

No Quick Cure for Express Scripts' Ailing Shares

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The political fight over drug price inflation has become a lobbying melee. Recent press reports describe swarms of independent pharmacists canvassing Congress to complain about pharmacy-benefit managers like [Express Scripts Holding](#). The PBMs finance counter-campaigns, while drugmakers remind legislators that their products cure cancer.



Shares of Express Scripts (ticker: ESRX) have fallen from \$79 to \$61 in the year since *Barron's* wondered whether the St. Louis firm makes too much money at the expense of drugstores, drugmakers, and even its health-plan clients ("[Where Are the Savings?](#)" Cover Story, July 23, 2016).

Those questions were revived not only by the pharmacists' Washington visit but also by a lawsuit that Express Scripts filed last month against Kaléo Pharma, which makes auto-injectors of naloxone, a drug that rescues people from opioid overdoses. According to the federal civil suit, Kaléo quintupled its product's price in 2016, then stopped paying fees and rebates that the PBM alleges that Kaléo owes.

What makes the Express Scripts suit intriguing is its revelation of the variety of payments the pharmacy-benefits manager expected from Kaléo—including “formulary rebates,” “price protection rebates,” and “administrative fees.” PBM expert Linda Cahn, an attorney and chief of the Morristown, N.J.-based Pharmacy Benefit Consultants, says that publicly-available Express Scripts contracts she's seen only required the PBM to give health-plan clients a share of those payments categorized as “formulary rebates,” which are discounts on drugs covered by the PBM.

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Amounts cited in the Kaléo suit for the other payment categories far exceed the formulary amounts. The “administrative fees” listed by Express Scripts were more than 13 times the formulary dollars, while “price protection” payments were more than 300 times the formulary amounts.

“It's a big labeling game,” says Cahn. “When PBMs write contracts with their clients, PBMs agree to pass through Payment X to their clients, or even Payments X and Y. But then PBMs ensure that their manufacturer contracts contain not just Payments X and Y but Payments A, B, C, and D, too—which will never get passed through or disclosed to their clients.”

Express Scripts spokesman Brian Henry disputes Cahn's critique, saying payments like "administrative fees" aren't hidden from clients. "These are fees that we are very open about with our clients," he says. "They decide how much of the fees they keep and how much we keep, as they do with rebates."

The "vast majority" of Express Scripts' commercial and Medicare clients share in some of the administrative fees, Henry says, and as a result the "vast majority" of rebate and administrative fees collected by Express Scripts are passed back to clients.

Kaléo says it will fight Express Scripts' suit. "This is a baseless suit and we will respond accordingly," said CEO Spencer Williamson in a statement.

So with analysts expecting nearly \$7 in per-share earnings for Express Scripts in 2017, why are its shares at just \$61? One reason: After 2019, Express Scripts could lose its contract with [Anthem](#) (ANTM), the insurer responsible for 33% of its profits. Discounting that loss, Morgan Stanley analyst Ricky Goldwasser cut her target price for Express Scripts to \$52. "I equate it with the patent cliff that the drug companies faced before 2012," she says. "The big pharma stocks traded at very low multiples well ahead of that event." Investors should pay heed.

—*Bill Alpert*