



Pharma Supply Chain & HCIT

Nephron January Price Auditor: Brand Steady at +4.3%; Generic Deflation Declines to -2.5%

Through the first month of 2020, brand (Bx) price increases centered on the 5% and 6% level while averaging 5.2%, well below the 10%-12% increases that characterized Jan. 2013-2016 and below the 5.8% increase experienced at this point in 2019. The 257 increases to date are in-line with the 263 products that increased in Jan. 2019 and suggest continuation of Bx inflation averaging ~4%, a level that is supportive of current supply chain expectations. This is consistent with our finding of +4.3% Bx growth in Jan. and comes as Generic (Gx) deflation has declined to -2.5% in line with historic levels.

Generic Auditor: Price deflation improved to -2.5% y/y in January. The Nephron Pharma Price Auditor puts deflation at -2.5% in January, indicating a continued improvement over the elevated trend experienced in the Spring of 2019 and 3.4% in the prior month. The Jan. data point indicates that Gx deflation continues to decline to historic levels, roughly where it stood from 2002-2009. At this level we expect distributors can again grow absolute Gx program profit over the course of 2020 as demonstrated by MCK and CAH's Dec. Q financial results last week.

Brand Auditor: January inflation 4.3%; Jan price increases center on 5% or 6%. For January, the Nephron Auditor finds branded inflation was 4.3% y/y, up slightly from December's 4.0% but down from 4.5% Bx inflation a year ago. **The Nephron Auditor indicated that 257 brand products took a price increase in January 2020 with an average increase of 5.2% m/m.** 48% of the price increases were +/-20bps of 5% or 6% while <2% were near 10%. Based on early 2020 price increases we expect brand inflation will continue within the 4%-5% range for the year, which is supportive of stated pharmacy, distributor and PBM expectations.

Distributor Performance: Generic trends support profit growth at MCK and CAH, though the source of CAH's upside surprise remains a mystery. Over the last six-months we have written often on improvement in Gx buy-side deflation and sell-side pressure, which led MCK to begin to report an increase in absolute Gx profits in late 2020 but had failed to materialize at CAH owing to volume declines at Freds and Kroger. While a portion of CAH's Dec Q outperformance can be attributed to variance from internal forecasts – delays in 1Q launches and pull forward of launches expected in 3Q – we are hard pressed to identify the products that could drive such a large and sustainable beat (NuvaRing alone seems unlikely).

Market Review: For January, our review focuses on manufacturer and supply chain commentary on 2020 price trends, and regulatory and legislative proposals. Commentary over the last month points to expectations for both increasing price stability in 2020 and the impact of several current pricing reform proposals. We highlight notable quotes on pricing from supply chain participants (i.e., MCK, ABC, CAH), manufacturers (i.e., Amgen, Biogen, and Eli Lilly), as well as comments on drug price reform delivered by President Trump during his State of the Union address.

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