

# Global Specialty Pharmaceuticals

## Lifecycle Management: Why Does This Still Work?

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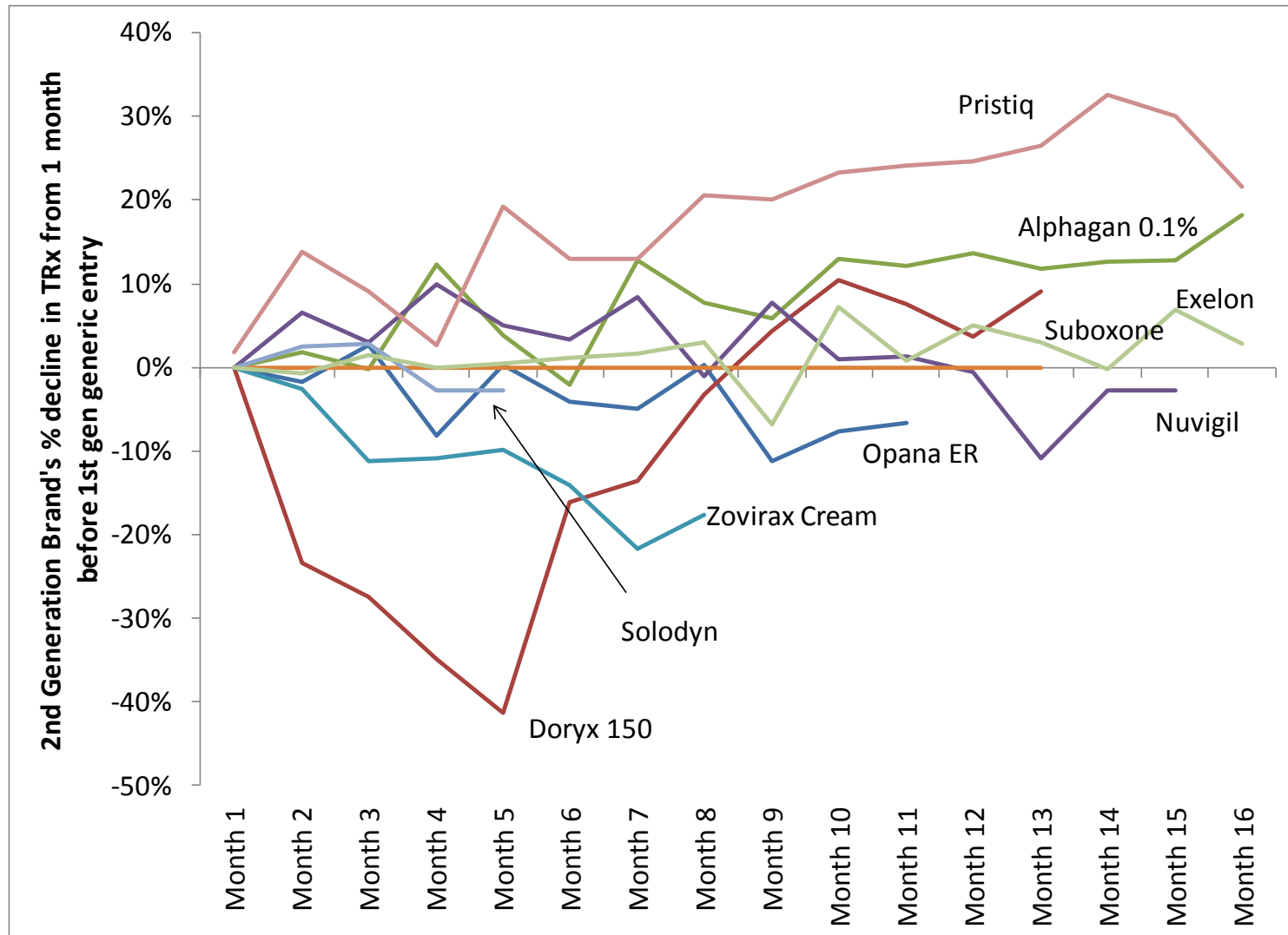
See Disclosure Appendix of this report for important Disclosures and Analyst Certifications

