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Federation of
American
Hospitals

October 27, 2014

Ian T. Clark
Chief Executive Officer
Genentech, Inc.
One DNA Way
South San Francisco, CA 94080

Dear Mr. Clark:

As organizations representing more than 5,000 hospitals and health systems across the country, we urge you to reconsider your recent decision to remove three lifesaving cancer drugs – Avastin, Herceptin and Rituxan – from the traditional distribution channel in favor of specialty distributors. We believe this decision will add unnecessary costs to the delivery system and produce supply disruptions by requiring complicated new delivery procedures. It will have a major impact on access to care and will ultimately result in higher costs for cancer patients.

First, we have concerns that this decision could undermine patient care due to potential delays in therapy. With fewer distribution locations and medications no longer arriving via the daily wholesale order, the drug arrival time to providers will be slowed, forcing hospitals and other providers to stockpile additional supplies to avoid a shortage. Medications ordered a day in advance may not arrive in time for appointments the next day. Also, a hospital may not be able to afford to keep a large supply of these drugs on hand and, thus, may not have the flexibility to provide treatment for new patients. By significantly reducing the number of distribution centers to only six locations, an emergency such as inclement weather or a natural disaster may compromise the entire nation's ability to source these important drugs. Overnight shipping companies are not as reliable as daily wholesale distributor deliveries.

Second, we have heard from our hospitals and health care providers across the country that this change could add hundreds of millions of dollars in avoidable costs by eliminating discounts and other price reductions typically offered by traditional distributors and not presented by specialty distributors. Hospitals will likely have to absorb the increased cost, as they cannot expect higher payments from insurance companies or federal programs. Given the steep financial pressures facing hospitals today, your surprise decision has sent a shock wave through the hospital community that will completely up-end pharmacy budgets, thereby compromising hospitals' ability to continue to invest in patient care and other community health efforts.

Third, hospitals rely on data from their regular wholesalers to benchmark themselves against other organizations, compare drug pricing and ensure appropriate utilization. These data generally are not provided to the hospitals if the drugs are purchased through specialty distributors. Even in cases where the data exists, they are not presented in an accessible format. This will present significant challenges for hospitals that are unable to handle these additional demands. Furthermore, 340B Drug Pricing Program compliance will become more cumbersome and require more manpower as specialty distributors generally do not offer any product tracking services and hospitals must implement manual tracking, thereby diverting already scarce resources.

Finally, with respect to concerns raised by your company regarding supply chain security, while these cancer drugs have been a target for counterfeiting overseas, there is no evidence of this problem occurring in the U.S. supply chain. An unintended consequence of your action could be to encourage counterfeiting of these products, as their market prices will rise significantly under the new specialty distributor system.

We ask that you reverse this misguided decision and continue to distribute Avastin, Herceptin and Rituxan through the traditional distribution channels so that our hospitals can focus on providing the best care for their cancer patients.

Sincerely,

America's Essential Hospitals
American Hospital Association
Association of American Medical Colleges
Catholic Health Association of the United States
Children's Hospital Association
Federation of American Hospitals