

6 Trends Shaping Pharma Strategies in 2024

A conversation among Advisory Board and Optum Life Sciences Experts



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Untangle healthcare's most pressing challenges

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Six trends shaping pharma strategies in 2024

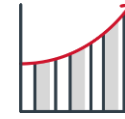
STRUCTURAL CHANGES TO THE COMPETITIVE MARKET



Federal and state legislation beyond IRA **poised to fundamentally change the drug value chain** in predictable and unintentional ways



All stakeholders will be impacted by **Medicare Advantage surpassing traditional Medicare**



Private equity's next growth chapter is being driven by acquiring independent physician or specialty care practices to package for buyers

ADDRESSING EMERGING CUSTOMER NEEDS



Novel products are transforming patient journeys in ways that **pose significant challenges for payers and providers**



Lack of HCP confidence in new products threatens to **undermine their transformative value**, impact on patient journeys



Pharma manufacturers evolving their business to **meet patient access needs on patients' terms**

01

Scrutiny of the pharma value chain in an election year

We are in the midst of a whole-government focus on the drug pipeline and pharmaceuticals at the federal and state level — whose long-term consequences remain unclear. As dynamics change in response to the Inflation Reduction Act of 2022 (IRA) and other regulatory changes, the stakes for having robust real-world data are elevated by the clinical as well as commercial implications.

To stand out amongst potential competitors, evidence must not only demonstrate the value of a medication, but its impact on total cost of care and patient outcomes.

Healthcare leaders must adjust to new state drug policies

A wave of new policies focused on drug pricing in 2023

825 bills proposed in 52 states (including DC and Puerto Rico)

Main targets



PBMs and health plans

- Examples: PBM transparency and reporting, affordability boards, spread pricing, pharmacy/patient steerage, consumer cost-sharing (including copay adjustment programs)



Life sciences manufacturers

- Examples: Patient out-of-pocket caps on insulin and epinephrine, drug importation programs, reporting drug prices and increases



Health systems

- Examples: 340B reporting and transparency

States to watch in 2024

147 bills enacted in 44 states



Texas established the Texas Pharmaceutical Initiative to launch a statewide transparent PBM
What to watch: Reaction of PBMs competing in Texas's commercial market



Florida passed a drug importation law in 2023, allocating \$15M to purchase drugs from Canada
What to watch: Program success and popularity



Minnesota and New Jersey passed bills in 2023 creating prescription drug affordability boards
What to watch: Impact on state drug spend

Becker, C., "Prescription Drug Bills in 2023: 5 Emerging Policy Trends," National Conference of State Legislatures, March 2023. "2023 State Legislative Action to Lower Pharmaceutical Costs," National Academy for State Health Policy, November 2023.

Landmark IRA drug cost action is not a policy outlier

Recent and emerging regulatory activity on drug costs points toward systemic overhaul



Manufacturer prices

Medicare can **negotiate a “maximum fair price”** for certain high-spend, older drugs without alternatives

First negotiated prices take effect in 2026



Drug benefits coverage

Part D benefits lower the beneficiary cost cap and **shift catastrophic coverage** across plans and manufacturers



Pharmacy sourcing

States pursue pharmacy choice laws to **restrict white bagging** mandates

EMERGING



PBM business activities

- FTC demands **disclosures** from six of the largest PBMs and three affiliated GPOs
- Congress advances bipartisan bills aiming to address **spread pricing** and require **transparent reporting** from PBMs

Source: McDermott+Consulting; Cubanski J et al, "Explaining the Prescription Drug Provisions in the Inflation Reduction Act," KFF, January 2023; Fein A, "The Inflation Reduction Act: 10 Predictions About Market Access and Drug Channels," Drug Channels, April 2023.

02

MA's transformational market impact

With an estimated \$473 billion paid to plans and 51% of Medicare enrollees now choosing Medicare Advantage (MA) over traditional Medicare, MA is poised to shape the future of payment and care delivery.

The continued maturation of the MA market, combined with payment decreases starting in 2023, will require health plans to adapt. This may include increased scrutiny from MA-participating stakeholders of drug costs and care pathways.

