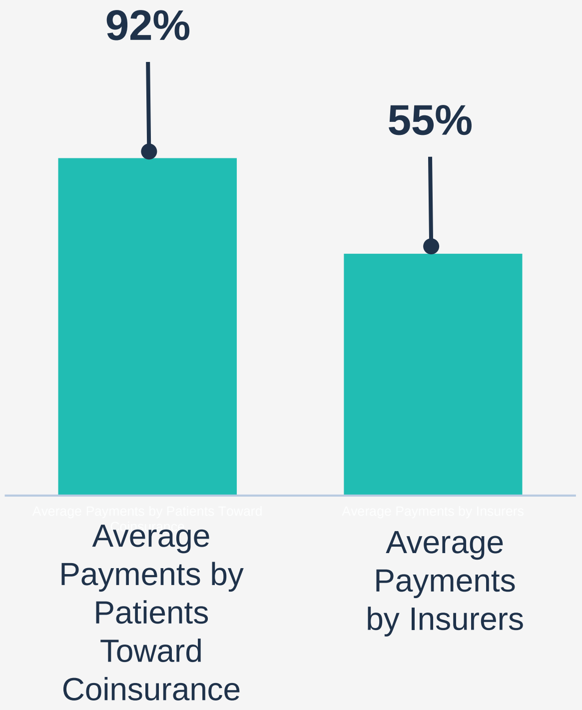
Deductibles have increased

360%

since 2006

Patient Costs Rising Faster Than Insurer Costs

2006-2017



Patients Paying Based on List Price of Medicines

55%

More than half of commercially insured patients' out-of-pocket spending for brand medicines is based on the full list price

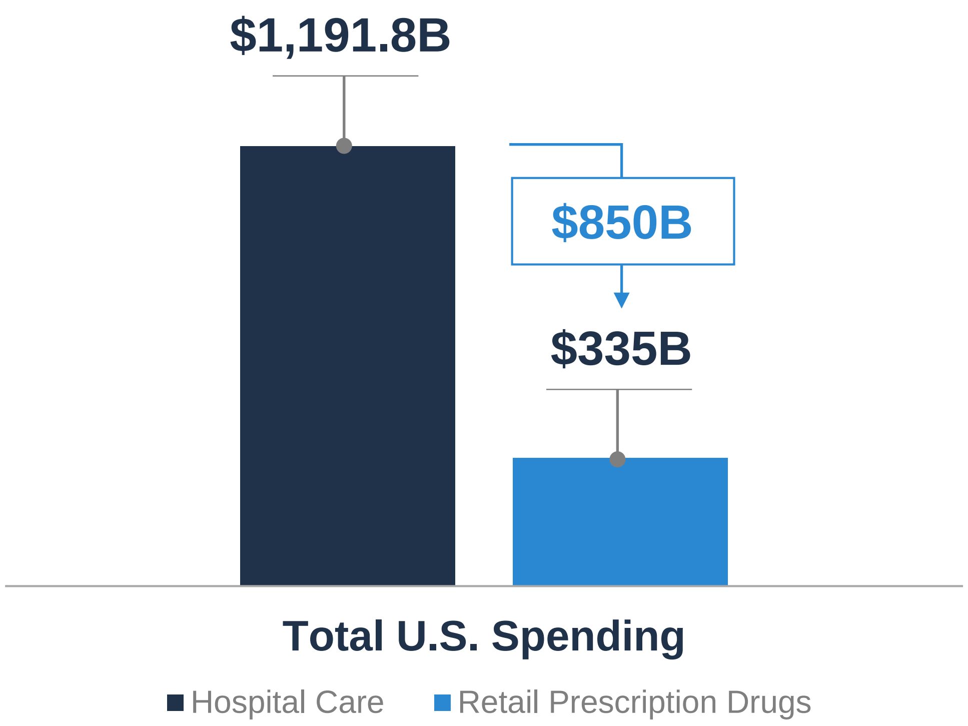
Source: Kaiser Family Foundation, "2019 Employer Health Benefits Survey," 2019.

Source: Kaiser Family Foundation. "Tracking the rise in premium contributions and cost-sharing for families with large employer coverage," 2019.

