ktp advisors

The U.S. Healthcare Payer Market is now a Vertically Integrated Oligopoly

With Cigna's (NYSE: CI) announcement that it is acquiring Express Scripts (NASDAQ: ESRX), the U.S. Healthcare payer market for prescription drugs is now officially an Oligopoly. This exclusive three member club also includes UnitedHeathcare (NYSE: UNH) and CVS Heath (NYSE: CVS).

Following the script (excuse the pun) laid out by UnitedHealthcare who acquired Optum and CVS which bought Aetna, CIGNA is buying the last large, independent pharmacy benefit manager, Express Scripts.

Prescription drugs in the U.S. march along the following path: pharmaceutical manufacturer (birth), Pharmacy Benefit Manger a.k.a. PBM (impressionable adolescence), retail drugstore (adulthood), consumer consumption (death). This trip from birth to death is paid for by the health insurance carrier. Now the journey will begin at the pharmaceutical maker but the rest of the trip will be controlled by one of the members of this new triumvirate.

New specialty medicines are incredibly expensive and demographics in the U.S. point to more retirees who consume a lot of drugs. Control of the prescription drug market is going to get more important and that's why UNH, CVS and CI have done these deals. Who is going to step up to the plate and buy the last large retail drug chain, Walgreens?

Amazon (NASDAQ: AMZN), UnitedHealthcare or Cigna? What about Anthem and Humana? Anthem and Humana are going to find it harder and harder to compete because they control less of the value chain and prescription drugs are becoming a bigger and bigger portion of our total healthcare bill. Smaller independent PBMs are going to find life more difficult to thrive and retail drug chains without a PBM are already in an over saturated market with no place to go.

The rapid consolidation of the payer market into integrated vertical players is mimicked in the U.S. provider market but the providers are consolidating horizontally, not vertically. Hospital chains are getting bigger and so are doctors' groups. In healthcare, bigger is better. That's good for Wall Street but is it good for America? It's too early to tell.

What does this mean for the plan sponsors (employers who provide health plans) and the ultimate end users (individuals, families and retirees) who need to go to the doctor, visit the hospital and get their prescriptions filled? Hopefully it means: 1) tighter integration between medicine and prescription drugs - these two forms of healthcare have been separated historically, even Medicare is set up that way with Part D separate from Parts A and B; 2) more normalized brand name drug pricing - drug prices have been susceptible to wild price fluctuations driven by patent extensions, pharmaceutical rebates and specialty drugs; and 3) cutting some of the fat out of U.S. healthcare costs.

More likely, it means less negotiating leverage for plan sponsors and less plan choice for consumers.

Newport, RI 02840
p: 401.490.9350 | www.ktpadvisors.com
Keeping the Promise