# Recent 1<sup>st</sup> generation to 2<sup>nd</sup> generation switches

1st Generation Drug	2nd Generation Drug	% of franchise TRx in 2nd gen when 1st gen generics entered	% change in 2nd gen TRx since 1st gen went generic	Brand's current share of franchise TRx	Comment
Exelon Pill	Exelon Patch	78%	3%	83%	Reformulated from a pill to a patch
Alphagan P 0.15%	Alphagan P 0.1%	56%	14%	67%	Two dosages, 0.1% and 0.15%. Switch to 0.1%.
Provigil	Nuvigil	47%	-8%	57%	Nuvigil is one of the enantiomer of Provigil.
Zovirax ointment	Zovirax cream	44%	-18%	52%	Two forms, ointment & cream. Ointment went generic, cream eroded
Effexor XR	Pristiq	22%	29%	27%	Older case ('09), softer forward switch, but continued to grow
Opana ER	Opana ER Tamper Resistant	Hard Switch	-7%	82%	Hard switch from ER to Tamper Resistant ER. TRx dropped sharply at switch
Doryx 100mg	Doryx 150mg	Hard Switch	9%	94%	Evaluating period before generic 150mg launched.
Solodyn 45, 90, 135mg	Solodyn 55, 65, 80, 105, 115mg	Hard Switch	-3%	93%	MRX shifted script to non-IMS tracked channel, giving appearance of TRx loss
Suboxone Tablet	Suboxone Film	84%, incomplete hard switch	4%	87%	Two forms, tablet & film. Tablet went generic, film continues to grow
Average			3%	71%	

Note: Suboxone was an incomplete 'hard switch'  
 Source: Company disclosures, IMS, SCB Analysis

