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AmerisourceBergen: Pharma's Dependable Partner in an Era of Health Transformation

by

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As a follow up to [AmerisourceBergen's](#) annual 2017 ThinkLive meeting with key customers, In Vivo speaks with CEO Steve Collis on a wide range of business and policy issues. These include his thoughts on the continuing relevance of the community pharmacist in an era of rapid consolidation in health care; the payoff for patients from a series of strategic acquisitions that will raise operational efficiencies while offering a diverse range of service options, with specialty care at the core; and the add-on value of a new corporate reorganization designed to enhance drug manufacturers' access to a truly integrated, seamless customer experience. Collis also weighs in on current public policy challenges facing the company, with particular emphasis on the response to the US crisis in opioid addiction – while AmerisourceBergen is reaching out to do its part, Collis is adamant that expecting distributors to unilaterally override the clinical decisions of registered prescribers is not an option that works for prudent regulation – and society.

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In Vivo: Drug distribution has historically been seen as a staid, predictable – yet necessary – part of the journey from approved product to the accessible patient. How does this perception square with your own current view of the business, especially given the position you hold as CEO of a company that ranks 11th in size among the latest ranking of the Fortune 500?

A

Collis: It is not well understood, even within the health care sector, how profound the

changes we have made in our business mission since I became CEO in 2011. I spend a lot of time with peers in the biopharma industry explaining the major transformation here – it is no longer possible to look at AmerisourceBergen simply as a supply chain business.

Our portfolio is now broadly diversified due to a series of very thoughtful investments and acquisitions made over the past five years. These include:

- the expansion of our 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, as well as to our provider-focused businesses such as ION Solutions to support our service offerings to community oncology physician practices; entry to 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, our purchase of H.D. Smith – a best-in-class private distributor with facilities across the country and a diversified customer base. This strategic transaction strengthens our core business and expands and enhances our strategic scale in U.S. pharmaceutical distribution.

I would be remiss too if I failed to mention AmerisourceBergen's financial commitment to help protect community-based care, and independent pharmacies specifically. Our aforementioned partnership with H.D. Smith is a prime example of this commitment. H.D. Smith has a strong brand and a strong business with community pharmacy. With consolidation, cost pressures and reimbursement challenges, we have to be effective and efficient. All of the transactions we've made

over the last six years not only give us a stronger grip in the midst of unpredictable and volatile market forces, but also provide us with the resources to help our customers address these challenges head on.

More than anything, all of these investments and improvements add up to one result: increased access to high quality care and a healthier future for patients. That's what I consider to be the most important outcome from AmerisourceBergen's transformation. I underscored this point at the annual ThinkLive event we hosted for our key biopharma client companies in October in Dallas.

Q

Is responding to market change the primary motivation for all these additions to the business? What can In Vivo readers in the biopharma industry expect from a transformed AmerisourceBergen?

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Size does not insulate us from an intensely competitive set of conditions across all our lines of business. FY 2017 was a record year for new capital investments, much of which focused on improving our data and IT infrastructure and expanding our network. We recently built and opened six new distribution center facilities to better meet the rise in prescription volume and address the needs of our specialty medicines customers.

Internal investments linked to what our customers want – and regulators expect – continues to be our first priority. They are necessary to maintain our 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 our new facilities will be highly prized by our customers. At the same time, however, we are 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.

Combined, I expect these investments are going to result in a truly seamless experience for our customers. I recently had dinner with a fellow health care CEO, and when I summarized what we have done over the past five years to extend our market reach, his jaw dropped. His reaction? “I had no idea.” I want all our customers to react the same way.

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How have your views about being a business leader changed since you assumed the CEO position?

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It's been six years, but the job is not getting easier. Experience is not a salve. You have to believe in what you are doing, and to allocate your time around a few key priorities. I traveled to Houston in the aftermath of Hurricane Harvey and was inspired by the stories of colleagues and others helping to support relief efforts. It was so motivating. I also visited Puerto Rico and met 36 colleagues, most of whom still had no electricity but were out assisting fellow victims to ensure our medicines were distributed to patients in need. Their resilience and courage was so evident – and the initiative they took was spontaneous.

