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Kohl & Frisch Limited Submission to the PMPRB June 2020 Revised Guidelines Consultations

As the only Canadian owned and operated pharmaceutical distributor with coast-to-coast coverage, Kohl & Frisch and our 1,000 employees across Canada are making this submission to the Patented Medicine Prices Review Board (PMPRB) to raise serious concerns about the potential unintended consequences pricing reform could have on the Canadian pharmaceutical distribution system.

While Kohl & Frisch supports government initiatives to maintain a sustainable, equitable and fair drug system for Canadians, we believe this must include equitable access to medicines regardless of location (i.e. remote and rural) and must include similar service levels (i.e. 24-hour delivery).

Given pharmaceutical distribution for patented medicines is covered based on a percentage of the drug price, any reduction in the drug price will lead to significant cost cutting measures by distributors.

Kohl & Frisch believes there is at least one measure (recommendation 1) that could help mitigate such unintended consequences while allowing the PMPRB to stay true to its mandate to regulate excessive pricing.

Kohl & Frisch Recommendations

1. A 1% adjustment to the Maximum List Price (MLP) of a pharmaceutical after the excessive price threshold has been calculated. This additional allowable 1% is strictly allocated to the reimbursement of distribution costs.
2. Extend the implementation by at least 12 to 18 months in light of COVID-19 and the importance of maintaining Canada's drug supply during this pandemic. We have already seen shortages in a wide range of drugs and any significant change should be postponed until the pandemic is over.

3. With an extension, the PMPRB could fund a study (through excessive pricing penalties) of the pharmaceutical distribution in Canada and options for sustainable long-term funding that isn't impacted by pricing.

About Kohl & Frisch

Kohl & Frisch is one of Canada's leading healthcare distributors. Founded in 1916, it is the only Canadian-owned national full-line distributor. We employ 1,000 people and are strategically located in eight pharmaceutical distribution centers across Canada. We serve well known customers such as Walmart and Costco and provide our services to over 3,000 customers across the country. We serve pharmacies, clinics and hospitals for their Rx, OTC, HHC and front-shop needs.

Distribution in Canada

At Kohl & Frisch, we understand the importance of patients having timely access to vital medicines, regardless of whether they live in Vancouver, Thunder Bay or Yellowknife. We offer a number of important services that benefit patients and the healthcare system. These include:

- Service from coast to coast, from distribution centers in Vancouver, Calgary, Regina, Winnipeg, Toronto, Kingston, Montreal and Moncton;
- Next day delivery to most pharmacies and partners and guaranteed delivery within 18 to 24 hours;
- Some stockpiling of medicines which can guard against shortages;
- Drug recalls are executed quickly and reliably; and
- Extended credit to pharmacies that do not immediately pay for their product.

To date, Kohl & Frisch has managed to provide these services across Canada despite the country's challenging and vast geography. While Kohl & Frisch understands the need to base pricing relative to other comparator countries, none of the PMPRB11 countries are analogous to Canada in terms of the distribution challenge. The combination of size, population and climate are unique to Canada and have significant impacts on the cost of distribution.

Of the PMPRB11 countries, the one country that is somewhat analogous in terms of geography, though not climate, is Australia. In this jurisdiction, the government has an additional fund called the "Community Service Obligation for Pharmaceutical Wholesalers"¹ in order to ensure that Australians, regardless of where they live, can access the medications they need, usually within 24 hours.

While this type of a fund may not be under the purview of the PMPRB's mandate, it is in the PMPRB's mandate to examine excessive pricing. Since Canada does have unique

¹ <https://www1.health.gov.au/internet/main/publishing.nsf/Content/community-service-obligation-funding-pool>

distribution costs, the PMPRB should take these additional costs into consideration and make adjustments as we have recommended with our 1% additional price increase.

Impacts of Pricing Reform Past & Present

In Canada, distribution costs are based on the listed price of a pharmaceutical drug. These reimbursement costs typically range from 1-2% of the total drug cost. It is a low margin business where high volumes and optimized deliveries make the difference between service sustainability and closing our doors.

In the recent past, cost containment measures implemented by governments in Canada have negatively impacted the distribution industry. For example, significant price decreases resulting from the 2017/2018 pCPA/CGPA agreement and the generic manufacturers' agreement in Quebec, left Kohl & Frisch no choice but to further reduce costs. Since purchasing AmerisourceBergen's distribution business in 2013, Kohl & Frisch has had to close nine distribution centers across Canada, resulting in significant job losses, in order to cope with increased downward pressure on revenue and margins.

