

More US drug price hikes in 2016

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US drug makers kicked off the New Year with a new round of drug price hikes despite growing public anger and political backlash.

At the top of the list was Pfizer, which recently announced a \$160 billion merger with Allergan that will make the new firm, which will keep the Pfizer name, the world's largest pharmaceutical company—in addition to substantially cutting Pfizer's tax rate.

According to reports in the *Wall Street Journal* and other news outlets, on January 1 Pfizer raised the prices of 105 of its drugs. The average price hike for 60 of its branded drugs was 10.6 percent, including the intravenous muscle relaxant Quelicin (42.3 percent), the erectile dysfunction drug Viagra (12.9 percent), the pain drug Lyrica (9.4 percent) and the breast cancer drug Ibrance (5 percent). Eight of the company's products saw price increases of 20 percent or more.

Meanwhile, Allergan boosted the prices of 40 of its brand drugs by an average of 9.1 percent. Horizon Pharma increased the prices of five of its drugs by 9 to 10 percent.

Endo International raised the price of its pain drug Percocet by 25 percent—this is in addition to the 25 percent increase in 2015 and 30 percent increase in 2014. Vanda Pharmaceuticals likewise raised the price of its new drug to treat a sleep disorder in blind people by 10 percent, to \$148,000.

Acorda Pharmaceuticals raised the price of its multiple sclerosis drug Ampyra by 11 percent. The company has raised the price of the drug several times since it was first introduced in 2010. It now costs more than \$23,650 per patient and generated \$315 million in sales for the company in the first nine months of 2015.

Drug companies often increase prices at the start of the year, and, in many cases, continue to do so over the course of the year. For example, last year Amgen raised the price of its anti-inflammatory drug Enbrel by 8 percent in May, 10 percent in September, and an additional 8 percent in December. The drug now costs \$36,000 a year, nearly four times as much as the \$10,000 it cost when it was first approved in 1998.

Christopher Raymond, an analyst with Raymond James,

told the *Journal* that the price hikes for Enbrel and other drugs “seem to have increased in magnitude and frequency.”

Rebates may offset some of the price increases, but companies generally don't make the amounts public and repeated increases can offset the rebates.

According to the TruVeris OneRx National Drug Index, drug prices rose an average of 10.4 percent in 2015 (compared to 10.9 percent in 2014). Last year branded drugs rose by 14.8 percent (the same as in 2014), specialty drugs went up by 9.2 percent (9.7 percent in 2014), and generics increased by 2.9 percent (4.9 percent in 2014).

“We're in our third year of double-digit [price increases],” A.J. Loiacono, the chief innovation officer at TruVeris, a firm that tracks drug prices, told the *Washington Post*.

According to the Centers for Medicare and Medicaid Services, US prescription drug spending grew 12.2 percent in 2014 to \$297.7 billion, largely due to increased spending on specialty drugs such as those that treat Hepatitis C, compared to the 2.4 percent rise in 2013.

Mary Brainerd, chief executive of the non-profit HealthPartners, told the *Journal* that drug-industry practices “are becoming increasingly intolerable for consumers, health plans, doctors and hospitals.”

The drug companies are moving ahead despite public outcry over the price hikes, criticism from the leading Democratic presidential candidates, and recent congressional hearings and investigations.

This “signals there's still pricing power,” Jeffries analyst David Steinberg told the *Journal*. “Unlike other countries, there's no mechanism whereby regulatory authorities can control price.”

Democratic legislators recently made a half-hearted proposal.

US representative Lloyd Dogget, a Texas Democrat, issued a letter on January 11 signed by more than 50 other House Democrats asking the National Institutes of Health (NIH) to exercise its “march-in rights” as a method of controlling prices. As part of the federal 1980 Bayh-Dole Act, the NIH was given the authority to “march-in” and issue patent licenses for drugs developed using public funding if the patent holder does not make the drug

“available to the public on reasonable terms.”

“The failure to act in the past has undoubtedly sent an unfortunate signal that prices for federally funded inventions can be set as high as a sick or dying customer will pay,” stated the lawmakers’ letter.