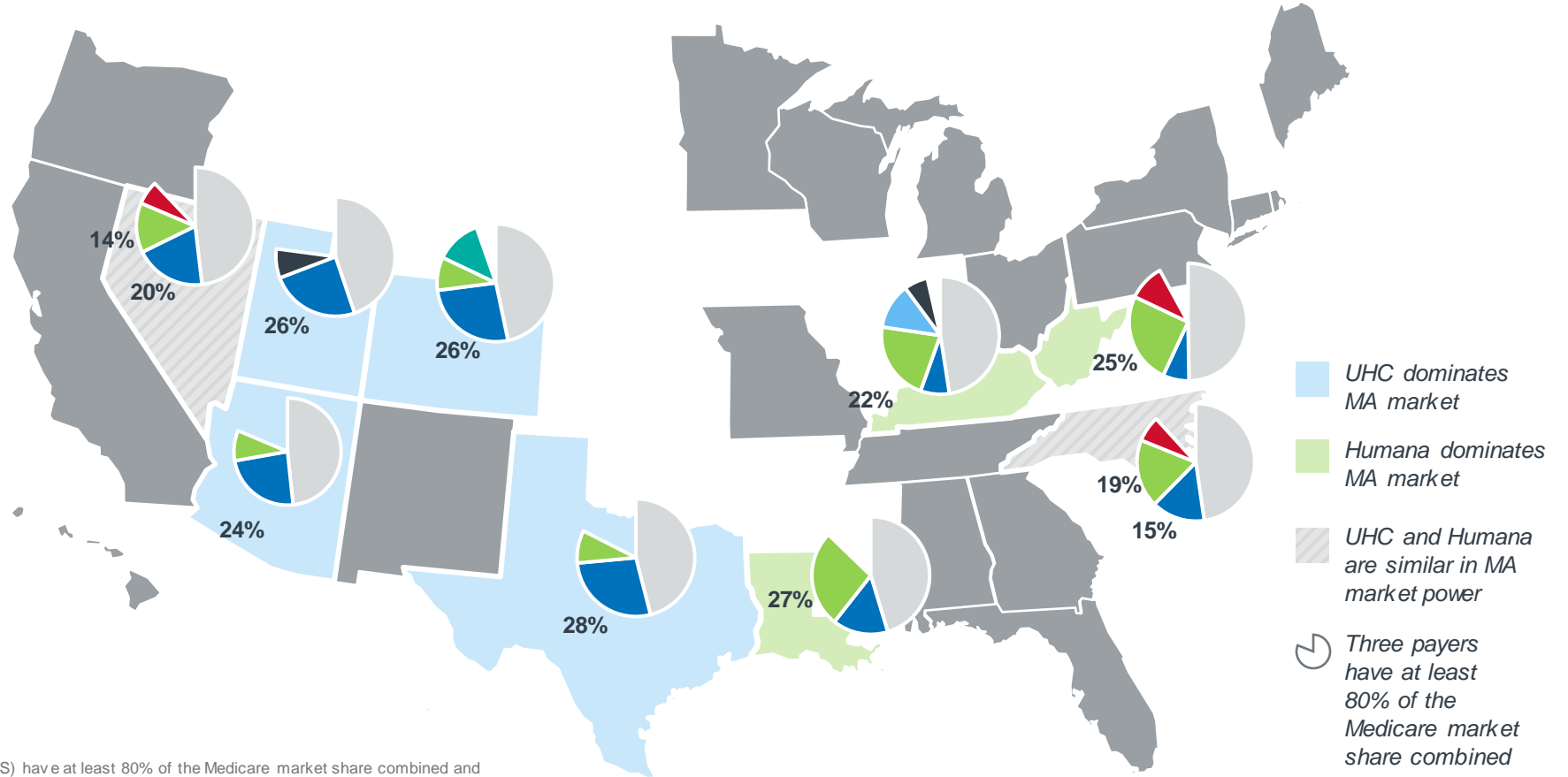
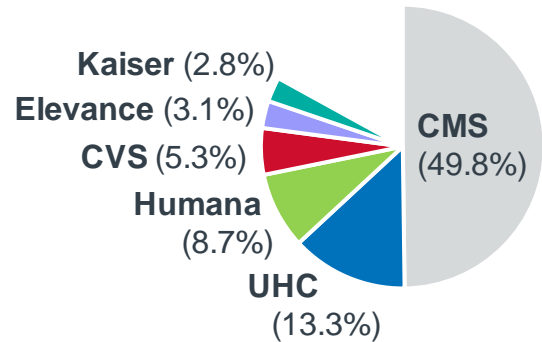
["Medicare Advantage in 2023: Enrollment Update and Key Trends,"](#) KFF, August 2023; ["What to Know about Medicare Spending and Financing,"](#) KFF, January 2023; ["Half of All Eligible Medicare Beneficiaries Are Now Enrolled in Private Medicare Advantage Plans,"](#) KFF, May 2023; ["Fact Sheet: 2024 Medicare Advantage and Part D Rate Announcement,"](#) CMS, March 2023; ["CMS eases 2024 payment rate cuts to Medicare Advantage insurers,"](#) Benefits Pro, April 2023; ["Walmart to expand 28 stores with health care centers in 2024,"](#) AP News, March 2023; ["Humana to Exit Employer Group Commercial Medical Products Business,"](#) Humana, February 2023; ["Customer experience in Medicare Advantage,"](#) McKinsey, October 2020; CB Insights; ["Don't Look Up? Medicare Advantage's Trajectory And The Future Of Medicare,"](#) Health Affairs, March 2022; ["Amedisys accepts UnitedHealth Group's Optum acquisition offer,"](#) Modern Healthcare, June 2023; ["Sweeping changes to Medicare Advantage: How payers could respond,"](#) McKinsey, July 2023.

