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TOGETHER FOR GLOBAL SOLUTIONS

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ADDING VALUE ACROSS THE ATLANTIC

Last year's $6.5bn sale of Alliance Healthcare may have surprised long term watchers of Walgreens Boots Alliance, but they would have been less surprised by the purchasers. American giant AmerisourceBergen had entered into a 10-year strategic alliance with WBA, including distribution into the US flagship Walgreens pharmacy chain, in 2013. **Rob Darracott** asks CEO Steve Collis (right) and managing director of international wholesale Juan Guerra about the benefits that might accrue to the customers of the now global distribution and specialist logistics business

"AmerisourceBergen is a leading global wholesaler and healthcare services company, very leveraged into the United States," says Steve Collis, AmerisourceBergen's chairman, president and chief executive officer. A graduate of Witwatersrand University in Johannesburg, he joined the company in 1994, founding and then growing its specialty distribution and product commercialisation services business to market leadership. He was elected president and CEO in 2011 and chairman in 2016. "We'd been trying to work out what the next step was with Wallgreens Boots Alliance for some time," he says. "And the more we got to understand the presence and durability of Alliance's business model, the more we became intrigued.

"We were also at a stage culturally and financially where we could afford to do an acquisition of this size. We felt we really could benefit from having a springboard into Europe and we wanted the right vehicle to do it. Alliance was definitely the right avenue – we viewed it as a compatriot business.

"In the long term, the reason we did it is the presence Alliance has, the management team, the customer base, the connectivity to independent pharmacists, the Alloga business [Alliance Healthcare's specialist provider of supply chain solutions for manufacturers] and the opportunity to really work on global solutions together."

The final cash and shares deal included a three year extension agreed for the Walgreens contract in the US through to 2029, and a contract to continue supplying Boots in Europe. "We also engaged in a discussion about last mile distribution, central fill and other related services between Walgreens and AmerisourceBergen in the US, which are of tremendous benefit," Steve says.

Managing director of international wholesale Juan Guerra agrees. "We share the same values. We apply the same meaning to what we do, which is basically to give easier, better and faster access to medicines to patients, to support independent community pharmacies and manufacturers in a very dynamic sector," he says.

Mr Guerra, an Argentinian and Italian national and an accountant by background, joined Alliance Healthcare in 2012 as a regional finance director and became MD of Walgreens Boots Alliance wholesale division in 2015. "AmerisourceBergen has a strong legacy of anticipating change and not just reacting to it," he says. "We feel very comfortable with that and in being part of a global pharmaceutical wholesaler business. They understand our business extremely well."

"We share the same values. We apply the same meaning to what we do, which is basically to give easier, better and faster access to medicines to patients, to support independent community pharmacies and manufacturers"

He says opportunity exists across the global organisation to learn from each other. "Even though the markets are different. We can certainly learn a lot from the AmerisourceBergen expertise; one of the key areas of focus is how we can leverage that expertise, and how we customise and bring that into Europe for the benefit of patients, pharmacists and manufacturers."

First year focus: integration

I've managed to grab Steve and Juan between other meetings in what is a hectic schedule. The first anniversary of operations post-acquisition is fast approaching, but the pandemic has curtailed opportunities to get out into the business and meet new colleagues. They're in the UK having met with the Romanian management team earlier in the week, and they are both clearly energised by the interaction.

"We're just at nine and a half months now, but it's gone very well," Steve says. "At the top level of the company, we have an integration committee, with three extremely experienced external board members who have dealt with Europe a lot, who have done acquisitions of this complexity and size before. They have been a very good sounding board. The leadership of Juan and his executive management team has been very collaborative, very interested in understanding our perspectives, and I think *vice versa*.

"AmerisourceBergen is an unusual company in that we truly are purpose-driven and we are obsessed with being well positioned for the long term. But we don't assume we know everything. I'd never met anyone from Romania before yesterday, and I've now made a bunch of new friends.

"We learnt a lot. Even though it's a very small market – GDP is a bit bigger than the revenue of AmerisourceBergen, which is a refreshing way to look at it – there are things they have applied in the market and practices where they have shown a great entrepreneurial spirit. It's a good example to me of how we can really share best practices across 12 or so countries where we have a strong presence."

"I'm pleased to see how we are getting together in a very smooth way," Juan says. "AmerisourceBergen clearly understands that we need to keep running 10 different markets; they respect that highly. And Alliance Healthcare is flexible and open to working on integration, on synergies. From my point of view, it is a great match."

There may be more to come; not only are there gaps in Europe, but there's the rest of the world to think about too. "AmerisourceBergen is a tremendously cash generative company," Steve says. "We have not been the most acquisitive in terms of M&A [mergers and acquisitions], but if we see good opportunities, we like to buy market leaders.

"We're not a strong fixer-upper," he adds. "We like to buy companies that have strong presences, strong systems, strong people. Juan has a lot of experience too, and we are interested in investing in the footprint where it makes sense. There are many areas where it could be more consolidation, say in central Europe, that we're interested in. We will be guided by the management team and their local knowledge."