The proposal by the Democrats is simply a smokescreen for the elections. NIH Director Francis Collins has stated in the past that it is not appropriate for the agency to exercise this authority to control drug prices. Thus, the NIH is unlikely to follow the suggestion, although it is preparing to respond directly to lawmakers.

The Democrats, however, were careful to emphasize that even this limited measure should be used sparingly, only “when wrongdoing occurs” so “innovation should not be threatened.” The goal is not to address the underlying cause of skyrocketing drug prices—an economic system where health care is subordinated to the profit interests of corporations—but, instead, to protect the profits of the pharmaceutical industry as a whole by reining in the worst offenders.

“There is a difference between earning a profit and profiteering,” stated Doggett in a press release.

Nonetheless, the drug industry responded belligerently to the proposal. The biotech industry trade group BIO stated that it would “disrupt the biopharmaceutical innovation ecosystem with intrusive governmental intervention,” according to Bloomberg BNA . The group issued a veiled threat that the drug industry stop developing federally funded inventions if the NIH acted on the suggestion.

At this month’s annual JPMorgan Healthcare Conference in San Francisco, Ron Cohen, the chairman of BIO, claimed that profiteering by the pharmaceutical industry was “a perversion of reality,” while calling public anger at rising drug prices “an abomination,” according to STAT News.

Protests over high drug prices were staged at the conference aimed at Gilead’s pricing of its HIV and Hepatitis C drugs. Gilead CEO John Milligan dismissed their concerns as “more of a campaign issue than an actual issue,” reported the *San Francisco Business Times*. According to a Senate Report released last month, Gilead priced its Hepatitis C drugs (Sovaldi at \$84,000 per treatment and Harvoni at \$94,500) to maximize profits, knowing full well that the “prices would put treatment out of the reach of millions and cause extraordinary problems for Medicare and Medicaid,” in the words of Senator Ron Wyden.

The rising prices do not correspond to any significant increases in demand for the drugs. For example, in October, the *Wall Street Journal* examined the wholesale pricing data for 30 top-selling drugs in the US. It found that the growth in prices (76 percent) and revenue (61 percent), far outstripped

the rise in prescriptions (20 percent).

To justify the price hikes, drug companies often argue that the added revenue is pumped back into research and development to produce new drugs. An analysis of how drug companies spend their revenue, however, belies this argument.

A recent investigation by *CBS Money Watch* looked at the 2014 financial data for 16 publicly held pharmaceutical companies, including their annual revenue, spending on R&D (research and development) and SG&A (sales, general, and administrative, which includes marketing), and net income (profit after taxes). The news outlet then listed these figures as a percentage of annual revenue. For example:

- Pfizer (\$49.6 billion revenue; \$9.14 billion profit): R&D spending as percentage of revenue (19 percent) versus sales, general and administrative (SG&A) spending as percent of revenue (28 percent).

- AstraZeneca (\$26.1 billion revenue; \$1.23 billion profit): R&D spending (19 percent) versus SG&A (42 percent).

- Sanofi (\$34.11 billion revenue; \$4.39 billion profit): R&D spending (14 percent) versus SG&A (27 percent).

- Novartis (\$55.63 billion revenue; \$10.21 billion profit): R&D spending (17 percent) versus SG&A (28 percent).

- GlaxoSmithKline (\$23 billion revenue; \$2.76 billion profit): R&D spending (14 percent) versus SG&A (33 percent).

(According to *Fortune*, in 2014 Pfizer spent \$8.4 billion on R&D, but spent 14.1 billion on sales, informational and administrative costs, including advertising, and \$12 billion on share buy backs and dividends to investors).

“In all cases but one, corporate overhead was higher than R&D, and often significantly so,” CBS reported. “In half, after-tax profits were higher than the research-and-development expenses the industry typically points to as the major reason for high costs.”

The CBS story referred to a May 2015 Credit Suisse report that found that drug price increases were the key driver for profit growth. Credit Suisse estimated that “whilst traditional SG&A grew only 4 percent in 2014, when this spend[ing] is combined with rebate expenses, overall promotional costs rose 17 percent, well ahead of reported sales growth.”

“One way of looking at this is U.S. consumers pay more to subsidize marketing activities and profits than to finance new-drug research,” the CBS report concludes.



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