As MA passes 50%, local power will affect partnerships

Medicare market share composition¹ within most concentrated states² (January 2023)

States depicted have over 50% Medicare Advantage penetration

National Medicare market share composition



1. Pie charts show states where the top three payers (including CMS) have at least 80% of the Medicare market share combined and depict payers with at least 5% of the market share. Black indicates an MA plan other than UHC, Humana, CVS, Elevance, or Kaiser.
 2. Map shows states where CMS has less than 50% of the Medicare market share.

Source: Advisory Board analysis of CMS MA enrollment by SCC-October 2017-2022 and Medicare Monthly Enrollment data sets.

MA business model is still attractive, but getting harder

In 2023, Corporate players prioritize MA...

Medicare Advantage (MA) enrollment share of Medicare **51%**

2023

...despite increased scrutiny on MA business model

\$473B Estimated payments¹ to plans

SAMPLE CORPORATE MOVES

UnitedHealthGroup

- Acquires **LHC Group** for **\$5.4B**
- Acquires **Amedisys** for **\$3.3B**

CVS/Aetna

- Acquires **Oak Street Health** for **\$10.6B**

Walmart

- Adds **28** health clinics, offers co-branded **UHC** MA plans
- Considering acquisition of **ChenMed** (rumored)

Humana

- Announces exit from employer insurance by **2024**

SAMPLE PAYMENT CHANGES

Stars ratings

- CMS reduces payment rates by **1.24%** for 2024
- Increase in customer experience weighting

2024 Rate Announcement

- **1.12%** effective rate decrease represents **\$4.7B** loss in revenues
- Risk adjustment changes bring MA rates down by **2.16%** on average to align with FFS
- Health equity index replace current bonus factor for plans

RADV Final Rule

- CMS can recoup extrapolated improper payments, expected to be **\$4.7B** from 2023-2032

Part D

- Payers will lose over **\$11B** in annual revenues from eliminated fees
- Government share of catastrophic coverage drops from 80% to **20%**

Projected MA enrollment share of Medicare **61%**

2031

\$943B Projected payments¹ to plans

1. For Medicare Part A and Part B benefits.
2. Risk Adjustment Data Validation.

Source: See additional sources slide.

03

Private equity's next growth chapter

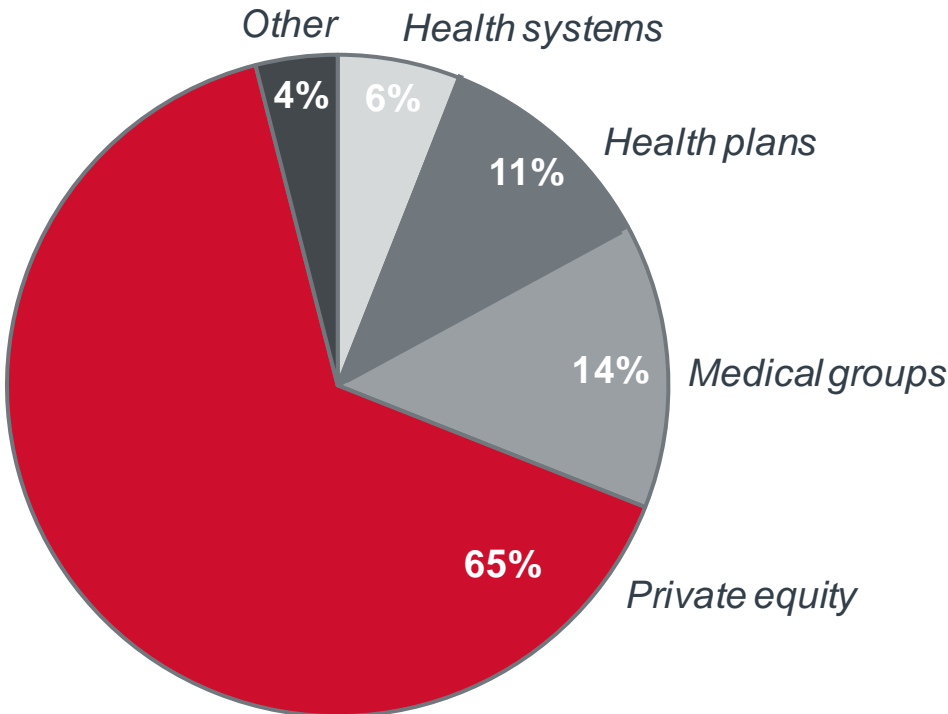
Private equity has invested an estimated \$750 billion in health care over the past decade. This sector's current focus appears to be the acquisition of independent primary and specialty care practices.

