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Wholesale drug prices may be rising, but rebates are taking a bigger bite

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As anger mounts over the cost of prescription medicines, a new analysis finds that brand-name drug makers increased their list prices by 5.5 percent in last year's fourth quarter, but after subtracting various allowances, their net pricing fell by 1.1 percent.

And the average concession off the list price, which is also known as the wholesale price, was 41 percent, according to Sector & Sovereign Research, which tracks the pharmaceutical industry. These concessions included rebates paid to pharmacy benefit managers, allowances given to wholesalers, fees paid to retailers, provisions for returned goods, and the cost of any copay card or coupon programs.

The figures dovetail with an industry argument that even as list prices may rise, drug makers are actually seeing reduced pricing after paying for such discounts. In recent weeks, both [Merck](#)¹ ([MRK](#)²) and [Johnson & Johnson](#)³ ([JNJ](#)⁴), for instance, released data showing similar trends. In 2016, their average net prices fell from the year before after applying discounts, even as they raised their list prices.

“The data indicates that average rebates are growing faster than list prices,” said Richard Evans of SSR. “If net prices are falling, companies are receiving less money, on average, per prescription, or unit of drug that is sold. And it tells you that the formularies are having a major impact.” Formularies are lists of drugs that receive insurance coverage that are maintained by pharmacy benefit managers.

Of course, this is not the same thing as saying that consumers are necessarily benefiting from the pressure exerted by formularies. Even though pharmacy benefit managers and insurers say most rebates get passed along, “most plan sponsors hoard these rebates rather than sharing the savings with the employees whose prescriptions generated the rebate funds,” Adam Fein of DrugChannels [noted](#)⁵ in discussing the J&J report.

6

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Meanwhile, each company handles the pricing calculus somewhat differently, as SSR noted. For instance, the firm found that five drug makers — Celgene ([CELG](#)⁸), Amgen ([AMGN](#)⁹), AbbVie ([ABBV](#)¹⁰), Roche ([RHHBY](#)¹¹), and Pfizer ([PFE](#)¹²) — made the largest contribution to changes in rising net prices. This was determined by examining changes in list prices with subsequent discounts and allowances offered for their medicines.

This is not to say these companies boosted list prices more than other drug makers, or offered fewer rebates. Rather, these five companies have sufficiently large sales to more dramatically affect the overall industry trend in net pricing. However, Celgene was also one of five companies that, on an actual basis, experienced relatively rapid U.S. net sales growth that was driven mainly by increases in net pricing. The others included AbbVie, Biogen ([BIIB](#)¹³), Acorda Therapeutics ([ACOR](#)¹⁴), and Sumitomo Dainippon ([DNPUF](#)¹⁵).

Overall, Celgene posted 15.7 growth in net prices during last year's fourth quarter, and its net sales grew 17.6 percent. But nearly 79 percent of the quarterly sales were traced to just one medicine — the Revlimid cancer treatment, which accounts for 65 percent of Celgene sales in the U.S. and showed an 18 percent increase in net pricing.

Revlimid, which is used to treat multiple myeloma, autologous hematopoietic stem cell transplant, and myelodysplastic syndromes, is an expensive medication. Its annual net cost is approximately \$180,000 for multiple myeloma, and \$240,000 for the other two indications, according to SSR. The firm noted that the severity of these illnesses and its key role in treatment means that demand is not sensitive to price.

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