Pharmaceutical Companies Buy Rivals’ Drugs, Then Jack Up the Prices

List prices soar on Valeant’s heart medications and other firm’s drugs, driving up costs
On Feb. 10, Valeant Pharmaceuticals International Inc. bought the rights to a pair of life-saving heart drugs. The same day, their list prices rose by 525% and 212%.

Neither of the drugs, Nitropress or Isuprel, was improved as a result of costly investment in lab work and human testing, Valeant said. Nor was manufacture of the medicines shifted to an expensive new plant. The big change: the drugs’ ownership.

“Our duty is to our shareholders and to maximize the value” of the products that Valeant sells, said Laurie Little, a company spokeswoman. “Sometimes pricing comes into it, sometimes volume comes into it.”

More pharmaceutical companies are buying drugs that they see as undervalued, then raising the prices. It is one of a number of industry tactics, along with companies regularly upping the prices of their own older medicines and launching new treatments at once unheard of sums, driving up the cost of drugs.

Since 2008, branded-drug prices have increased 127%, compared with an 11% rise in the consumer price index, according to drug-benefits manager Express Scripts Holding Co. Needham & Co. said in a June 2014 research note there were as many as 50% drug-price increases during the previous 2½ years as there were in the prior decade.
For drug companies, price hikes offer an easy way to boost sales without years of costly, risky research to find new medicines.

Profits help pay for companies’ research, says Paul Howard, director of health policy at the Manhattan Institute. Increases help bring the prices more in line with the value the medicines provide to patients and hospitals, and the returns pay for manufacturing the drug, “in marketing it and even researching additional indications for the product that deliver more value to patients,” he said.

So far, the impact on total health-care spending has been limited. Prescription drugs still account for only about one-tenth of the country’s health-care costs, and drug spending overall has risen relatively slowly the past few years to $376 billion last year, because many of the biggest-selling medicines lost patent protection and lower-priced generics were prescribed instead.

But hospitals and drug-benefit managers increasingly worry about having to absorb higher costs. There aren’t as many big patent expirations looming, which will mean fewer cheap generics to offset the rising prices of brand-name drugs.

Some payers and health-care providers complain they are already feeling the hit from large and sudden price increases for drugs like Isuprel and Nitropress.
Cleveland Clinic says the price hikes for the two Valeant drugs is unexpectedly adding $8.6 million, or 7%, to this year’s budget of roughly $122 million for medicines administered at its hospitals. Like its peers, Cleveland Clinic generally pays for drugs it administers, then hopes the reimbursement it receives for patient care will cover the expense. Hospitals typically pay a wholesale cost that is less than the list price known as average wholesale price, but still experience the increases.

“We’re already under tremendous pressure to reduce costs because of reimbursement changes due to health-care reform,” said Scott Knoer, Cleveland Clinic’s chief pharmacy officer. He had hoped to lower his drug budget by $10 million this year, but no longer expects he will in large part because of the two drugs. “In one fell swoop, it eliminated nearly all of the savings we projected we would achieve,” he said, adding, “We will have to cut costs, but I don’t have a plan yet.”

The companies are paying up for the drugs whose prices they raise. Early last year, Mallinckrodt PLC paid $1.4 billion for Cadence Pharmaceuticals, though the Ofirmev pain injections that were the crown jewel of the deal were projected to have just $110.5 million in
2013 revenue, according to a Mallinckrodt conference call with analysts discussing the deal.

Three months later, the list price for a package of 24 Ofirmev vials jumped almost 2½ times to $1,019.52, according to health-care data firm Truven Health Analytics, which publishes average wholesale prices based on information from drug companies.

“It seemed like highway robbery,” said Erin Fox, who directs the drug-information service at University of Utah Health Care. After the increase, three of the Salt Lake City health system’s four hospitals were spending as much as $55,000 a month on the drug, up from $20,000 to $25,000 a month, Ms. Fox said. The system tried to steer doctors to alternative medicines, but it still spends about $40,000 a month.

Ofirmev was losing money before its price was raised, Mallinckrodt said, and even at the new price, hospitals using the drug save on patients’ hospitalization costs in the thousands of dollars.

The price increases can be very lucrative for companies. Horizon Pharma PLC upped the price of Vimovo pain tablets after buying the rights from AstraZeneca in late 2013. On Jan. 1, 2014, its first day selling Vimovo, Horizon raised the list price for 60 tablets to $959.04, a 597% increase, according to Truven.

Horizon raised the price again on Jan. 1 this year to $1,678.32 for the tablets, Truven said.

Last year, Vimovo had $163 million in sales, up from $20 million in 2013, even though there were fewer prescriptions for the drug last year, Horizon said. In the first two months of this year, the drug had $50 million in sales, according to IMS Health.

Horizon said one of the company’s “primary drivers is and always will be ensuring a limited financial impact on the patient,” and about 97% of Vimovo patients don’t pay any out-of-pocket costs due to the company’s efforts.

Companies don’t want to raise prices so much that hospitals or patients can no longer afford the medicine, causing demand to plunge, said Mick Kolassa, a former drug industry pricing official who now advises companies at Medical Marketing Economics LLC. Yet companies must balance those concerns with pressures they face to sustain their business and from shareholders.

When companies hold calls discussing drug costs with investors and analysts, “I’ve heard them ask, ‘Why didn’t you price it higher.’ I’ve never heard anybody say, ‘Why don’t you price it lower?’” Mr. Kolassa said.
The company leading the pack in drug-price increases is Canada-based Valeant, which lifted list prices by at least 20% some 122 times since the beginning of 2011, according to Needham & Co., in its June 2014 research note.

Isuprel and Nitropress, the heart drugs Valeant bought earlier this year, have been staples of medical care for decades. Doctors use Isuprel during procedures treating heart-rhythm problems, and give Nitropress to emergency patients whose blood pressure has risen to life-threatening levels. Doctors say there are few good alternatives.

Valeant was interested in the drugs in part because they hadn’t yet faced generic competition even though they had lost patent protection, according to a person familiar with the matter. Adding the drugs would also expand Valeant’s portfolio of hospital-administered drugs, the person said.

After Valeant agreed to buy the drugs in early January, the company hired a consultant to look at their prices. The consultant found the prices didn’t reflect the benefits of the drugs to patients and the costs that hospitals save by using the medicines, the person said. Valeant decided to raise the price. The list price of a one-milliliter vial of Isuprel, a treatment for abnormal heart rhythms, jumped to $1,346.62, up from $215.46, according to Truven. Meantime, a two-milliliter vial of Nitropress, which combats dangerously high blood pressure and acute heart failure, increased from $257.80 to $805.61.

Pricing isn’t the main driver of Valeant’s organic growth, as the company counts on higher prices and more sales, the person said.

Terms of Valeant’s purchase of the drugs from Marathon Pharmaceuticals LLC weren’t disclosed. Isuprel notched $103 million in sales last year for privately held Marathon, while Nitropress recorded $58 million, according to Jefferies & Co.’s analyst David Steinberg. He expects the increases to help Valeant to “very substantially exceed” that in 2015.

Ascension health system, which operates 131 hospitals across the country, estimates the increases will triple its spending on the drugs this year to $8 million. Richard Fogel, a heart doctor at Ascension’s St. Vincent Heart Center in Indianapolis, said the lack of good alternatives in certain clinical situations leaves him little choice but to keep using the pair.

“It is very frustrating, especially as we try to develop new systems to take better care and more
efficient care of our patients,” he said.

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