The larger conclusion I draw from this is the value of being out and circulating among customers, suppliers and the wider community. That means in turn reducing the time spent with my own direct reports. I get some fantastic ideas when I am out visiting our facilities. I also get honest feedback, some of which is sobering. But it keeps you grounded. And it forces you to recognize that AmerisourceBergen cannot be a commodity barter service performed by just anyone. The people I meet demonstrate the importance of being a company committed to innovative, patient-centered, pharmaceutical-based care.

Next, I have come to value my relationship with our Board of Directors. It's an honest, thoughtful group that provides me with feedback that

reflects both their independence and commitment to the company, its employees, shareholders and customers. The relationship puts the CEO in a listening mode; I don't do all the talking. You have to be open to that for the Board to do its work.

Finally, I am learning to do a better job in sharing my own career experience with a younger generation now moving into positions of responsibility. I find their perspective refreshing, especially the societal values they express in wanting to advance the goals of the AmerisourceBergen Foundation, our communitybased philanthropic enterprise. Learning from them is going to help me create an even stronger, more motivated workplace.

Competition is natural and a positive sign of a strong market as it represents vitality and growth, and we have positioned ourself strategically to face future competition. We have the strategic depth and resources to respond to any new challenge.

Q

Is the threat of a disruptive interloper like Amazon forcing you to work harder to justify your capabilities to customers? Does a front-end commitment by Amazon to the pharmacy business give you cause for concern?

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I make a point to meet frequently with industry analysts and heads of different businesses in health care and beyond. I like these conversations. I recently had a long talk with a client company CEO based in the Northwest who challenged me with this question: if Amazon could duplicate our "bread and butter" offerings for a lower fee, why shouldn't he try them out?

I said his company had a perfect right to make that choice – but then I posed some questions of my own. Could Amazon provide those value-

added consultative services to help him evaluate his reimbursement exposure and sales risks? Does it have the longstanding customer relationships that facilitate reliability and awareness of that customer's purchasing history involving a highly regulated, dangerous product? Does it have the combined historical and contemporary perspective on how discounts or rebates work in practice? Is there a high level of internal connectivity among different skills sets, such as required when contracting with physicians on pharmacy and patient support services for "high touch" specialty medicines? If you believe you don't have to worry about how your product gets from point A to point B; how the customer pays for it; who the correct intermediary is, from hospital outpatient facility, to physician right through to the patient; and having data available for reporting so that dozens of stakeholders understand what's going on, then think again. We do that for you – is Amazon prepared to do it as well, while adjusting to the reality that in health care, government wields a mighty sword, and there is almost always more than one party to a pricing transaction?

Competition is natural and a positive sign of a strong market as it represents vitality and growth, and we have positioned ourself strategically to face future competition. We have the strategic depth and resources to respond to any new challenge. In fact, the new ABC Order software system has been carefully designed in a manner that we believe provides a relatable Amazon or EBay experience for our customers, but more seamlessly and at lower cost.

Q

Your formal point of contact with AmerisourceBergen's biggest biopharma customer is the annual two-day ThinkLive event, which this year took place in Dallas. What messages came out of this meeting that, in your view, are most relevant to In Vivo readers? Can you provide any indication of where you intend to take this relationship over the next few years?

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I'd like our colleagues on the manufacturing side to understand the commitment AmerisourceBergen has made to the reliance and dynamism of the pharmacy business here in the US. It is a viable and extremely important stakeholder – in fact, I refer to the pharmacy practice in the context of community care, a concept often poorly understood in this era of rapid consolidation of health care services into bigger and bigger groups.

A most interesting observation we made at ThinkLive is the continued importance of community care and independent pharmacy specifically. Rather than dying off, these entities are prospering. And for a good reason: aging baby boomers are now patients, who, in addition to information on how multiple drugs for chronic conditions interact, and for guidance on synchronizing those multiple prescriptions accordingly, also want something less tangible. It's called personal attention – someone to talk to; someone who knows them.

It's a source of pride to us that Amerisource- Bergen leads the industry in keeping this form of personalized medicine alive. Through our *Good Neighbor Pharmacy* program for independent pharmacies, we operate a service model covering provision of IT programming software and customer-friendly design of the physical space, to recruitment and retention of talent, and consulting to help community pharmacies successfully navigate access issues like prior authorization, formulary placement and other reimbursement rules controlled by the big network players.

