

Sudden Price Spikes in Decades-Old Rx Drugs: Inside the Monopoly Business Model

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Senator Claire McCaskill

Opening Statement

Thank you Chairman Collins.

I'm glad to be here today for the second of our series of hearings about rising drug prices. The first hearing the Aging Committee held on this topic examined the market forces that have allowed some companies to raise prices for their products by hundreds or thousands of percentage points. As we heard from witnesses back in December, the drugs that are being targeted for these astounding overnight price increases are usually drugs that are off-patent but have small patient populations so that most generic companies feel that it is not worth the cost and time that developing a generic requires. This gives the company that owns the rights to the drug a de facto monopoly.

Because the patient populations for these drugs are so small, they are not only unattractive to potential generics manufacturers, but they are also usually not an important or even desirable part of a traditional pharmaceutical company's portfolio. So, traditional pharmaceutical companies are generally happy to sell these drugs to others when a good offer comes along. This makes these drugs (and therefore their patient populations) vulnerable to being poached by a relatively new breed of pharmaceutical companies whose primary goal is to reap extraordinary profits, and who do not hesitate to pursue that goal despite risking patient access, and people's lives.

In our effort to understand why these cases were occurring with more frequency and how we could prevent these cases in the future, the Committee subpoenaed tens of thousands of

documents last year from four companies that had engaged in this type of egregious price gouging: Valeant, Rodelis, Retrophin, and Turing. And in the documents, we found written, detailed confirmation of how this new breed of pharmaceutical company operates.

As Senator Collins already described, the documents we subpoenaed showed that these companies are very good at targeting drugs whose prices can be manipulated without generic competition, and they have a whole master plan for how they go about doing so systematically. But something I also found to be interesting in my review of the documents was that not only are some of these companies being run by people who are not traditional pharmaceutical executives, such as Martin Shkreli and Michael Pearson, but that investors seem to be playing an outsized role in these companies.

Some of these relationships are well-known. For example, Valeant Pharmaceuticals maintains some of the most visible relationships with hedge funds who invest in the company – even going so far as placing people from these hedge funds on their Board of Directors. Valeant has worked closely with these hedge funds in the past few years to acquire companies, slash their R&D budgets, and then raise the price of their drugs to fund additional acquisitions and boost its stock price. I look forward to examining Valeant in more depth at our next hearing in this investigation.

The documents reviewed by the Committee make clear that the chief rationale for the extraordinary increase in price is profit. The documents are explicit. In one e-mail, Martin Shkreli [Sh-KRELL-ee] tells his investors that a certain drug will be “an *annuity* for some time” or a “\$100 million present” for investors. And the documents also make clear that the investors are working hand in hand with the companies to drive up prices. In one email to Mr. Shkreli, Dan Wichman, one of Mr. Shkreli’s investors, who will testify on the second panel, said: [quote’

“Funny that [other] small companies still haven’t realized you can raise price aggressively and nobody gets too upset.”

Well, I’m here today to tell you, I’m upset. Now make no mistake, every single for-profit pharmaceutical company aims to increase earnings and create value for shareholders.. But traditionally, pharmaceutical companies have gone after profit by attempting to run a profitable *pharmaceutical* business, bolstered by research and development with the aim of creating new, innovative treatments.

With the companies at issue in this investigation, however, that’s not what we’re seeing. What we’re seeing in these cases is Wall Street having turned its eye to healthcare because it has realized that here is a commodity, a product, with a stubbornly inelastic demand. Yes, there is a price for everything at which people will no longer be able to pay for a product. But, what some investors have realized, much to their delight, is that they can keep squeezing the very people who depend on these drugs in order to line their own pockets.

This is disturbing. If this new breed of pharmaceutical companies is where our pharmaceutical industry is headed, we are in big trouble. Let me speak very clearly to the folks who believe that they can participate in this sick game of acquiring drugs, raising prices to ridiculous heights, and sticking it to patients – We are coming after you. We will shed light on this practice and we will work together to stop it for the sake of patients, the healthcare system, and American taxpayers, and I’m proud to be working with Senator Collins to do so.

I thank the witnesses for being here today, and I look forward to hearing their testimony.