
SPECIALTY PHARMACY NEWS

Kroger Will Broaden Its Focus on Health Care Services Through Deal for Axiom

A deal to bring a specialty pharmacy into the fold of a company that many may not immediately think of as an obvious fit may turn out to be an extremely savvy move. On Nov. 15, The Kroger Co. — which owns more than 2,400 supermarkets and multidepartment stores — unveiled a deal to purchase the outstanding shares of Axiom Pharmacy Holdings, Inc.

The companies did not disclose the financial terms of the arrangement.

Axiom, which was founded in 2000, provides specialty pharmacy services across the U.S. and in Puerto Rico. It will operate as an independent unit within Kroger after the deal is finalized. Axiom President and CEO Mark Montgomery will remain the head of the company, which has 160 employees.

Kroger operates stores under names such as Kroger, Fred Meyer, Fry's, King Soopers and Smiths. And while many may think first of supermarkets when the company is mentioned, Kroger also has almost 2,000 pharmacy locations and almost 100 Little Clinics, as well as pharmacists who provide wellness services such as health coaching.

The two companies “are a strategic fit as we look to enter the high-growth specialty pharmacy business,” asserted Lincoln Lutz, vice president of corporate pharmacy for Kroger, when the deal was announced.

“This partnership supports Kroger’s long-term growth plans, with strong return on invested capital,” said Kroger President and Chief Operating Officer Rodney McMullen.

According to Adam Fein, Ph.D., on his Drug Channels blog, Axiom ranks third among the 13 fastest-growing private specialty pharmacies, with 2011 revenues of \$155 million. Fein, president of Pembroke Consulting, Inc., estimates Kroger to be the seventh largest U.S. pharmacy in 2011 and has prescription revenues of about \$7 billion.

Kroger did not respond to requests for comment. Axiom’s Montgomery tells *SPN* that he is unable to comment due to the timing of the deal, which is

expected to close at the end of the first full week of December.

The deal, says F. Randy Vogenberg, Ph.D., a principal with the Institute for Integrated Healthcare, “strikes me as a natural progression towards integration of care within the pharmacy channel and positions Kroger as more a health care services provider beyond a grocery chain. That has been a long-term aspiration for the food marketing industry to align its services with its customers.”

In fact, said Bill Sullivan, principal consultant for Specialty Pharmacy Solutions LLC, in a client alert, “We’ve seen the trend develop over the past couple of years. Supermarket chain pharmacies [have been] losing thousands of patients nationally to specialty pharmacies because they could not supply their customers’ needs for injectables and other high-cost meds. That was costly not only in terms of lost revenue but also a disruption in the established customer relationship that those patients had with the store for other items that actually generated more profit than the pharmacy.”

So these chains began partnering with specialty pharmacies in order to provide “a ‘seamless’ solution that allowed specialty patients to maintain their relationship with the store and enabling them to pick up their injectable meds along with bread and butter (or start to receive home delivery).” According to Sullivan, “Amber Specialty Pharmacy cut a deal like that with [Midwestern supermarket chain] Hy-Vee more than a year ago — and it provided proof-of-concept.”

However, he added, the Kroger/Axiom deal is not entirely the same because the companies “are actually merging.” Sullivan pointed out that “Kroger is a big company with almost 2,000 pharmacies in their stores nationally. That is a big feeder opportunity. By cutting a deal with Axiom, they are accessing a well-established specialty pharmacy with a lot of expertise and the team required to take on this challenge.”

Axiom, says Sullivan, is a “highly credible company that saw an opportunity to capitalize on a very lucrative niche and trend.”

Although Axium would not say if it had been actively looking for a buyer, Sullivan tells *SPN* that “there were some quiet whispers. When on the hunt, purchasers are wary to keep things quiet lest too many bidders appear on the scene to drive up prices.”

Vogenberg tells *SPN* that he doesn't know whether the company was actively looking. However, he says, “I do know that being in specialty is resource intensive...[and] requires capital to maintain as well as grow the business if you want to remain successful.”

Both Benefits and Potential Challenges Exist

Through the arrangement, Axium will gain “more market power through Kroger relationships and access to capital,” Vogenberg says. However, he adds, “Challenges will be other competitors in a more competitive market place that is consolidating at the same time that reimbursement pressures will increase. This is similar to what happened in long term care pharmacy in the mid 1990s through early 2000.”

In the Nov. 16 blog titled “Kroger Makes a Big Specialty Pharmacy Play,” Fein points out that “A key hurdle for retail pharmacies has been gaining access to manufacturer and payer networks. The manufacturer of a specialty drug limits the number of pharmacies eligible to dispense its specialty product. Manufacturers strategically choose pharmacies with the distinctive capabilities required to efficiently and effectively serve patients, providers, and payers....I'll be interested to see if Kroger uses the Axium deal to engage manufacturers in a broader specialty conversation.”

According to Sullivan, “All the usual challenges about aligning the program to the needs of Kroger” exist, including “coordination of direct-to-store operations, any IT connectivity, creating ‘seamless’ customer service, etc.” Still, he says, Axium is “national, and the overnight delivery model works fine either direct to patient or direct to store for pickup.”

In addition, Axium fits well within the Kroger model, points out Vogenberg, because “specialty pharmacy is more local as well as regional in nature and requires some economy of scale for economic reasons. Incorporating broader pharmacy services into their [i.e., Kroger's] existing pharmacy business makes sense. In a similar way, Walgreens has done the same to expand upon the local pharmacy business platform they have been marketing to customers.”

Also using Walgreen Co. as a comparison, Elan Rubinstein, Pharm.D., founder and principal of consulting firm EB Rubinstein Associates, tells *SPN* that “this moves Kroger in the direction that CVS [Caremark Corp.] and Walgreens have gone before, with respect to the specialty pharmacy business. CVS has the benefit of driving business to its mail order and specialty pharmacy subsidiaries through Caremark PBM payer contracts.”

He adds, though, that “it is not clear to me how successfully Walgreens is marketing/selling its free-standing specialty pharmacy program, since Walgreens does not have a pharmacy benefit manager subsidiary and since most PBMs have both mail order and specialty pharmacy subsidiaries to which they contractually direct customer business.” He contends that the “same logic and questions” exist for Kroger. “How will Kroger market a standalone specialty pharmacy?” he asks.

Trend of Similar Deals May Continue

In his client alert, Sullivan maintained that “more deals like this are probably in the works since there are a number of other supermarket chains with in-house pharmacies that can benefit from hitting the copy button. Valuations of specialty pharmacies nationally went up a notch today with this news.”

And such arrangements could have a long-lasting impact on the specialty pharmacy industry itself. Moving forward, says Vogenberg, “specialty pharmacy as we know it today will not be as prevalent since new market alignments or expansion within other existing pharmacy platforms will emerge.”

“Specialty pharmacy has tremendous upside but, like any industry, change can come out of left field,” says Sullivan. “For example, the ACO [i.e., accountable care organization] movement could be a change factor. If ACOs decide to capture specialty pharmacy internally, there would be little need for commercial vendors if you play that scenario out to the max.”

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