Believe it or not, there are still 22,000 working pharmacies in the US today. We think such diversity is a virtue. If it wasn't for us, that diversity, drawing on the "human touch" of the neighborhood pharmacist, would no longer exist. There is a place for individual local entities even as mail-order pharmacy evolves to dominate medicines distribution. Community

is not just a vestige of the past, or an aspirational goal in health care. It is a bridge to the patient. And we hope that biopharma manufacturers will share this view as well.

Q

Your confidence in the future of independent pharmacy is interesting but how does it stack up against the pace of consolidation in pharmacy itself, as exemplified in AmerisourceBergen's own role in the Walgreens Alliance Boots combination?

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The trend in health care right now is for opportunities that span separate elements of the delivery and financing networks. One example is the prospective deal between Aetna and CVS/ Caremark, which is based on the attraction of combining a large covered population of insured with a very efficient retail pharmacy and PBM business. Although this trend may make sense as a purely business proposition, it is very likely to raise questions among regulatory officials. Will this deal result in patients being directed to just one supplier? How will these arrangements maintain competition? Or will they end up restraining competition and limiting consumer choice in an area that is regarded by most people as a public good?

The tenor of the times appears to be shifting to precisely this kind of concern. Health is very local and we see that in the wide variations in the way medicines are prescribed and delivered around the country. Rural areas depend on a few rooted community pharmacies to function in a way the large chains find financially non-viable. In the big cities, the independents have preserved a niche with a bilingual service model, where English is often the second or third language of patients.

This diversity makes us determined to be flexible in serving all the

pharmacy players, big and small. We cover the waterfront, with the size, scale, systems and staff to attract the largest contracts in the industry while also meeting the needs of not only our independent Good Neighbor Pharmacy members, but smaller group oncology and veterinarian practices as well.

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What do you highlight as the biggest transformation change to AmerisourceBergen since you became CEO in 2011?

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It's the alignment we have created around the proposition that AmerisourceBergen is a specialty drug business. In this regard, we are responding to the market: the brand segment in the US now consists almost entirely of biologic, specialty medicines. By 2020, nine of the top 10 medicines in the world will be specialty products. The prototype product is AbbVie's Humira, demand for which has grown steadily over the years, bolstered by the addition of numerous new indications. These are different products than small molecules or generics; they are structurally complex, often unstable, hard to manufacture and precision-tailored to treat different conditions. Patient support is vital. Early on, AmerisourceBergen vowed to position itself to be first in managing such a challenging portfolio of innovations, with the aim of getting these breakthroughs from the manufacturer to the patient, as quickly and safely as possible.

AmerisourceBergen today possesses a full set of capabilities. We understand the specialty segment. We continue to manage the generics space with leading-edge efficiencies and a unique sourcing model, evidenced by the partnership we have with Walgreens and the more recent tie-up with Express Scripts. We can handle it all, from the "high touch" service model in specialty to the scale and bulk efficiency of our generic operations. Be it a brand, a biosimilar, a biologic or the latest cell-

based extraction therapy, we have the expertise. We follow the product every step of the way, from the manufacturer to the market, whether that market is the physician, the hospital, the infusion clinic, and ultimately to the patient. And we have healthy market share in each of these destinations.

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What is AmerisourceBergen contributing to advances on the drug logistics front? Many new drugs based on genetic or cell therapy require highly complex laboratory interventions to certify their stability and safety, personalize the treatments and minimize any toxic effects to the patient.

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It's not well known but AmerisourceBergen, via World Courier, has been selected by Novartis to lead the management of the complicated logistics for the first FDA-approved gene modified cell therapy, *Kymriah*, indicated for treatment of acute lymphoblastic leukemia (ALL). This capability builds on our earlier work for *Dendreon*, which secured FDA approval of the first autologous product, *Provenge*, for prostate cancer, earlier this decade. Logistics is key to connecting therapies to patients. We are coordinating the critical shipments of apheresis donation from patient to manufacturing, and therapy back to the patient, as well as moving the supporting DNA and blood assays. We're very proud of what we are doing – even though much of this takes place behind the scenes.