# Change in second generation drugs following the generic entry to the 1<sup>st</sup> generation drug

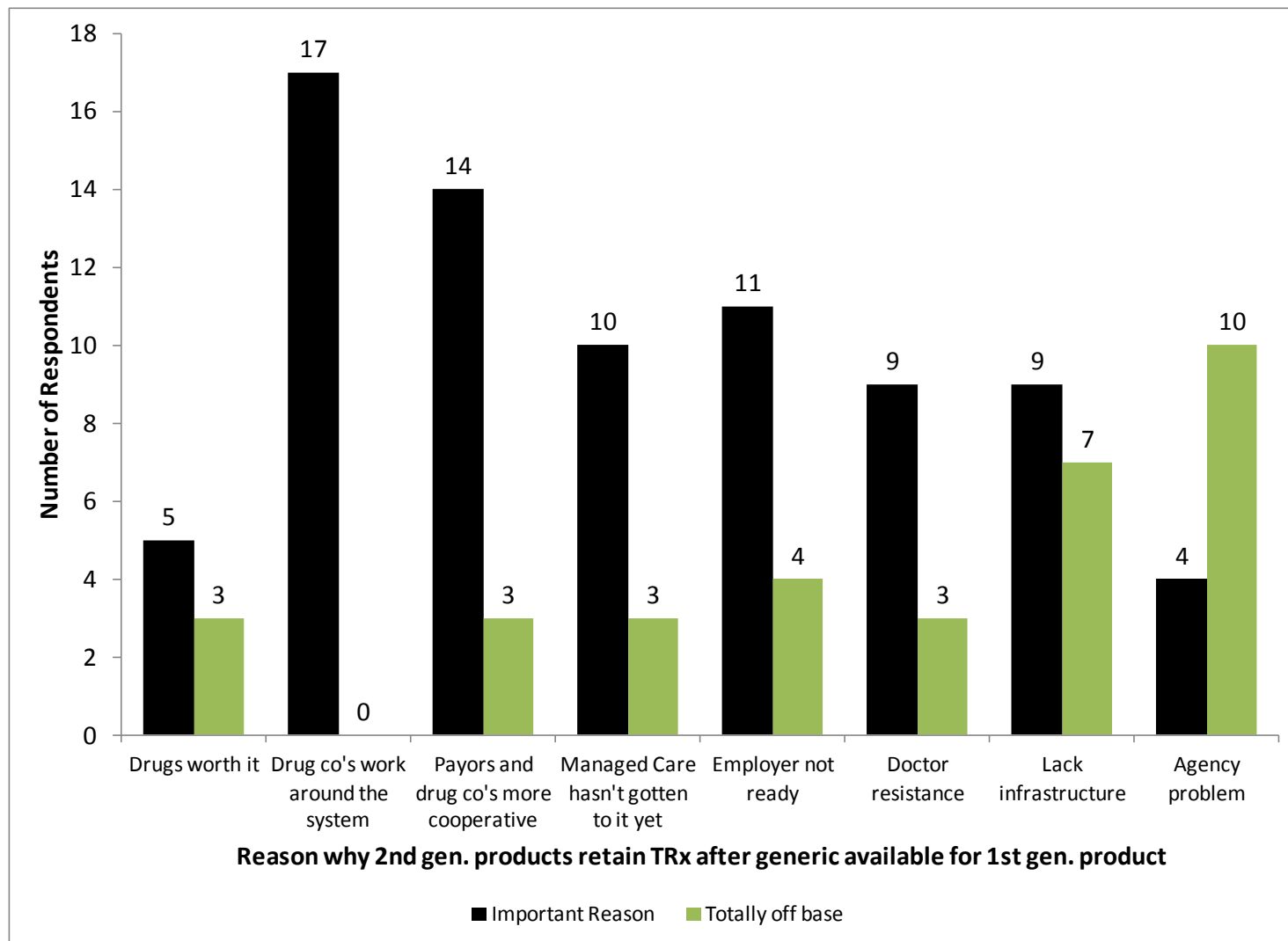


Note: For Doryx 150 we measure growth until the generic 150 was introduced. For Solodyn, after Mar-12, the TRx declined due to MRX's implementation of the alternative fulfillment channel  
 Source: Company disclosures, IMS, SCB Analysis

# Eight hypotheses why payors are not more aggressive in addressing life cycle management of minor benefit drugs

- 1) **Drugs are worth it.** There is real differentiation between the original and second generation drugs we mention above [see full text of survey]. Payors believe they are 'worth' having available to patients.
- 2) **Branded pharmaceuticals are effective in finding solution.** There is an effort by the managed care community to limit use of marginally beneficial drugs. However, pharmaceutical companies are very effective in convincing physicians to use them, getting around plan barriers by rebating patient copays etc.
- 3) **The relationship between payors and drug companies is more cooperative.** Drug companies spend significant dollars in rebates so PBM/Health plans need to work with them' across a portfolio of drugs; blocking marginal drugs completely would disrupt the relationship and ultimately does not make economic sense.
- 4) **The managed care industry has not gotten to it yet.** Second generation mid-size drug spend is a small proportion of a health plans budget; it could be managed, but it is not a high priority.
- 5) **The employers/employees are not ready.** PBM/Health plans are hired to administer plans but it is the employer/eventual payor who make the final decision. Most employers are not motivated enough to push for lower drug spend costs (very few have closed formularies and often reject step edits/prior authorizations).
- 6) **Physician resistance.** Doctors largely resist therapeutic switches. The cost of contacting a physician to convince them to write a 1st gen product is too much for a typical retail, non-biologic drug, making it 'not worth it'.
- 7) **The infrastructure is not there.** PBM/Health plans would like to be able to switch patients back to the generic but lack the tools to effectively do this in a systemic way.
- 8) **An agency problem.** It can be done, but it is against the PBM/Health plans economic interest to significantly reduce the total cost of drugs acquisition.

# Results of survey asking managed care formulary decision makers why marginally better second generation drugs retain scripts even after generics are available for the first generation drug



Note: "Important Reason" combines response options 4 & 5, "Totally Off Base" is response option 1. The response options were: (5- The most important reason; 4 – An important reason; 3 – On occasion could be the reason; 2 – Unlikely to be a reason, perhaps in rare occasions; 1 – Totally off base)

Source: SCB Survey