This interest is driven in part by the intersection of complex novel products, accompanying diagnostic tests, site-of-care shifts, and an aging patient population. The tendency for PE to focus on specific geographic means manufacturers must be attentive to the way PE-operated practices differ from others in the market.

Scheffler, R. M. (2021, May 18). Soaring private equity investment in the Healthcare Sector.

Physician aggregation a linchpin of PE strategy

Percentage of acquired physicians by funder type (2019-2023)



28%
The number of markets where a single PE firm owns more than 30% of practices in 10 specialties¹

Note: AHA analysis of Lev inPro HG, Lev in Associates, 2023, June, lev inassociates.com. Only includes values for deals where the number of acquired physicians was reported. Certain acquirer types were also modified to more closely align with the services provided by the acquirer
1. cardiology, dermatology, gastroenterology, obstetrics/gynecology, oncology, ophthalmology, orthopedics, primary care, radiology, and urology

Source: American Hospital Association, "Setting the Record Straight: Private Equity and Health Insurers Acquire More Physicians than Hospitals," June 2023; American Antitrust Institute, "Monetizing Medicine: Private Equity and Competition in Physician Practice Markets"



Snapshot of private equity infusion investments

IVX Health

Freestanding infusion operator with 50 infusion centers in 16 markets

QUICK FACTS

- Received \$100 million in fresh capital in 2022
- Focus on complex chronic conditions
- **Looking to “accelerate growth into new markets”**

Vivo Infusion

Freestanding infusion network with 34 infusion centers in 5 markets

QUICK FACTS

- Launched by private equity firm through consolidating two existing infusion providers
- Undisclosed dollars invested
- **Plans to expand into new states**

InfuCare Rx

Specialty home infusion provider in 6 markets with national digital presence

QUICK FACTS

- Received undisclosed amount from private equity in 2022
- Focus on specialty infusion and care coordination
- **Looking to further develop home-based care model**

Key data to keep in mind

1 Medicare-eligible seniors projected to represent **23% of population by 2060**

2 Infusion market predicted to **grow from \$100B in 2021 to \$140B in 2025**

3 Home infusion **predicted to grow at an 8.5% compound annual growth rate from 2019-2026**

Source: [“One Equity Partners Completes Investment in InfuCare Rx, a Leading Home Infusion Therapy Provider,”](#) PR Newswire, January 2022; Pringle, S., Exclusive: [InTandem launches Vivo Infusion via two-part deal](#), Axios, March 2022; Landi, H., [Infusion center operator IVX Health gets \\$100M cash injection to expand into new markets](#), Fierce Healthcare, September 2021

No two PE deals are created equal

Five factors influence success of PE-physician practice partnership



Type of care delivered

Primary care investments bet on the transition to value-based care

Specialty care investments seek more fee-for-service revenue



Practice sophistication

Platform practices have scalable care model or infrastructure

Add-on practices are added onto platform practice due to limited size or infrastructure



Alignment on quick growth

Goal of PE is quick ROI through growth and cost-cutting

Successful partners agree on what is implemented during the rapid growth phase



Firm's health care knowledge

Healthcare is hot, but not all PE firms have deep experience in the industry

Betting on value-based care requires even deeper expertise



Regional market dynamics

Existing competitors in region will impact ability to win market share

Regional strategy will impact the firm's success

04

Growing strategic importance of drugs brings challenges

Drug spending is poised to grow in strategic importance for health systems at the same time that novel products transform patient journeys in ways that pose longitudinal challenges to providers and purchasers.

