

Runaway costs prompt another big US health merger

March 8 2018, by John Biers



Insurer Cigna will purchase pharmacy benefits manager Express Scripts, with the companies saying they can now achieve \$600 million in administrative savings

The need to address runaway health care costs in the US prompted another megamerger Thursday with insurer Cigna announcing the \$67

billion purchase of pharmacy benefits manager Express Scripts.

By combining two players from different corners of the sprawling US [health care market](#), the companies said they could achieve \$600 million in administrative savings.

Cigna chief executive David Cordani touted the benefits of taking ownership of Express Scripts and its capacities to negotiate medicine and [health](#) services for employers, government programs and other clients.

"Our society needs a step function improvement in affordability that is delivered in a highly personalized fashion, having the consumer touch points, having the further depth in clinical engagement," Cordani said on a conference call with analysts.

The transaction follows on the heels of pharmacy chain CVS Health's \$69 billion takeover of insurer Aetna, another so-called "vertical" merger because it combines two entities at separate stages of the health industry value chain.

US antitrust regulators in 2016 blocked proposed "horizontal" combinations between health insurers, including a thwarted merger between Cigna and Anthem.

With that possibility foreclosed, insurers are looking to other options for cutting costs.

"Merger activity in the healthcare space is picking up as companies are aiming to find ways to control rising [health care costs](#) through operating efficiencies and expanded product/service offerings," said Briefing.com

The deal also comes after a dramatic announcement in January by retail

behemoth Amazon, Warren Buffett's Berkshire Hathaway and JP Morgan Chase of the creation of a nonprofit to address skyrocketing costs that Buffett said have become a "hungry tapeworm on the American economy."

Express Scripts currently manages pharmacy and medical benefits for more than 100 million in the US, said Express Scripts chief executive Tim Wentworth.

Express Script's revenues in 2017 were just over \$100 billion, while Cigna had revenues of \$41.6 billion.

"Combining these assets with Cigna's innovative solutions and strong relationships with providers will drive greater value, affordability and access," Wentworth said.

Better care?

In pitching its takeover of Aetna, CVS Health has said it will beef up its retail operation to include more wellness and medical testing areas and generally provide more care at the pharmacy itself.

Cordani touted an "open architecture" model under the proposed takeover of Express Scripts "meaning (consumers) can choose the care and channels that were best for them guided by choice and value."

The deal is a means to transform today's "suicidal narrative which equates healthcare solely with sick care rather than keeping people healthy in the first place," Cordani said.

But shares of Cigna slumped 10.1 percent to \$174.67 in late-morning trading, while Express Scripts surged 10.5 percent to \$81.09.

The cash-and-stock transaction will balloon Cigna's debt to \$41.1 billion.

A note from Goldman Sachs took a skeptical view of the combination, highlighting customer attrition as a worry and saying there were still questions about how the transaction would reduce costs.

"Strategic merits of this transaction are not immediately apparent to us," Goldman said. "We expect investor focus to shift toward other strategic combinations on the back of this news."

But Morningstar praised the logic of the transaction in light of Express Script's competence at managing drug benefits plans.

"Given payers' need to control their health benefit plan costs, the efficient management of pharmaceutical expenses will be just as critical as managing medical expenses, such as doctor's visits and surgeries," Morningstar said in a note.

"Operationally, we believe the new entity will be a formidable force in healthcare, able to wield significant pricing power and leverage top-tier scale advantages."

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