Industry wide, 13 out of 51 distribution centers were closed across Canada between 2013 and 2019 and AmerisourceBergen decided to leave the Canadian jurisdiction during this time. This has resulted in only two coast-to-coast distributors remaining in the Canadian market (Kohl & Frisch and McKesson). Continued downward pressure on distribution pricing could result in both a reduction of services and an eventual monopoly in the future if another player exits the market.

In terms of the current proposed PMPRB guidelines, we believe this would have an even greater negative impact than the 2017/2018 generic agreements. Any reduction in price will immediately impact distributors to the same degree given that reimbursement is based on a percentage of price. We operate in a pull system, where prescribers determine volumes, not distributors. The provincial and federal governments determine price. The only way for Kohl & Frisch to deal with a loss of funding is to cut costs and services.

Therefore, should the PMPRB implement its changes without some consideration for distribution, Kohl & Frisch will have to consider the following:

Reduce geographical reach and eliminate unsustainable regions

- Patients in remote areas would need to travel to access their medication
- Elimination of delivery jobs

Further Reduce Delivery Frequencies

- Patients could be delayed in accessing their medication if it is out-of-stock or requires a special order
- Elimination of warehouse and delivery jobs

Modify the Product Mix to Eliminate Money-Losing Products

- Further increasing difficulty for patients to access certain drugs
- Eliminate warehouse jobs

Eliminate Credit for Pharmacies

- Increased financing and operating costs for pharmacies
- Reduced inventories at the pharmacy level
- Patients could be delayed in accessing their medication

These are decisions that Kohl & Frisch will be faced with should the PMPRB implement the changes without special consideration for distribution.

Recommendations

1. A 1% adjustment to the price of a pharmaceutical after the excessive price threshold has been calculated. This additional allowable 1% is strictly allocated to the reimbursement of distribution costs.

Kohl & Frisch would propose a 1% adjustment to the Maximum List Price (MLP) that would be strictly allocated to the reimbursement of distribution costs. This 1% adjustment would allow distributors to stay “whole” despite the reduction in prices. As mentioned previously, any reduction in pricing will lead to cost cutting measures which will have a significant impact on patient access and care.

2. Extend the implementation by at least 12 to 18 months in light of COVID-19 and the importance of maintaining Canada’s drug supply during this pandemic. We have already seen shortages in a wide range of drugs and any significant change should be postponed until the pandemic is over.

The pharmaceutical distribution industry has been significantly impacted by COVID-19. During the first wave of the pandemic, distributors were in overdrive as consumer and patient demand for products increased. The unprecedented demand put a strain on distribution resources as significantly more deliveries were needed to meet this demand.

Given the importance of both the drug supply and the safety and integrity of that supply, we have had to make significant investments in personal protective equipment (PPE), disinfecting regimens and new protocols to deal with the COVID-19 reality.

While the pandemic has abated in Canada, it is increasing at alarming rates in jurisdictions around the world. This has a significant impact on global drug production and drug availability. Kohl & Frisch is extremely focused on planning to cope with COVID-19, which includes determining what to import, molecule by molecule, to ensure the Canadian market is properly served.

If the PMPRB must make these changes, then we would strongly suggest they are postponed until the pandemic is over, so that our leadership can continue to work on serving Canadians during this pandemic. Any significant system reform will divert attention away from what is most important at this time, and further, could lead to service reductions during a 2nd or 3rd wave.

3. With an extension, the PMPRB could fund a study (through excessive pricing penalties) to look at pharmaceutical distribution in Canada and options for sustainable long-term funding that isn't impacted by pricing.

We understand that the PMPRB collects excessive pricing penalties and may have a surplus of funds that could be allocated towards a study. We would propose that such a study assess the economic impacts of the PMPRB's proposed changes on distributors and their service levels, the impact this will have on patients' access to medications, and finally, look at alternative models to fund distribution that are not impacted by price reductions.

Conclusion

As the only Canadian owned and operated pharmaceutical distributor, we at Kohl & Frisch look forward to continuing our conversations with the PMPRB.

While we understand the PMPRB's interest in maintaining a sustainable, equitable and fair drug system for Canadians, the proposed revised guidelines will have serious impacts on the pharmaceutical distribution industry. Our recommendations are intended to assist in finding tangible solutions that ensure the sustainability of the drug distribution infrastructure in Canada and, amidst the uncertainties of the COVID-19 pandemic, reflect our commitment to ensuring Canada's drug supply remains stable.

We remain available at any time to discuss these issues with you and ensure a productive and collaborative dialogue going forward.

Sincerely,



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