Early evidence from cell and gene therapies, weight management drugs, and Alzheimer's care show the challenges manufacturers must navigate as providers and payers alike grapple with the complexity and value of these products over time.

This may alter the scope of manufacturer's responsibility for outcomes relative to existing norms.

Drugs poised to eclipse the strategic focus on procedures



THERAPEUTIC DRUGS

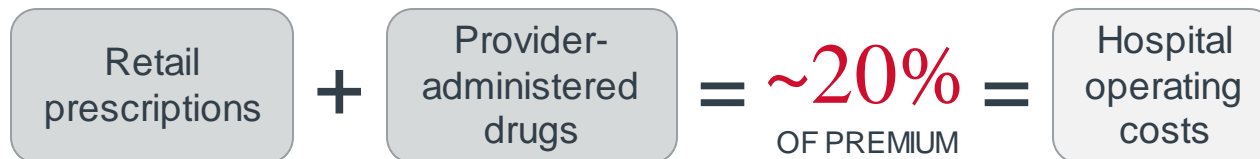
1. Innovation activity targets rare, untreated conditions
2. Drug spend catching up to hospital operating costs



EPISODIC PROCEDURES

1. Innovation activity enables lower-acuity care
2. Transparency data and outpatient shift pressure rates

One provider-sponsored plan's experience with drug costs in 2022:



69%

Average price for a procedure in an ASC relative to the same in a HOPD¹, 2019

Source: "Shifting Common Outpatient Procedures to ASCs" Can Save Consumers More than \$680 per Procedure," UHG, September 2021; "Impact Report - Q1," Turquoise Health, March 2023; "Toolkit Overview: Pipeline," Tufts, December 2020; Advisory Board Market Scenario Planner

1. Hospital outpatient department.

Unique drug dynamics intensify our usual challenges

Clinicians overwhelmed by pace of innovation

68% of physicians report feeling overwhelmed by the amount of information to keep up with, 2022

Specialized, longitudinal care and financial coordination

Scale of complexity and cost requires highly specific care delivery and access management

Purchasers focused on near-term cost exposure and benefits

Extreme financial uncertainty leads to limited coverage and varied experiments

Emerging drugs intensify evergreen challenges



Two-tiered patient access



Hurdles to payment transformation



Consolidated utilization control

05

Bolstering provider confidence to deliver transformative value

Provider uncertainty over the long-term impact of cell and gene therapies is leading to increasing reports of situations where patients remain on the current standard of care, challenging manufacturer value narratives around the transformational impact of these products.

Manufacturers must address this lack of physician confidence or face questions from purchasers over whether they are seeing the expected value from these products.

Spending on CGTs to hit a new high in 2024

Anticipated cell and gene therapy approvals in 2024

Therapy	Estimated U.S. disease prevalence (patients)	Projected U.S. 2024 sales
Afami-cell <i>Cell therapy for rare cancer</i>	7,300	\$7M
Tab-cel <i>Cell therapy for rare cancer</i>	0.1-0.6 cases per 100k (estimated incidence rate)	\$25M
Zevor-cel <i>CAR-T for rare cancer</i>	49,000	\$2M
Fidanacogene Elaparvovec <i>Gene therapy for hemophilia B</i>	4,000	\$6M
Upstaza <i>Gene therapy for rare genetic disorder</i>	<100	\$51M
Libmeldy <i>Gene therapy for rare genetic disorder</i>	9,300	\$11M

2024 by the numbers

\$22.4B

Estimated spend on gene therapies

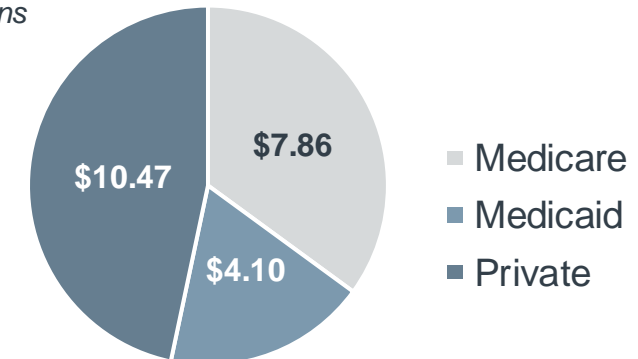
93,000

Estimated patients treated by gene therapies



Breakdown of projected spend by payer type

In billions



Sources: "Estimating the Financial Impact of Gene Therapy in the U.S.," NBER Working Paper No. 28628, April 2021; Evaluate Pharma database; Alliance for Regenerative Medicine, [Sector Snapshot](#), August 2022; "Aromatic L-amino acid decarboxylase deficiency," MedlinePlus; Petara, M.R., et. al., [Post-transplant...](#), Cancer Letters, 369(1), December 2015.

