I would first like to extend my thanks to the committee for inviting me here to speak today. At Cost Plus Drugs, we have spent years working diligently to find ways to reduce drug costs on every product that we can. We now have over three million customers on costplusdrugs.com. Hundreds of hospitals and thousands of pharmacies buy from us wholesale. And we even manufacture products ranging from shortage cancer medicines to gene therapies. After all of that, we have found one fundamental driving force that pushes up drug costs in the United States dramatically over any other comparable nation: the power of the drug distribution and payment processing oligopolies in the United States.

If you asked me what the top three things driving high drug costs for patients in America is today, I would say: monopolies, monopolies, monopolies.

Each of the big three pharmacy benefit managers (the PBMs), is meant to negotiate drug prices on behalf of their clients. And that should work in theory. They have enormous negotiating leverage, with two negotiating drug costs of over 100M people through their rebate aggregators. That is more people than live in England, France, or Germany. And yet, branded drug prices in the United States are on average 3.2x higher than in comparable nations, even after rebates. How is that possible when we have so much more negotiating leverage? Either our negotiators are absolutely terrible at their jobs, or could they be pocketing the difference internally?

There are two major ways that the big pharmacy benefit managers are able to raise drugs costs.

First, vertical integration. They set up their own pharmacies and even their own internal white-label pharmaceutical companies. The big PBMs then get to pick which pharmacies to use and which products to buy and effectively "negotiate" with themselves. Surprise, surprise, you don't get a great deal. It's like hiring somebody to negotiate the price of a used car for you, but that person also owns the car lot. It's not great.

Second, they use a maze of elaborate financial engineering scams to upcharge on medications. There are dozens and dozens of these that each upcharge medication costs a little bit, but cumulatively, a whole lot. Co-payment maximizers, accumulators, pharmacy switches, source programs, spread pricing, effective rate clawbacks, rebate guarantees, data fees, inflation protection, etc. etc. etc. There are dozens of services on offer that each drive up the price of pharmaceuticals a little bit, but add them all together and it's a whole lot.

When I was coming out of my math PhD, I was being recruited to be a "quant," a quantitative analyst at hedge funds. As part of that, you do technical interviews: prove you know how to do math, that kind of thing. And this is around 2007, 2008. I remember being

shown these incredibly complex financial instruments nobody had ever heard of at the time: Credit Default Swaps, Collateralized Debt Obligations. And I'm kind of a blunt, awkward guy, I think I remember saying out loud, "O, so this is a scam." You took bad debt, added layers of stochastic calculus on top of it no regulator could hope to understand, and then say it's now magically good debt which is much more expensive.

The same scam is happening here. Dozens of layers of complicated math and legal machinations are obfuscating a very simple scam: they are hiding the true cost of drugs and marking them up a lot.

And this is all enabled by the fact that the big three PBMs control a virtual monopoly on drug contracting. The big three PBMs may control about 80% of the overall PBM market, but through their "rebate aggregators" or "GPOs", they control close to 100% of the commercial plan drug contracting market. This may sound odd. Can't anybody negotiate to buy drugs from a drug manufacturer?

But the truth is no. The 50 or so smaller PBMs generally cannot contract with pharmaceutical companies directly. They can only contract by proxy through one of the big aggregators, at which point the cost of a drug has already been inflated.

At Cost Plus, we have found that on the drugs we carry, we are generally 50-60% less expensive than the final net price at PBMs. However, we have not been able to negotiate pricing directly with patented, brand and specialty drug manufacturers. They have told us they are afraid of retaliation from the PBMs and losing sales.

We asked one manufacturer: *"Why wouldn't you give us an offer?"*

They responded: *"We are worried about retaliation"*

Another said they "*Have to be careful about working with [Cost Plus] due to "the punitive nature of the big 3…We have a lot of launches where the big 3 can hurt us"*

We asked another manufacturer: *"Are you concerned about retaliation [from the PBMs for working with us]"*

They answered: *"Yes… Every drug company has a fragile product or two. Those are the pressure points.."*

Cost Plus Drugs is a tiny company. The distribution side of our business has only 20 or so employees. Yet somehow, academic studies and independent consultants find that we are able to get better prices than Fortune 20 companies representing hundreds-of-millions of people. We could do it again if we were allowed to contract with the brand pharmaceutical companies, but we are blocked.

So that is my recommendation to the committee today. Take antitrust action against the big three PBMs. The Patients Before Monopolies Act is a great start. PBMs should not be allowed to negotiate drug prices with themselves, which is what is happening now.

But even further, any company that wants to should be allowed to negotiate prices with drug companies. The fact that access is tightly controlled has blocked any competition in the drug distribution and payment processing space.

Thank you for your time today, and I look forward to questions.