

# UnitedHealth bulks up for prescription drug cost battle

March 30 2015, by Tom Murphy

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This Tuesday, Oct. 16, 2012, file photo, shows a portion of The UnitedHealth Group Inc.'s campus in Minnetonka, Minn. The nation's largest health insurer, UnitedHealth, is staking a bigger claim in pharmacy benefits management with a plan to buy Catamaran Corp., for more than \$12 billion in cash, the company announced, Monday, March 30, 2015. (AP Photo/Jim Mone, File)

The nation's largest health insurer, UnitedHealth, will muscle up for its fight against rising prescription drug costs by spending more than \$12 billion to buy pharmacy benefits manager Catamaran Corp.

Pharmacy benefits managers, or PBMs, help negotiate the prices that customers pay for prescription drugs. They are seen as a key component in the push to contain soaring costs from specialty drugs, complex medicines that can represent treatment breakthroughs but often at a much higher price than other drugs.

Rising costs from these drugs are expected to affect more patients as use of the treatments grows and coverage for them shrinks.

UnitedHealth and Catamaran said Monday that their deal will combine businesses that have "distinctive, rapidly growing specialty pharmacy services" for a segment of the market that is expected to quadruple from an estimated \$100 billion in revenues last year to possibly \$400 billion by 2020.

Specialty drugs treat certain forms of cancer, multiple sclerosis and hepatitis C, among other conditions. They have always been pricey but confined to relatively small patient populations. That's changing, due in part to some newer hepatitis C treatments that could be used by millions of patients.

Nearly 32 cents of every dollar spent on prescriptions now goes toward a specialty drug, according to the nation's largest pharmacy benefits manager, Express Scripts Holding Co. That's up from 12 cents of every dollar spent in 2009.

PBMs run prescription drug plans for employers, insurers and other customers. They have been countering rising specialty drug costs by requiring patients to try other treatments first or by doing more care management to make sure customers stay on their medicines. They also can use the leverage that comes from their size to negotiate coverage restrictions that lower costs.

St. Louis-based Express Scripts, which filled about 1.3 billion prescriptions last year, said in December that it will no longer cover Sovaldi and Harvoni—two Gilead Sciences Inc. drugs that cost more than \$80,000 each for a full course of treatment—or Johnson & Johnson's Olysio for some customers except under limited circumstances.

Instead, it made AbbVie Inc.'s Viekira Pak its preferred treatment.

PBMs generally don't detail the price breaks they get from these negotiations, and the difference may not filter entirely down to patients. More payers are making customers pay more out of pocket for specialty drugs before coverage of the medicines kicks in.

The combination of UnitedHealth Group Inc.'s OptumRx PBM business and Catamaran will create a PBM that fills around 1 billion prescriptions annually.

The deal is a "material first step" for both companies in understanding how to contain costs from these newer drugs, said Steve Brozak, who covers the pharmaceutical industry as president of WBB Securities.

Acquisitions have been a key means of growth in the PBM sector for years. In 2012, Express Scripts became the nation's largest PBM by completing a \$29.1 billion acquisition of rival Medco Health Solutions. That same year, Catamaran changed its name from SXC Health Solutions after spending more than \$4 billion to buy another PBM, Catalyst Health.

UnitedHealth said Monday that, for the latest deal, it will spend \$61.50 in cash on each share of Catamaran. That's a 27 percent premium to Catamaran's closing price Friday.

Catamaran, based in the Chicago suburb of Schaumburg, Illinois, had about 207.5 million shares outstanding at the end of January, which puts the deal price at roughly \$12.76 billion.

The deal is expected to close during the fourth quarter.

Shares of Catamaran rose 24 percent, or \$11.61, to \$59.93 Monday in midday trading, while broader indexes also advanced around 1 percent. UnitedHealth, based in Minneapolis, also saw its shares climb 2.6 percent, or \$3.11, to \$121.12.

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