A strong portfolio of potentially transformative drugs

Key characteristics to evaluate the impact of specific emerging high-cost drugs

EXAMPLES	1 List prices and revenues	2 Estimated population size <i>As of 2022</i>	3 Clinical significance	4 Administration logistics and timing	5 Future pipeline developments to watch
GLP-1 agonists for weight loss ¹	\$16.2k / patient ² \$25B sales est. for 2028	142M (eligible)	Improvement to weight loss treatments	<ul style="list-style-type: none"> • Ongoing weekly injections • Patient-administered 	<ul style="list-style-type: none"> • May be used to reduce BMI to qualify for surgery • FDA approval for oral versions likely by end of 2023
Leqembi (lecanemab) for Alzheimer's	\$26.5k / patient ³ \$3.1B sales est. for 2028	100k (eligible)	New treatment to slow cognitive and functional decline	<ul style="list-style-type: none"> • Ongoing biweekly infusions • Provider-administered 	<ul style="list-style-type: none"> • Eli Lilly expected to submit bid for approval of Alzheimer's treatment donanemab in 2023
CAR T-cell therapies for blood disorders	\$373k / patient \$6B sales est. for 2026	2,000 (treated from 2019 – January 2022)	Improvement in short-term and long-term cancer remission	<ul style="list-style-type: none"> • One-time gene therapy infusion • Provider-administered 	<ul style="list-style-type: none"> • Decision on cell-based gene therapy to treat sickle cell disease and beta thalassemia expected in early 2024
Hemgenix gene therapy for hemophilia B	\$3.5M / patient \$44M sales est. for 2028	3,300 (eligible)	New treatment to replace regular prophylactic infusions	<ul style="list-style-type: none"> • One-time gene therapy infusion • Provider-administered 	<ul style="list-style-type: none"> • Gene therapy Roctavian approved by FDA in June 2023 for adults with severe hemophilia A

1. Such as Saxenda (liraglutide), Wegovy (semaglutide).

2. Annually, for semaglutide.

3. Annually, for lecanemab.

See additional sources slide f or sources.

06

Pharma evolving to address patient access hurdles

The past three years have been characterized by stakeholder evolution throughout healthcare, yet 73% of adults do not believe the healthcare industry is meeting their needs. Driven in part by access challenges across the care continuum.

We are starting to see examples of ways in which manufacturers are evolving to meet patient access needs on patient's terms and outside of traditional dynamics.

A mandate to address consumer's access needs

73%

Adults believe the healthcare system is **not meeting their needs**

n=2,519 adults in March 2023

38%

Americans reporting they or family **postponed care due to costs**

n=1,020 adults in 2022

Average physician appointment wait times by market

Metro area	Average per 5 specialties
Portland	45.6 days
Boston	33.8 days
Minneapolis	30.8 days
San Diego	30.2 days
Miami	29.2 days
Philadelphia	28.2 days
Seattle	28.2 days
Denver	26.8 days
Los Angeles	22.2 days
Dallas	21.0 days

Source: "Record High in U.S. Put Off Medical Care Due to Cost in 2022," Gallup, January 2023; "Perspectives on Today's Healthcare," The Harris Poll and AAPA, 2023; "2022 Survey of Physician Appointment Wait Times and Medicare and Medicaid Acceptance Rates," AMN/Merritt Hawkins.

Patients will demand more tech-enabled medication services

Four areas of potential strategic investment

Integrate pharmacy services into daily consumer platforms

50% Of patients in a survey were interested in the ability to **digitally request prescription refills**

Incorporate specialty pharmacy data into electronic health records



Patients will expect integrated care throughout their health journey with **clear communication** between pharmacies and prescribers

Simplify access to price transparency data



Companies like **GoodRx** and **Mark Cuban Plus Drugs** have sparked patient demand for transparent drug pricing

Ensure proper safeguards for patient data

75% Of surveyed patients expressed concern about **protecting the privacy** of personal health data

Source: Krishnan, V. [Recent KLAS report reveals gaps between patient expectations and the reality of today's digital healthcare interactions](#), MedCity News, July 2022; Press release: [Patient survey data shows unresolved tension of health data privacy](#), American Medical Association, July 2022.



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