Juan takes up the story. "If you look at the pharmaceutical distribution industry right now, AmerisourceBergen has the best geographical coverage. We can bring additional value into manufacturers that want to get a more standardised approach to their outsourcing services. And there are interesting combinations that either Amerisource or Alliance Healthcare has, that can enrich the value proposition we offer to manufacturers and patients.

"My management team remains unchanged. I think the fact that they want us to continue to run the business, making the decisions, is a clear example that they understand and recognise that Europe is different. They're spending a lot of time listening to the different management teams and learning from 10 different markets in which we operate. That's good to see."

I can't leave the European overview without a thought for the current crisis in the East. Juan addresses the human point first. "This is impacting all of us; it is a terrible thing that we all hope will finish as soon as possible. From a personal point of view, it's a tragedy what is happening today."

Alliance Healthcare used to have a wholesale operation in Russia; it was sold some time ago. "We continue to support critical supplies for manufacturers that are not Russian," he says. "This is for patients who might require, in most cases, oncology treatment, maybe in a clinical trial. We continue because we don't see it leading to any benefit to the Russian economy. It's more for patients in desperate situations and laboratories working to try to improve the life of patients for the future."

"There are 800 clinical trials ongoing in Russia and 600 in Ukraine; between 15 and 20 per cent of global trials were taking place in these two countries," Steve adds. "There will be a lot of interruption, but we act as a partner for pharmaceutical companies. We have to be mindful what their policies are, and what treaties have been signed. It's a difficult area, but one where we are keeping in mind our purpose and responsibility in creating healthier futures."

Two way learning

AmerisourceBergen recently posted revenues of $59.6 billion and a gross profit of $2.1 billion for the three months to 31 December 2021. It employs more than 42,000 perople operating out of more than 600 locations worldwide. I wonder whether that scale resonates with customers?

"This is a big acquisition for AmerisourceBergen," Juan says. "We [Alliance Healthcare] operate in 10 different markets, so this is not something that is a slam dunk. AmerisourceBergen is extremely experienced in specialty medicines in the US. Even though markets may be a bit different, they clearly have great know-how on adding additional value to manufacturers and also to hospitals.

"When you look at patients, we can see some benefits in areas like home care, which is a very important focus for us. And it is not a secret that the US is ahead of the game when you look at things like digitisation in pharmacies." He says that pharmacists, like many others in healthcare, have seen an acceleration in the use of digital solutions during the pandemic. "It can be difficult to influence independent pharmacies, but we are exploring how we can benefit from the experience AmerisourceBergen has."

"These are the things that are exciting, where one plus one is three. We are seeing how we can pull all these together for the benefit of all the players"

"I think in the long term, AmerisourceBergen will bring expertise and capital as a pure play wholesaler that will benefit the customer base," Steve says. "If you look at things like warehouse automation and product mix, there's a lot we can share with each other and learn from.

"Juan and I were both at the International Federation of Pharmaceutical Wholesalers the other day – the first in-person meeting in two years." Steve is a member of the board. "An account representative from a European-based multinational told me his goal was to be the first company to contract with AmerisourceBergen/Alliance Healthcare on a global basis, for Europe and the US at least.

"We have a very interesting business in Canada. Innomar [Strategies] does unique patient programmes, including infusions, that we see can be of benefit in some European countries. We also have an animal health business that is a big area of focus for Alloga, for example, so we're seeing how many different intersection points there are between animal health in the US and Europe. It's more than you would think.

"There is definitely more front store emphasis and experience with OTC products in our Alliance business than we have in the US. The reimbursement systems can be very different. The US is often working on a percentage of product acquisition cost, which is a fairer system for wholesalers. Here, it's often a fixed Euro fee and that makes it tricky sometimes, particularly when the mix of business is changing so significantly."

One logistics challenge that occupies too much pharmacist time is dealing with medicines shortages. Steve thinks a global footprint may help to answer that difficult question. "With the trends we can identify between the two companies, we may be well positioned to do more extensive long term contracting, which could help ensure a stable demand for manufacturers," he says. He does, however, have a caveat: "These are complex areas and we have a lot of governments looking post-Covid at what the right nearshoring policy is, and how complicated the API chain has become."

He thinks the data companies like AmerisourceBergen have across the supply chain holds out some hope for improvements. "There's tremendous external uses of the data we have; that's what gives people the buzz," he says. "But what about internally? How can we use the data to benefit our whole environment? I believe the combination will help us manage the supply chain and future demand and forecasting much better."

He has some live examples. "Europe is a little bit ahead of the US experience with biosimilars, where we have some really big exclusivity losses coming up," he says. The company not only sees cost savings across healthcare from biosimilars, but thinks it has a role to play in improving access to and confidence in them. "We are definitely looking at that, particularly with our Part B presence [hospital-based services covered by Medicare] in infusible drugs and oncology drugs in the US."