Cell and gene therapies promise to transform patient outcomes by unlocking cures for diseases but the complexity of these therapies presents innovators with unprecedented challenges across logistics, commercialization, market access and reimbursement. If handled improperly, all of these challenges could derail a product's success and compromise the life of a potential patient. We have the privilege of speaking to and working with many of the innovators in this space and

believe we have best-in-class solutions - including global specialty logistics through World Courier and ICS, patient support services through Lash Group, strategic consulting through Pharmacy Health Solutions and Xcenda, and sourcing and supply chain management through our Strategic Global Sourcing team - to help therapy owners optimize commercialization.

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Can you provide a progress report on the corporate reorganization announced in June?

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As I noted, we have made four large acquisitions since I became CEO. I also referenced our decision to make specialty medicines our core business. Given these changes, it became evident that we needed to take steps to reinforce our operational efficiencies and responsiveness to customers. What we did with the reorganization was to join the best attributes of our specialty and generic businesses into one integrated, global pharmaceutical supply chain business. It's our response to the changes driving health care today: a relentless pressure to innovate; the importance of partnering across functions; and introducing on a broad scale the enabling technologies to boost operational efficiencies.

I'd summarize the reorganization in this way: it's all about being more accessible to our customers. The message to our manufacturer partners is that we are now one AmerisourceBergen – one pharmaceutical distribution and sourcing business. We are not a separated specialty, generic and veterinary business. There are no more silos. I'd be disappointed if our key customers still saw it that way.

Overall, the desire is to be aligned with the manufacturer in bringing the next wave of medicine innovations to patients.

Q

How do you look at business development opportunities going forward? What's your approach to finding the right partner? What growth areas might you be looking at as an acquisition target?

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We are always looking at new ways to leverage our existing strengths to keep pace with market changes and the needs of the customer. We are rich in resources but there are areas with the potential for us to exercise additional leadership, such as the coordination of precision medicine, or the logistical management of cell-based and autologous therapies. Overall, the desire is to be aligned with the manufacturer in bringing the next wave of medicine innovations to patients.

I also intend to continue the effort to grow our global footprint, outside the US. The strategy remains to follow our customers geographically, with regions like Southeast Asia touted as an opportunity to grow AmerisourceBergen's service profile. On a broader, strategic level, it's important that we keep looking at changes in the health system and how others in this vertical are responding. That kind of systemic view provided the rationale for the acquisition of PharMEDium after the 503B regulations on pharmaceutical compounding came out.

On the criteria for acquiring assets, we look for well-managed, best-in-class companies with a complementary business culture emphasizing ethical behavior. Our recent H.D. Smith acquisition is a great example of this. We knew it was the right, strategic fit because we're very much culturally and philosophically aligned with their dedication to delivering a best-in-class customer experience. In addition, our mutual focus on community pharmacies underscored that this was the right move for us.

When we have the right characteristics in place, we know the acquisition will allow both of us to hit the ground running. Our Board of Directors has

been clear in refusing to authorize any tie-up that might impair the reputation of AmerisourceBergen. We follow that edict very carefully, especially on the international side.

And, as you know, to me, personally, the cultural fit around our human capital is all-important. One of the things I am most proud of in my role as CEO is building AmerisourceBergen's reputation as a great employer. It starts with an attitude of respect for each of our 20,000 colleagues. That reputation pays back big dividends in us being seen by others as a partner of choice.

Q

Your message to Wall Street is the company must continue to make heavy investments over the next two years to keep its operational infrastructure up to date, especially as IT evolves to become a strategic growth asset rather than a fixed expense. How is this project going?

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Interoperability of our IT systems has always been a key interest of mine. It increased to a matter of dire necessity after the merger of Bergen Brunswig into AmerisourceBergen in 2001 and even more so after I became CEO and made those large acquisitions to extend our scale and reach into new markets. Today, we are in 70 countries. We have been managing and upgrading legacy IT systems that in a few cases date back 30 years. No one dissents to the idea that investing to upgrade our IT capabilities to the new era of the cloud is essential to our business mission to serve our customers and the patient.

Our plans are well into the execution phase at this point. We are focused on making sure we have the people in place to ensure the new systems work and that our customers get the information they need. It seems contradictory but IT is a people operation. A critical success factor in

every technology investment is preventing redundancies from remaining after the transition to new IT systems. Only a human touch can ensure this doesn't happen.