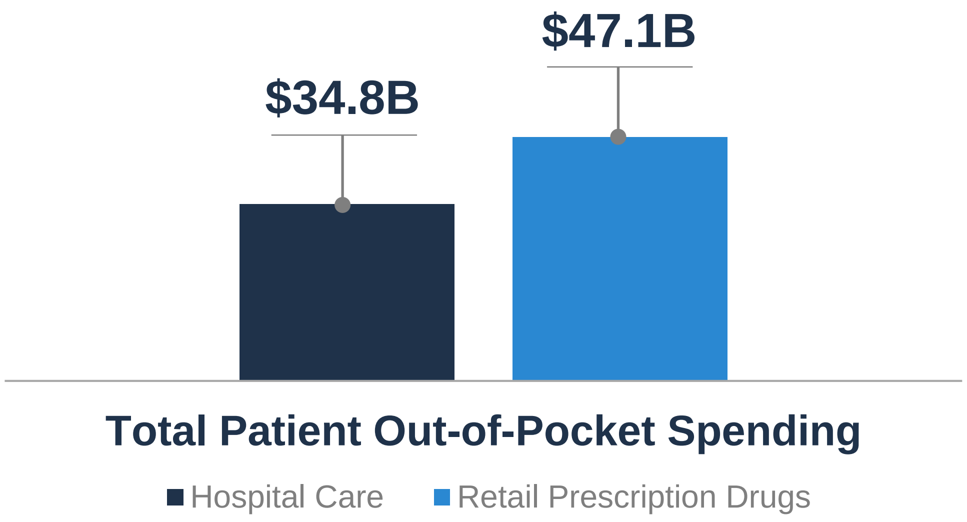
Source: IQVIA. May 2018.

Patients Face Higher Out-of-pocket Costs at the Pharmacy Counter Even Though Total Spending on Hospital Care is Far Higher

Hospital spending is much higher than prescription drug spending.



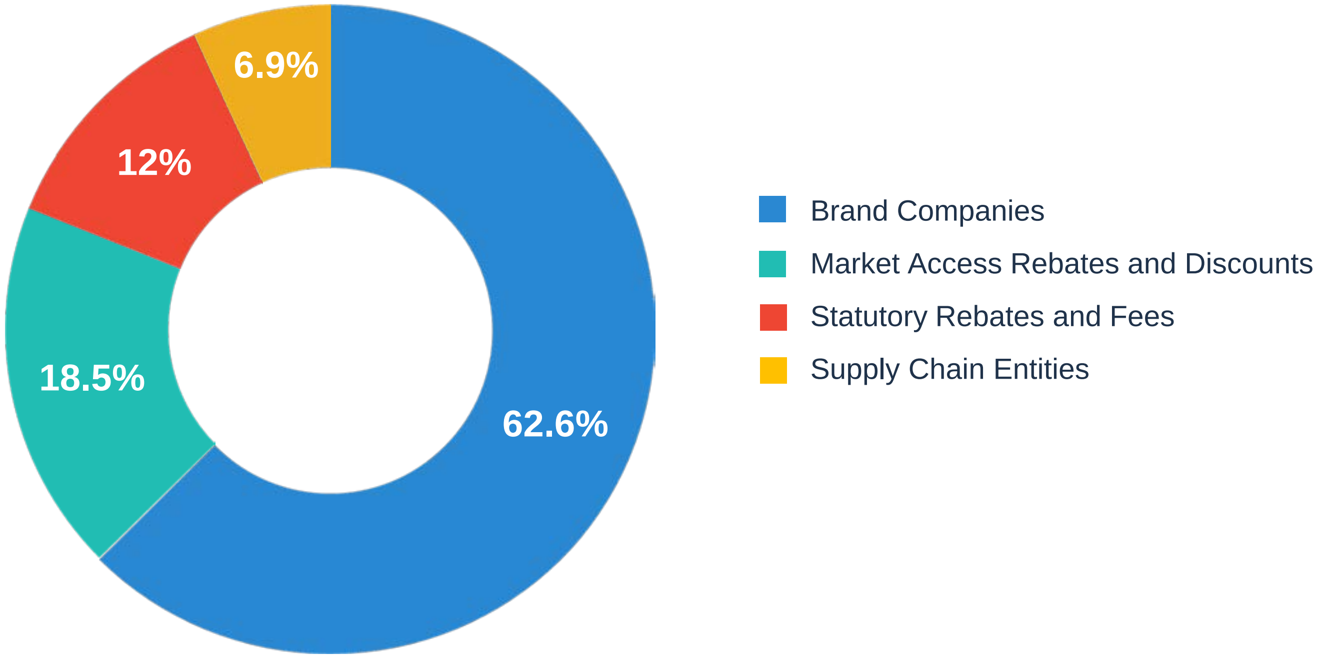
Yet patients pay more out-of-pocket for medicines than for hospital care.