"When we met with the French team, for example, they told us there's a shift in site of care from hospitals to pharmacies. We're trying to think that through to see how we share learnings, so that we can get independent pharmacists to practice specialty [support for complex therapies at home, such as oncology drugs and infusion treatments], maybe in France, but potentially in the rest of Europe as well. That's a trend that's very important for wholesalers to participate in, but also for pharmacists."

In the US, AmerisourceBergen has a number of specialist businesses that bring together manufacturers and pharmacy providers to improve services in direct-to-patient care.

Improving the pharmacy offer

I ask Steve and Juan whether community pharmacists in the UK can expect to see any practical benefits or additional features in the offer they currently get from Alliance Healthcare, from this coming together of major players in North America and Europe. Juan addresses direct support for the company's closest independent customers first.

"We have similar concepts in place," he says. "We have the Alphega network of independent pharmacists – one of the biggest in Europe – present in eight of the 10 countries where we operate today. AmerisourceBergen has a similar concept called Good Neighbor Pharmacy (GNP).

"Alphega and GNP are working together. What is very attractive is how well engaged manufacturers are in both concepts. At the end of the day, the value proposition here is for both manufacturers and pharmacists. And we can connect them in a large network. We are always happy for manufacturers to launch campaigns or position their products in a more co-ordinated way. Pharmacies that are part of this network will have access to this mutual benefit.

"World Courier – part of Amerisource Bergen – specialises in transport for clinical trials. In Alliance Healthcare, Alcura provides services for relabelling and repackaging. Combine those two services together in one single player. These are the things that are exciting, where one plus one is three. We are seeing how we can pull all these together for the benefit of all the players."

With the exception of the UK, community pharmacy is not as chain-dominated in Europe, Steve points out. "There are services Alphega offers, particularly around data collection, that are probably more important to the European market than in the US. Having said that, our Good Neighbor Pharmacy people have told me that in certain ways, like collecting data for clinical trials at the community pharmacy counter, Alliance and Alphega are teaching us things that could have applicability in the US.

"A lot of what we do at Good Neighbor Pharmacy is around commercial reimbursement programmes for insurance companies – getting our community pharmacies into payer networks. This isn't very important in Europe and probably the single payer system will remain, but health systems can change. We've had some experience in Brazil, for example, where there's quite a large commercial insurance population. It could be that some countries will evolve towards private insurance and this will become an important skill."

Alliance Healthcare will continue to supply Boots in the UK; so concerns about preferential treatment among some independents might continue too. Juan tackles the issue head on: the contract is an important one; the companies have been connected commercially and operationally for almost two decades. "We have a contract with Boots that secures the continuation of the partnership. Even though we're not members of the same family any more, the spirit of collaboration and mutual help remains," he says. "It's important for us to continue to create value for one of the most iconic brands and most important chains in the UK."

The connection remains strong at the most senior level too. Ornella Barra, chief operating officer of WBA, who oversees its businesses outside of the US, including Boots UK, as well as its pharmaceutical wholesale operation in Germany, is a member of the AmerisourceBergen board.

"Walgreens' stake of 28 per cent of AmerisourceBergen is very fundamental to our thinking," Steve says. "We're very happy to have them as our largest shareholder and it works well with Ornella representing WBA on our board; her knowledge of Europe and of Boots is tremendously profound to us."

No big bang

It's clear that the pair have a huge agenda, including benefits they might expect to develop for customers, such as new service offerings and service improvements, but also synergies that will improve internal working across the business. Steve says customers should not expect a 'big bang'.

"Juan has mentioned World Courier – the biggest international business we had prior to the acquisition. There's been tremendous benefit for Juan and the team to get to know those much smaller and more narrowly focused offices throughout Europe. The Romanian team, for example, now have another friendly office in Bucharest that they can go and share experiences with and learn from the HR and cultural side.

"It's also worth talking about our experience with large system integrations," he says. "We did what was at the time the largest SAP implementation 20 years ago now [a 'total process' change management programme approach to values, attitudes and behaviours within an organisation]. AmerisourceBergen is going to continue investing, strongly backing our business, so we'll be assisting Juan and his team with an SAP implementation in the UK; this will lift the whole infrastructure up."

"That's a good point, Steve," Juan says. "Providing services to all the different key stakeholders of the healthcare system is where we want to be. It's been good to see how open AmerisourceBergen is to the development and diversification of what we can do in the countries where we operate."

For now, there's the resumption of a more normal life post-Covid, and the chance to meet new colleagues properly. "I'm looking forward to just travelling informally with Juan and meeting all the countries directly," Steve says. "We've often had them come into the UK or a central point like Paris or Barcelona, but to go directly, speak with some of the customers as we resume normal life, is something I'm looking forward to.

"I'm 60 years old. I've worked for the company for 28 years and I've been CEO for almost 11. It is really spectacular to learn about so many things at once – understanding the countries, getting to know the people, has been tremendously inspiring for me."

As for Juan, he says the complexity involved in operating in so many markets means each week is different because every market is different. "There is no day that is like any other," he says. "That is what has fired me up for 10 years already. What keeps me very enthusiastic now is all the positive things that this transaction is bringing to Alliance Healthcare for the future. It's busy, but it's exciting."