

# SPECIALTY PHARMACY NEWS

## News and Strategies for Managing High-Cost Biotech and Injectable Products

### Highmark's 'Payer-Friendly' SP Reports '04 Profits and Growth

After roughly a year in operation, Medmark, Inc. has grown into a \$100 million-plus company, profitable and cash-flow positive, according to company officials. They also report that Pittsburgh-based Medmark, as a self-described "payer-friendly" specialty pharmacy distribution company, generated savings of roughly \$3 million in specialty pharmacy unit costs alone in 2004 for Highmark, Inc., its founder and principal customer.

"There's definitely been growth. We've approximately doubled the size of the company in a year's time. We think the basic original strategy that we laid out [to align with managed care payers] is definitely working. There are times when it doesn't move as rapidly as we would like...but so far we've found solutions," Peter Smith, Medmark's president and CEO, told *SPN* in a Feb 24 telephone interview. Smith says privately held Medmark became profitable in the latter part of 2004 and has remained profitable.

While declining to furnish figures, Smith reports that "the number of scripts we did in September we have doubled in January. That's how fast the company has been growing."

#### New Programs the Focus for 2005

In 2005, Smith says, Medmark is focusing on major steps including the January rollout of Lupron Depot (leuprolide acetate for depot suspension), an injectable for the palliative treatment of advanced prostate cancer, and other specialty urology products; expansion of the specialty program into central Pennsylvania; and the rollout of self-injectable IVIG (intravenous immunoglobulin). Medmark expects a mid-year launch of its model for specialty oncology products, he adds, noting that Medmark's discussions with network oncologists are ongoing.

Overall, Smith estimates that Medmark is addressing approximately 127 different disease categories using more than 200 different specialty drugs, with some covered as a pharmacy benefit and some as a medical benefit. Currently, he says, Medmark is serving nearly 10,000 members, about 5,000 of them enrolled in Highmark. Smith says another major customer, Gateway Health Plan, a Pittsburgh-based Medicaid HMO partly owned by Highmark, is expected to represent about 15% of Medmark's business this year. On a per capita basis, he says, Gateway is a bigger revenue producer than is Highmark.

Highmark formed Medmark as a for-profit, wholly owned subsidiary in August 2003, and two months later acquired Fishers SPS, a Pittsburgh-based specialty pharmacy, as a platform company. In a November 2003 interview, Smith cited interest by private equity firms in Medmark (*SPN* 1/04 p. 8). Subsequently, LLR Partners and to a lesser extent Quaker BioVentures became strategic investors by infusing \$28 million into Medmark. Medmark now has 100-plus employees and operates separately from Highmark, which is no longer the majority owner.

"We've built a nice infrastructure, and taken Fishers into a new phase of life...I think we now can take on new accounts and volume," Smith says.

When Fishers was acquired, it had about 60 agreements with different managed care organizations (MCOs) to be part of their networks as a specialty vendor, Smith says. By contrast, Gateway was a Fishers' customer under contract for a more focused program. He says Medmark has "not only retained the [Gateway] relationship but built on it and started to expand it."

In hindsight, Smith says, Medmark lacked a full appreciation of regulatory issues that Highmark and Gateway would face in rolling out specialty pharmacy programs. He says Medmark also has learned better ways to approach physicians and health plan members.

Last year Medmark reached out to new customers with a primarily local expansion of its customer base, Smith says, in which relationships were forged with Mountain State Blue Cross Blue Shield in West Virginia, Blue Cross of Northeastern Pennsylvania in Wilkes-Barre, PA, and MedPLUS in Monroeville, PA.

#### Hopeful About New MCO Contracts

Over the longer term, Medmark expects five to 10 multimillion-dollar contracts in the next several years, he says. Smith cites "serious discussions" now under way with about 15 MCOs "more national in scope," but explains that Medmark's pace must be deliberate because it is striving to establish "a very close and completely integrated approach" to specialty coverage with its customers. Interested MCOs are "looking to see whether we reach our goals with Highmark," he says, noting that WellPoint Health Networks, Inc., a former Fishers client, is evaluating Highmark's specialty program. "WellPoint is not yet a customer, but we continue to hope they will be," Smith says.

In a Feb. 22 interview, Robert Wanovich, Pharm.D., who oversees specialty pharmacy as Highmark's manager of clinical services, told *SPN* that Medmark is meeting expectations. "We estimate unit cost savings [for specialty pharmacy] at about \$3 million for 2004," he says. He describes this as the tip of the iceberg, based on a handful of products rolled out early in 2004, and projects that total specialty savings "could easily triple or quadruple" once all calculations are made. He says Highmark has lowered the cost of every claim handled by Medmark by 5% to 15% on average; they are running the numbers to get a handle on the extent of savings from utilization management.

"Medmark has become a very significant platform for us for cost savings, better utilization management, and outreach to [network] physicians and members," Wanovich asserts. He reports that Highmark's estimated cost for specialty pharmaceuticals was roughly \$200 million in 2004.

Company officials cite Medmark's multiple rollouts of specialty products in 2004. In January, for example, Amevive (alefacept) was rolled out for adults with moderate to severe chronic plaque psoriasis; Visudyne (verteporfin for injection) was rolled out for macular degeneration in April; and Actimmune (Interferon gamma-1b) became available for a variety of diseases in September.

Under Medmark's system, Highmark's Wanovich says physicians are not on the hook for thousands of dollars of specialty therapy, patients know their cost share before they get the service, well-informed pharmacists and case managers are coordinating specialty drugs, and utilization management is being done pro-

spectively, not after the fact. He says specialty drugs handled by Medmark quickly enter Highmark's program, noting 90-plus patients already are using Tysabri (natalizumab), a recently approved drug for multiple sclerosis (*SPN* 1/05, p. 1). Highmark also is moving self-administered products such as Enbrel and Tarceva under Medmark's purview.

Smith points out that Medmark was building its infrastructure in 2004 and just starting to penetrate the market for Highmark. "If you annualize some savings, and look down the road at '05, '06, we'll get very substantial savings on all areas....My hope is we should get them 10% to 15% savings on all specialty spending..."

Smith, who previously explained that Medmark's acquisition strategy is driven by its customers, says the company considered some acquisitions in the past year. "We are in the process of looking at a few things that could add to our product line," he says, "but so far nothing has come up that's compelling." If Medmark finds a customer in a city with a potential specialty platform company, he says a scenario could develop similar to Medmark's acquisition of Fishers in Pittsburgh.

Scott Perricelli, vice president of Philadelphia-based LLR Partners, says his firm is bullish on its investment in Medmark. "I think the company [Medmark] in the past year has done a lot," he says. "They've developed a world-class pharmacy and a world-class operations team to attack the specialty pharmacy [cost] issue....In '05 I'd expect very significant growth as well."

Perricelli notes that LLR Partners generally works with companies five to seven years, and is more focused on developing the best systems and product offerings than on what revenue is currently being generated. "We want to be building something interesting to customers and something of value," he says, "and I firmly believe that's what we're doing."

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