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Looking for a hep C price war? Merck just started it

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If the sector wants signs that the drug pricing debate is having an effect on new launches, look no further than Merck & Co's new hepatitis C pill Zepatier. The New Jersey group says it will charge $54,600 for the three-month course of medication, a significant discount on the list price and probably even the off-invoice charge for its main rival, Gilead Sciences' Harvoni.

Assuming further rebates, Merck's combination of grazoprevir and elbasvir could come within a price that cost-effectiveness assessors estimate is sufficient to justify paying for treatment of all patients, not just the sickest. The emerging price war confirms the sellside's belief that 2015 was hep C's peak year.

It's on like Donkey Kong

Merck's explanation for its price, offering a 42% discount from the Harvoni list price, was that this was in the "range of net prices" of competitors. It is implausible to believe that payers will not seek a lower price still; if so, an increasing number of patients could begin to have access to the drugs, based on their disease stage.

So far, many payers have only been willing to cover those at the more severe end, the share of patients who have developed cirrhosis or advanced fibrosis (*Vantage point – Huge hep C costs prompt search for when and where to treat, August 6, 2014*). With Merck as the new low-price benchmark, an increasing number of chronically infected patients with fewer symptoms ought to be able to access treatment.

For example, taking the mandated 23% rebate enforced by the US Medicaid programme for the poor and disabled puts Zepatier's price at $42,000. It is hardly a coincidence that this is the top price that the Institute for Clinical and Economic Review (ICER), an independent US cost-effectiveness organisation, estimated would "allow treatment of all individuals with known infections" while minimising insurance premium increases.

With so many players trying to enter the market – Merck is the fourth company to launch a second-generation hep C antiviral – it was long assumed that competition would bring prices down. Although Harvoni has a list price of $94,500 for a 12-week regimen, *EvaluatePharma's* Sales, Volume & Price tool estimated the actual average cost per US patient in 2015 at $77,600, an estimate based on a blend of the national average drug acquisition cost and federal purchasing price.

Price competition, as well as treatment of so-called "warehoused" patients as soon as Harvoni and its predecessor Sovaldi came to market, helps explain why *EvaluatePharma's* current hepatitis C forecast peaks in 2015, with a plateau from 2018 onward.

What a year that was

With peak sales numbers reached, competition in hepatitis C is no longer about being first to market or thereabouts, and all about delivering on price or innovation. In a fourth-quarter earnings call today AbbVie's chief executive, Rick Gonzalez, said his group had "built in an appropriate level of volume and price competition" when forecasting 2016 Viekira Pak sales of $2bn.

This multi-pill treatment regimen is effective only in genotype 1, and requires a boost of an older antiviral, ribavirin, for many patients. By comparison, Harvoni is authorised in genotypes 1, 4, 5 and 6 and does not require ribavirin, while Zepatier has approval for genotypes 1 and 4, and Zepatier only requires a ribavirin boost in patients who have previously failed to be cured on antiviral treatments and in some newly treated patients genetic variations associated with antiviral resistance.

Thus Mr Gonzalez was eager to discuss a pan-genotypic Viekira follow-on today, which the Illinois-based group reckons can reach the market next year.

Shortening treatment durations and offering three or more mechanisms of action to beat antiviral resistance characterise other types of innovation. The ultimate hep C pill is one with near-100% cure rates effective in a four-week regimen, which would simplify matters for payers and patients alike.

The current forecast shows that hep C will represent durable franchises for the companies that now have a foothold. Grabbing share with price will be as important as innovation, perhaps even more so as payers will increasingly demand value for money. It is good for patients but it means that there might never be another year for hep C quite like 2015.

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