The Competition Prescription
A Market-Based Plan for Making Medicines Affordable

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U.S. PHARMA SPENDING FAR EXCEEDS PEER NATIONS

Annual per-capita drug spending, 2014 (US$ purchasing power parity-adjusted)

Source: OECD, QuintilesIMS, FREOPP analysis
U.S. LEADS THE WORLD IN GENERIC DRUG UTILIZATION

Market share by prescription volume of unbranded generics, 2014

Source: QuintilesIMS, FREOPP analysis
BRANDED SPENDING IS EXPLODING; GENERICS DECLINING

Annual U.S. invoice sales (billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Generics (branded)</th>
<th>Generics (unbranded)</th>
<th>Patented brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$39</td>
<td>$52</td>
<td>$228</td>
</tr>
<tr>
<td>2013</td>
<td>$29</td>
<td>$55</td>
<td>$236</td>
</tr>
<tr>
<td>2014</td>
<td>$30</td>
<td>$47</td>
<td>$272</td>
</tr>
<tr>
<td>2015</td>
<td>$33</td>
<td>$51</td>
<td>$310</td>
</tr>
<tr>
<td>2016</td>
<td>$36</td>
<td>$50</td>
<td>$334</td>
</tr>
</tbody>
</table>

Source: QuintilesIMS, FREOPP analysis
UNDERSTANDING NET PRICING VS. LIST PRICING

• Pharmaceutical manufacturers point out that list prices don’t reflect the net revenue they actually receive
  • **List price**: wholesale acquisition cost (WAC); rarely paid in practice
  • **Invoice price**: prices after discounts to bulk purchasers (wholesalers / distributors); **16%** lower than list price on average
  • **Net price**: prices after rebates to pharmacy benefit managers and co-pay assistance payments to consumers; **33%** lower than invoice price on average

• But: Net prices don’t reflect the actual cost to consumers
  • Not all of the rebate is passed down to consumers in the form of lower premiums
  • Co-pay assistance leads to **higher premiums**, by encouraging utilization of high-priced drugs and evading cost controls
NET PRICES UNDERESTIMATE REAL CONSUMER COSTS

Per-capita drug spending, 2014 (US$ purchasing power parity-adjusted)

United States

$899

$251

$177

$327

OECD Median

$489

Source: OECD, QuintilesIMS, FREOPP analysis
NET PRICES UNDERESTIMATE REAL CONSUMER COSTS

Per-capita drug spending, 2014 (US$ purchasing power parity-adjusted)

United States

$1,150
$177
$327

OECD Median

$489

Source: OECD, QuintilesIMS, FREOPP analysis