

## Opening Remarks

Before the  
United States House Committee on the Judiciary  
Subcommittee on Regulatory Reform, Commercial and Antitrust Law

on

“Competition in the Pharmaceutical Supply Chain: the Proposed Merger of  
CVS Health and Aetna”

February 27, 2018  
Washington, DC

### **Introduction**

Chairman Marino, Ranking Member Cicilline, and members of the Subcommittee, I am pleased to appear before you today to share with you a few observations on the proposed merger given my experience as an economist who has specialized in health care antitrust.

I am Lawrence Wu. I am President of NERA Economic Consulting, a global firm of experts in economics, finance, and statistics. For over 25 years, I have had the opportunity to analyze the competitive effects of scores of mergers and acquisitions that span the health care marketplace.

I am proud to be affiliated with NERA, but the views and opinions I express are entirely my own. I have not been retained by any other party to evaluate the proposed transaction.

### **Keeping Our Focus on Consumer Welfare**

Before I share my thoughts with you, let me to tell you how I approach transactions like the one we are discussing today.

I always start by asking how a proposed transaction is going to improve consumer welfare. In the context of a health care merger, this means I focus on whether the transaction is likely to result in lower prices, an improvement in the quality of health care provided to consumers, increased access to care, and/or more innovation.

Transactions that lead to such benefits for consumers would be called procompetitive. Transactions that lead to the opposite outcome would be viewed as anticompetitive.

This is the same approach that the antitrust agencies take as well.

With that, here are three observations on the proposed transaction.

First, an important characteristic of this transaction is that with the exception of Medicare Part D prescription drug benefits, the merger combines companies that operate at different points along the pharmaceutical supply chain. This is why many describe the transaction as a vertical merger as opposed to a horizontal merger which would be a transaction that combines companies that compete in the same market.

This is important because while vertical mergers can sometimes raise competitive concerns, they also have the strong potential to reduce costs and inefficiencies along the supply chain, with the result being lower prices.

Second, the importance of MinuteClinics is in their ability to deliver to patients the care they need in a cost effective setting. Getting patients to the right place at the right time is currently a major challenge in this country. To give you an example, half of all US hospital admissions come through the emergency department, which is an expensive place for doctors to figure out whether a patient needs to be hospitalized. This is a problem that the country's health insurers and health care systems have been trying to address for a long time.

If the proposed transaction can increase the use of low-cost clinics for diagnostic care or if it can facilitate the expansion of these clinics, especially in areas where access to outpatient care clinics and urgent care centers is limited, then the proposed transaction will be a big step forward.

My third and last observation is based on my experience seeing providers and insurers adapt and try new business models in response to market changes in an industry that is highly dynamic and innovative. Mergers and acquisitions have played an important role in achieving these goals.

The proposed transaction is another example of innovation in action. Clearly, there are many ways for insurers to get cost effective PBM services and to ensure that their subscribers get their medications at a low cost. And there are many ways providers can encourage patients to use low-cost clinics. Will the merged entity be successful in accomplishing these goals? Only time will tell whether the combined firm will pass the market test.

## **Conclusions**

This transaction has the potential to benefit consumers.

I'm confident that the talented attorneys and economists at the Antitrust Division are working hard to ensure that any potential for competitive harm that they foresee is minimized.

If the Antitrust Division finds that the proposed transaction has a low risk of competitive harm, then let's see what innovation flows from the transaction and let the experiment happen.

Thank you for convening this hearing. I look forward to answering any questions that you might have.