Source: Drug Channels Institute analysis of National Health Expenditure Accounts, Office of the Actuary in the Centers for Medicare & Medicaid Services, December 2019. Outpatient prescription drug figures exclude inpatient prescription drug spending within hospitals and nearly all provider-administered outpatient drugs. Figures in billions.

To Address Affordability Concerns, We Have to Look at the Entire Supply Chain

In 2015, Nearly 40% Of The List Price Was Rebated Back To Payers, The Government And Other Stakeholders



Source: Berkeley Research Group. Fein AJ; Drug Channels Institute

New Analysis Shows the Problem is Getting Worse

Nearly
50%

Share of brand spending going to payers, the supply chain and others in 2018

2.6%

Annual increase in brand spending received by biopharmaceutical companies, on average, between 2015 and 2018

2x

Growth in amount retained by hospitals, pharmacies and providers between 2013 and 2018

Industry Supports Common Sense Reforms to Fix the System

Improving Patient Affordability

- **Require insurers & PBMs to pass through negotiated rebates and discounts**
- Establish an annual cap on patient out-of-pocket costs in Part D
- Allow patients to spread costs throughout the year
- Lower patients' cost sharing from 25% to 20% in Part D

Fixing Market Incentives

- **Delink supply chain payments from list prices**
- **Reduce 340B distortions**

Shifting Toward Value

- Remove barriers to innovative payment arrangements
- Identify better tools for value assessment

Increasing Competition

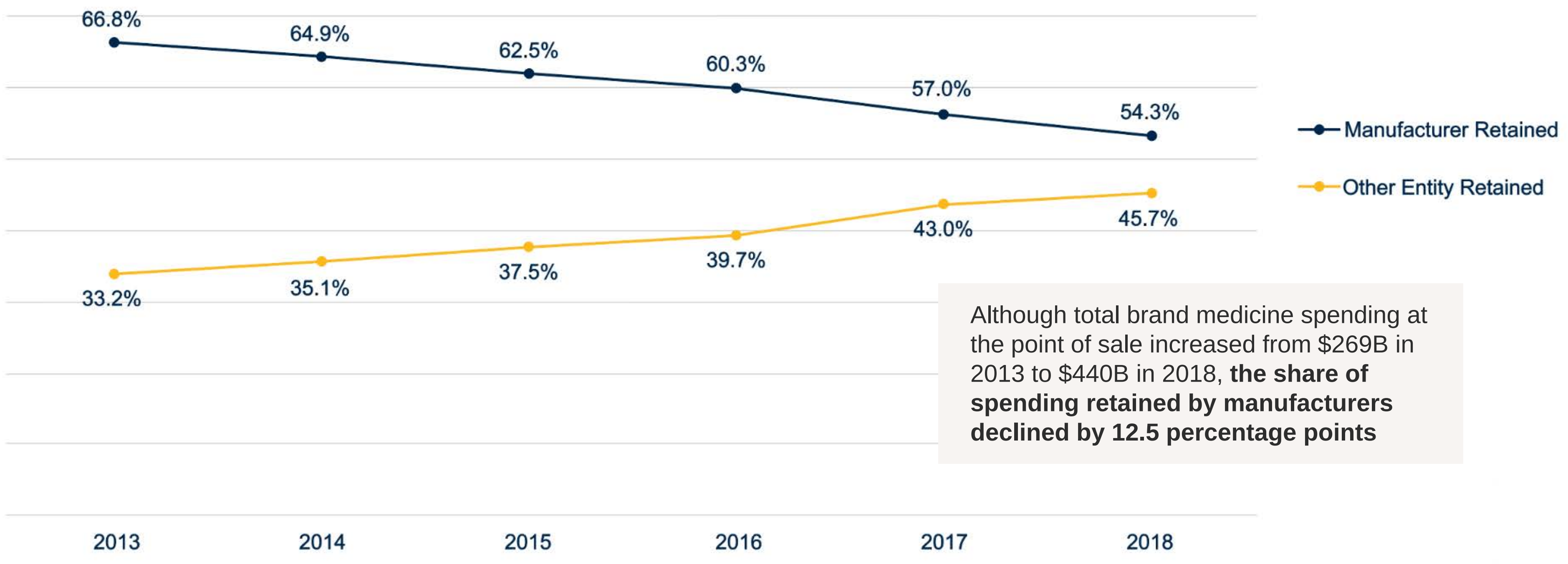
- Citizen petitions
- Patent settlements
- Patent transparency

