

US Congressional memos highlight price-gouging strategies of drug companies

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Two recently released congressional documents outline the price-gouging strategies of Turing Pharmaceuticals and Valeant Pharmaceuticals and the companies' public relations efforts to address the inevitable public backlash.

On Tuesday, Representative Elijah Cummings, a Maryland Democrat and ranking member of the House Committee on Oversight and Government Reform, issued two supplemental memos to Democratic committee members in preparation for Thursday's hearing on drug prices.

The memos summarize findings based on more than 300,000 pages of new documents obtained from Turing Pharmaceuticals (250,000 pages) and Valeant Pharmaceuticals (75,000 pages).

"These new documents provide a rare, inside look at the motivations and tactics of drug company executives," said Cummings in a press release.

"They confirm what Americans across the country have experienced firsthand for years—that many drug companies are lining their pockets at the expense of some of the most vulnerable families in our nation," Cumming said. "The documents show that these tactics are not limited to a few 'bad apples,' but are prominent throughout the industry."

Turing Pharmaceuticals

Turing Pharmaceuticals made headlines last year after its former CEO Martin Shkreli purchased the drug Daraprim from Impax Laboratories for \$55 million and then jacked up the price by 5,000 percent, from \$13.50 to \$750.

The drug, which is used to treat toxoplasmosis in individuals with compromised immune systems, had been

affordable and widely available before it was acquired by Turing. As a Senate Hearing noted in December, the price hike made Daraprim prohibitively expensive and restricted patient access.

"The documents," states the congressional Turing memo, "demonstrate that although Mr. Shkreli spent no funds on developing Daraprim, which has been on the market for decades, he purchased it for the purpose of increasing the price dramatically and making hundreds of millions of dollars by exploiting its existing monopoly before any competitors could enter the market, which Mr. Shkreli expected would not occur for a number of years."

Shkreli, who was arrested in December on charges of securities fraud, was called to testify at Thursday's hearing but refused to answer questions, repeatedly citing his Fifth Amendment right not to incriminate himself.

By hiking the price, Shkreli expected sales revenues from Daraprim to jump from \$10 million per year to an excess of \$200 million. An internal financial forecast projected a "GROSS PROFIT" of \$134 million in 2016. In an email dated May 27, 2015 to the chairman of the board of directors discussing the significant progress made towards acquiring Daraprim, Shkreli wrote: "\$1bn here we come."

"We raised the price from \$1,700 per bottle to \$75,000," Shkreli wrote to a contact in an email dated August 27. "So 5,000 paying bottles at the new price is \$375,000,000—almost all of it is profit and I think we will get 3 years of that or more. Should be a very handsome investment for all of us."

While a "handsome investment" for Shkreli, the price hike entailed significant financial hardships for patients. Documents reveal that Turing was aware that patients were left with co-pays ranging from \$1,000 to \$16,000.

The company also received numerous letters and emails from hospitals and health care providers describing the negative impacts of the price increase. Even Dr. Rima

McLeod of the University of Chicago, one of the few physicians to support Turing as it hiked the price of Daraprim, raised concerns on October 9 about patient access, writing:

“This sounds like smoke and mirrors when someone’s sight and life are threatened and is not acceptable. ... There really cannot be delays. People will really be hurt lifelong. You have a monopoly on safe reliable medicine right now and it truly matters for people’s lives.”

According to the documents, Turing executives anticipated a backlash, “but believed that physicians generally are not sensitive to price increases and that HIV/AIDS advocates—while organized and vocal—could be managed,” says the memo.

For example, a July 7 company presentation stated: “Many feel the number of toxoplasmosis patients is too small to stimulate a significant lobbying effort were the cost of therapy to become an issue.” On September 21, an outside consultant advised senior management of the company on how to handle negative coverage: “If we can get HIV/AIDS activists to ‘sit this one out,’ we come out way ahead.”

The memo also details the public relations (PR) strategy employed by Turing, which sought to divert attention away from the price hikes by focusing on patient assistance programs (PAPs) and research and development (R&D) efforts.

“Internal communications,” states the memo, “show that Turing officials joked about this strategy and did not in fact intend to lower the price of Daraprim.”

As the controversy over the pricing of Daraprim grew, an outside consultant emailed a member of Turing’s board of directors on October 8 with PR advice aimed at “more long term reputation rehabilitation by forcing a focus on Turing as a research and development company—not a pharma hedge fund hybrid.”

Internal documents reveal that Turing Pharmaceutical’s claims that the added revenue from the drug sales would be invested in R&D was simply a ruse. On December 8, Dr. McLeod emailed company officials stating that she was unaware “of what makes Turing solvent and able to do research ...”

“However,” she continued, “Martin [Shkreli] did say that he had to maximize profit for investors and that was why price is high. He did not say it was for research primarily that it was a high price. He called that the ‘dirty secret’ of pharma.”

Valeant Pharmaceuticals

Valeant Pharmaceuticals came to the attention of legislators after it acquired two heart drugs in February 2015 and raised their prices by 525 percent (Isuprel) and 212 percent (Nitropress). This was after the drug’s previous owner, Marathon Pharmaceuticals, had raised the prices of the respective drugs by 384 percent and 486 percent after acquiring them in 2013.

“The documents indicate,” states the congressional Valeant memo, “that [Valeant CEO] Pearson purchased Isuprel and Nitropress in order to dramatically increase their prices and drive up his company’s revenues and profits.”

Similar to Turing, Valeant’s R&D spending on the two drugs was “nominal.”

Valeant’s price-gouging activities went well beyond Isuprel and Nitropress, raising the prices of more than 20 additional products by over 200 percent from 2014 to 2015. “Valeant raised the prices of several of these products multiple times from 2014 to 2015, in some cases by as much as 800%,” says the memo.

Like Turing and other pharmaceutical companies, Valeant employed a PR strategy to distract from the price hikes and focus attention on patient assistance programs. “Kind of hard to paint us as greedy if we have removed financial barriers for patients,” states a September 20, 2013 letter from Valeant executives.

“In fact,” states the memo, “the documents indicate that Valeant used its patient assistance programs to justify raising prices and to generate increased revenues by driving patients into closed distribution systems.”

While the memos focused on only two companies, the practice of hiking prices to enrich shareholders and then obfuscating the issue through public relations is endemic to the pharmaceutical industry as a whole. Last year, drug prices rose by an average of 10.4 percent, the third year in a row of double-digit price increases.



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