I am particularly excited about Fusion, a technology and advanced analytics ecosystem, from Lash Group that provides three chief benefits for stakeholders: accelerates speed to therapy; improves patient and provider experience, and generates actionable insights for patients, providers, and manufacturers.

Another investment priority is protection against cyberthreats. We take this as an issue of the first order. We handle many patient records as well as sensitive commercial issues around P&R. I am aware of the fact that hackers have been willing to pay five times as much for a medical record as for a social security i.d. That's why we have a full department managing our cybersecurity exposures. We work closely with other companies to share relevant information. Like every CEO, I focus on making the AmerisourceBergen information systems as safe and impregnable as possible.

Q

To our readers in biopharma, where will AmerisourceBergen be in three years? To the regulatory community and the political class in Washington, what message can you relay in terms of actions on their part to make your task easier in serving patients, customers, colleagues and shareholders?

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My offer to policy makers is to be out there to meet them, on demand, to address the issues that shape our company's role in society. I'd point out that on my travels I visit countries that have a strong and enduring partnership between business and government. Germany is a good example. The US is losing that; there is less collaboration and a lot of

blaming, which is counter-productive because it usually leads to stalemate. When I have the opportunity, I tell policy leaders how easy it is to destroy the innovation that has made pharmaceuticals one of the few remaining bright spots for the US in global commerce. Government needs to be friendly to the industry. Politicians must stop looking at us as somehow responsible for things like the 2008 financial crisis but as a sector that invests, creates jobs and pays taxes.

Right now, AmerisourceBergen is on the front line of the opioid addiction crisis. We have had to face some negative comments about facilitating access to addictive painkillers. It has prompted us to think hard internally and, from that, we are committed to doing more than we have done to date in adapting our practices in concert with the rest of the public health community.

Since 2007, we have reported to the DEA and stopped shipment of tens of thousands of suspicious orders, and have provided daily reports of all opioid-based medication orders to the DEA including the quantity, type and receiving pharmacy of each order that has been shipped. Beyond this ongoing transparency, we recently announced and reinforced a series of operational commitments to address diversion and combat abuse. These include ongoing enhancements to digital tools that help us identify and stop shipment on orders that are deemed to be suspicious; continued multimillion dollar investment in a best-in-class Diversion Control Team, and continued commitment to existing practices of taking no action to market or create demand for opioid-based medicines.

From a policy perspective, our call to lawmakers is to support more transparency around regulatory and industry data. Presently, only the DEA has access to comprehensive, critically needed data on the total quantities of opioids sold to pharmacies across the U.S. While distributors are individually required to report controlled substance data to the DEA, we currently are not privy to if our peers in the industry are supplying

opioid-based medicines to the same pharmacies that we are. We want to collaborate with all stakeholders to gain access to this data so that all distributors can more easily detect suspicious orders, and ultimately help stop bad actors in their track.

Opioid addiction is a complex, multi-faceted and cross-sectoral problem. We cannot solve it alone. In fact, what has been left out of the discussion of culpability in the drug industry is that distributors like AmerisourceBergen are a small sliver of the medicines transaction, consisting of an aggregative order from a pharmacy or a hospital. Thoughtful people in government realize that we are neither prominent nor responsible enough to play the role our critics claim we should.

I am adamant about the notion that the power to override clinical decisions is not an authority that should be granted to distributors. On top of that, we cannot simply divorce ourselves from the distribution of these products. Stopping or severely limiting distribution of these products could mean that hospices, for example, may not have the right therapies to provide comfort to patients in their care. And, it would mean that a corporate distributor supersedes FDA and DEA approvals and clinical decisions made by healthcare providers to meet the needs of their patients. Stopping distribution of opioids would be an easy but amoral choice for a distributor.

As far as our status three years out, I expect few surprises. Your readers will find us fully committed to the pharmaceutical care space. We will raise the game in providing a higher level of service to both biopharma and med tech, from logistics to therapeutics, whether it is in cell-based therapies, specialty or generic medicines. We will guarantee a safe, secure supply chain. And we will provide you with the largest selection of products against the competition. On pricing, our approach will be fair and as predictable as we can, in line with the objective of an equally appropriate return to our shareholders. AmerisourceBergen will continue

as an ethical corporation with a strong culture of integrity. Finally, we intend to work for your business as a preferred partner, as you navigate through disruptive changes in technology and a challenging regulatory and pricing environment.