Aaron Vandervelde

Managing Director
Berkeley Research Group

Manufacturers are retaining an increasingly smaller share of total spending on brand prescription medicines

PERCENTAGE OF TOTAL SPENDING ON BRAND MEDICINES RETAINED BY MANUFACTURERS AND OTHER ENTITIES, 2013-2018



Although total brand medicine spending at the point of sale increased from $269B in 2013 to $440B in 2018, **the share of spending retained by manufacturers declined by 12.5 percentage points**

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Despite growth in total brand medicine spending, the amount retained by manufacturers has remained flat

"Other Stakeholders" include: health plans, state and federal government, hospitals, pharmacies and other providers, cost sharing assistance, employer groups, wholesalers, and GPOs

INTELLIGENCE THAT WORKS

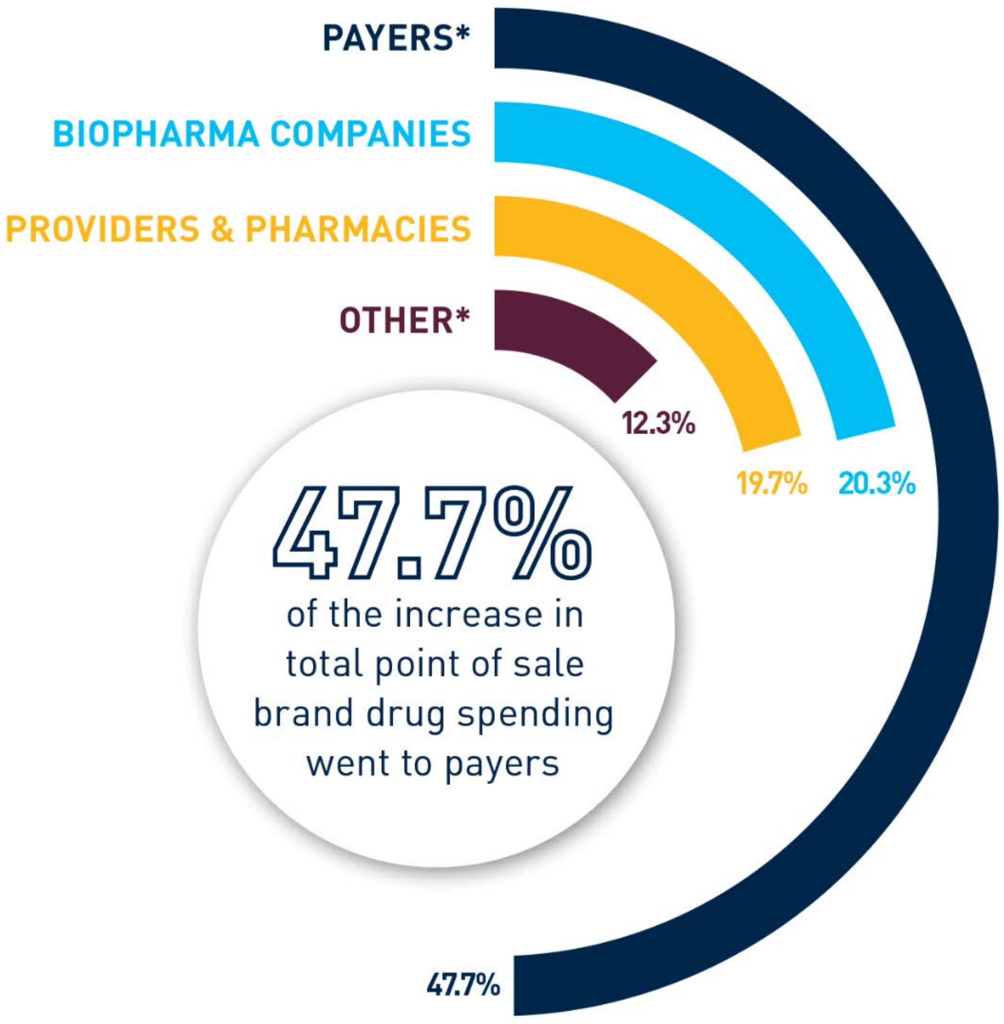
Growth in brand spending realized by pharmacies/ providers and payers far outpaced manufacturers share and inflation

