



NAVIGANT

On Healthcare

HEALTHCARE

THE POTENTIAL - AND PITFALLS - OF BIOSIMILARS

Announcer: Welcome to Navigant On Healthcare, offering insights for healthcare leaders striving for success in an evolving industry.

Host: Welcome to Navigant On Healthcare. I'm your host, Alven Weil, and today we are joined by Dr. Eric Snyder, life sciences director at Navigant. Eric has been an advisor to leading life sciences corporations and their investors for more than 10 years. His work focuses on addressing strategic issues at pharmaceutical and biotech companies, including assessment of business development opportunities, portfolio strategy, and new product planning. He also works with private equity firms to identify investment opportunities and conduct due diligence on potential deals. His recent project experience covers central nervous system oncology, metabolic diseases, orthopedics and orphan diseases. Eric, thanks for joining us today.

Dr. Snyder: My pleasure, Alven. Thanks for having me.

Host: Today, we're discussing biosimilars of market-leading therapeutics. Eric, let's start with the basics for our listeners. What are biosimilars and how could they impact providers, patients in the global market?

Dr. Snyder: Sure, well biosimilars are also called follow on biologics. They're intended to be generic versions of biologic therapies. They're intended to offer the same therapeutic benefits as originator molecules, but at a lower price. But the process of making biologic drugs is very complex; involves cellular processes and so these molecules can't be termed identical to the originator molecules. They're referred to as similar only. And this has become one of the greatest disruptive forces going on in the market today. Over the next few years, we're anticipating over \$60B worth of biologics are going to lose patent protection and could face competition from these biosimilars. But a number of recent developments, including, recently, the FDA gave guidance at the end of last year regarding what it takes to be considered an interchangeable biosimilar. We've seen five biosimilars approved in the United States, although only two are currently available. The third is currently launching. And so, this is really a major issue and something we've been following alongside our clients.

SPEAKER



ERIC SNYDER, PH.D.

Director
+1.212.901.6386
eric.snyder@navigant.com

navigant.com

About Navigant

Navigant Consulting, Inc. (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. Navigant's professionals apply deep industry knowledge, substantive technical expertise, and an enterprising approach to help clients build, manage, and/or protect their business interests. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, the firm primarily serves clients in the healthcare, energy, and financial services industries. Across a range of advisory, consulting, outsourcing, and technology/analytics services, Navigant's practitioners bring sharp insight that pinpoints opportunities and delivers powerful results. More information about Navigant can be found at navigant.com.

Host: Now, you recently co-authored an analysis suggesting that the current biosimilar reimbursement model could be a major obstacle to broader biosimilar adoption. What is the specific obstacle?

Dr. Snyder: We've been watching the launch of the first biosimilars in the U.S. and when you think about it, for providers to switch to these lower cost options, a number of factors need to align. First of all, physicians need to be convinced that the biosimilar drugs are going to have the same quality, the same efficacy, the same safety risks as the originator molecules. There's not going to be any immunogenicity or other concerns. Second, there has to be a significant financial motivation to switch to the less expensive option. The first biosimilars launched was about a 15 to 20 percent discount. The most recent, which is currently in process of launching, is reported to have a 35 percent discount. So, a modest degree of cost savings is expected, at least on the list price of these drugs. The challenge is that the system is not set up to yield cost savings for providers. In fact, if you think about the current buy and bill system, providers are usually paid a percentage of the drug costs that cover the handling and the administration of each product. And this might range from six percent to 10 percent, depending on the insurer. And, essentially, it means if a product comes out and it's less expensive, the provider actually is paid less for the same amount of handling and administration work that they have to do.

Host: Eric, how will factors like provider setting or payer mix impact overall biosimilar adoption?

Dr. Snyder: It's an interesting question. I mean the payer mix is important. So, CMS anticipated this particular obstacle and they set Medicare payments appropriately. So, if a physician treats a Medicare patient with a biosimilar, they're paid six percent of the innovator molecule price, and so they don't lose any money. The challenge is that, for most providers, less than 20 percent of their patients are on Medicare and the majority of their profit has to come from commercial patients. As a result, commercial plans are the majority of their billings. And most commercial plans don't have a deferential payment to incentivize the use of biosimilars yet. So, in our analysis, we modeled this out and said what does this mean for providers today? And unless a provider has more than 50 percent of their patients on Medicare, they're going to lose money by adopting a biosimilar. The amount they lose depends on the setting that they're in, because the different discounts that pharma companies usually offer to different settings, such as 340B hospitals, or standard hospitals, or physician offices. We model this out in our study and if you take an estimate, say a hospital has 50 patients on a particular biologic, they could end up losing \$50,000 in this environment. So, just on one single drug they could be losing \$50,000. And with multiple biosimilars coming to market, it's going to add up significantly over the next few years.

Host: The analysis mentions a middle ground scenario in which the use of biosimilars is financially beneficial for both payers and for providers. What is that middle ground and how do we get there?

Dr. Snyder: Well, at least two scenarios where we see payers could find the middle ground with providers. One is what we call the fixed reimbursement model, where payers essentially offer a capitated payment, regardless of what therapy the provider uses, whether it's the innovator or the biosimilar product. The other is a differential reimbursement, similar to what Medicare is doing now. So, we modeled this out and we thought that if commercial payers would increase their payments by say four percent on a biosimilar. That is to say, if they give 10 percent of the drug price on the innovator and 14 percent on the biosimilar, the payers would still be paying less for the typical agent versus the originator product, but the providers wouldn't lose any profit from adopting them.

Host: Eric, what's the biggest challenge to resolving this issue? To aligning hospital, physician incentives with those of payers?

Dr. Snyder: Well, we're starting to see some movement from payers in addressing these challenges. I mean, just last week we saw Express Scripts announce they're going to include the biosimilar Zarxio on their formulary instead of Amgen's innovator molecule Neupogen. So, the real challenge is that providers aren't really part of the discussion yet though. So, payers are taking action. Providers are not yet part of that discussion. And we are starting to see some large treatment networks, particularly in oncology, initiate discussion with payers seek out that middle ground. And over the next year we can see this continue with large providers continuing to drive negotiations and change the reimbursement system. But currently the system is very fragmented, as you know. And it's difficult for the average provider to initiate this kind of a change in reimbursement.

Host: Eric, a big thank you for sharing your biosimilar expertise with us today.

Announcer: That concludes today's episode. Be sure to check in with us for future installments of the Navigant On Healthcare podcast series on Navigant.com/healthcare podcast. Navigant On Healthcare is a podcast series produced by Navigant's healthcare practice. If you enjoyed this episode, please share with friends and colleagues on social media. Learn more at Navigant.com.