



Forbes / Pharma & Healthcare

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Inside The Secret World Of Drug Company Rebates



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The free market is alive and well when it comes to drug prices – if you’re an insurance company or a government program. But not if you’re a consumer.

Top-selling pharmaceuticals,

NPS EX. 2133
 CFAD v. NPS
 IPR2015-00990

seem priced in a manner that has little to do with the laws of supply and demand. Want that new cholesterol medicine (\$2,000 per year), that cancer treatment (\$60,000 per year), or the medicine for your child's rare disease (\$300,000 per year)? No negotiation. It's your money or your life.

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But in fact drug companies are constantly negotiating, not with individuals but with payers – Medicare, Medicaid, insurers such as United Health Care and Aetna and pharmacy benefit plans such as Express Scripts. They don't reduce the price of their medicines. Instead, the drug firms pay rebates after the fact. For Medicaid, the price decreases are mandated by law, but everywhere else, free market forces are very much in effect. Me too drugs and those facing patent expiration have to deal with

annual price increases are partly a way to deal with all this rebating. Of course, if you're a person without health insurance buying medicines at the counter of **Walgreen** ZDJ# ('s, you're stuck with the list price.

Rebates cut about \$40 billion out of the drug industry's sales every year, says Pratap Khedkar, a principal at pharma marketing consultancy ZS Associates. We know that because the drug industry reports both its gross sales (before the rebates) and net sales (after the rebates are taken out). The size of the rebate average about 30% of a medicines sales, Khedkar says, and can be as low as single digits or as higher than 50% of gross sales.

"These may not be visible to the consumer," says Khedkar. "But between the insurance company and the pharma company, it is a very efficient free market."

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No company reports how much of the gross sales of an individual drug are being given back to the payers. But there is a way to peer into the hidden world of pharma rebates. Every year, IMS Health, the prescription data tracking service, publishes its own lists of the most prescribed and the top-selling medicines in the country. But IMS' data capture gross sales at pharmacies, before the rebates happen. By comparing the gross sales reported by IMS to the sales the companies report to the Securities and Exchange Commission, it's possible to get

in the form of rebates.

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2015 was a very big year for battery storage in the electricity industry. Numerous storage projects were announced, many start-ups



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