	ANNUAL GROWTH RATE			CAGR
	2016	2017	2018	2015 - 2018
CPI	0.2%	2.1%	2.7%	**2.1%**
Brand Manufacturers	3.8%	-1.2%	5.2%	**2.6%**
Payers	12.9%	12.2%	18.5%	**14.5%**
Pharmacy / Providers	20.5%	12.0%	13.6%	**15.3%**

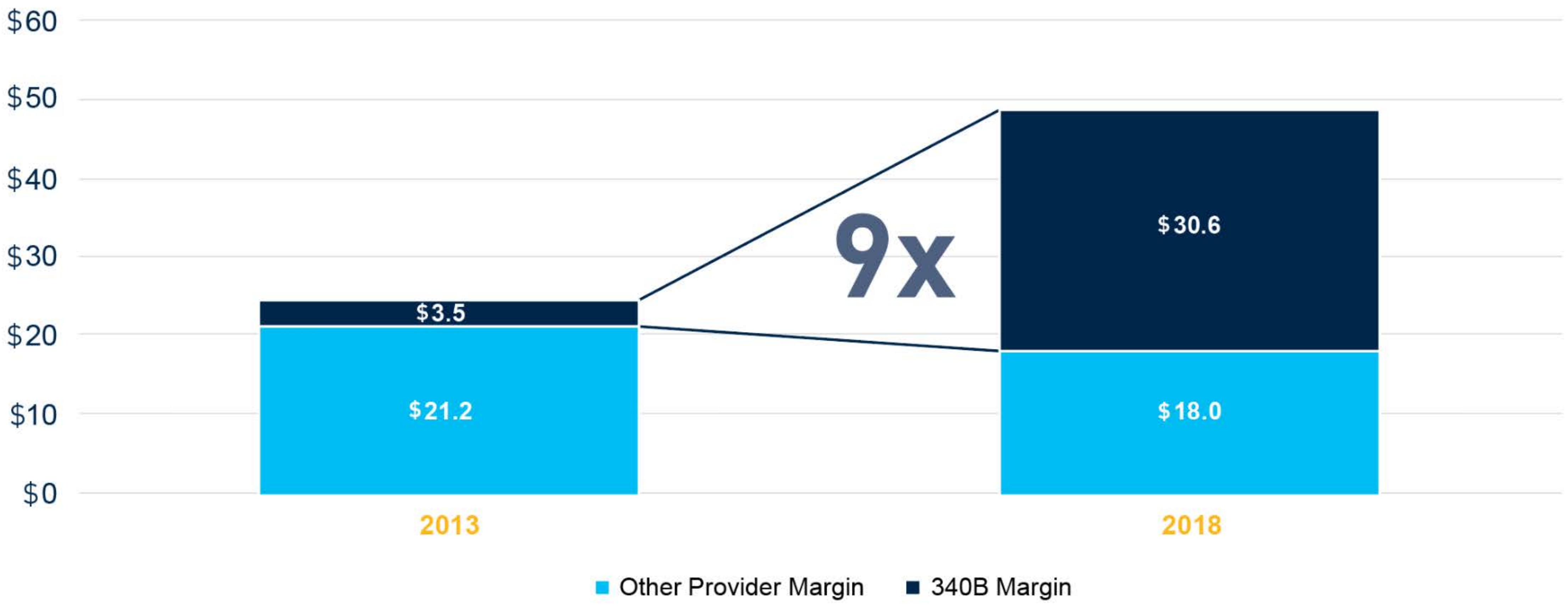
Payers received the largest share of the increase in total brand drug spending between 2015 and 2018

*“Other” includes wholesaler and provider margins, patient cost sharing assistance

Note: payers include health plans, PBMs, the federal and state governments, and employer groups



340B profits now account for 63% of gross provider and pharmacy margin – up from just 14% in 2013



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The 340B program more than tripled in size between 2013 and 2018 as a result of three primary growth drivers

340B Growth Drivers	2013		2018
Hospital Enrollments	1,895	31% INCREASE	2,488
Hospital Contract Pharmacy Arrangements	13,662	114% INCREASE	29,292
Hospital Child Site Enrollments	7,353	221% INCREASE	23,622
340B Program Sales	$7.2B	238% INCREASE	$24.3B

Questions?