

## Key Questions: The Doctor is In: How Will Amazon Impact Healthcare?

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Amazon's recent acquisitions, partnerships, and entry into the pharmacy market indicates disruption on the horizon for healthcare.

Ahead of the 4th of July holiday, Amazon set off fireworks in the healthcare sector by announcing the acquisition of PillPack, an online pharmacy and home delivery company. PillPack is a tiny player in the pharmacy industry with sales of \$100 million in a \$400 billion market, but it holds pharmacy licenses in all 50 states and is licensed to ship prescriptions to 49 states. This gives Amazon a platform to meaningfully accelerate its presence in the pharmacy supply chain.

As The Wall Street Journal put it, "The deal for PillPack fires a warning shot to drug chains and retailers including CVS Health Corp. and Walmart, which have big pieces of the prescription market. The acquisition means Amazon doesn't have to build capabilities in-house that current players have spent years assembling." Immediately following the announcement, shares of retail pharmacies, pharmacy benefit managers (PBMs), and drug wholesalers plunged between 5% and 10%. The sell-off reflected investor fears of Amazon's entrance into the pharmacy space and the increased risk on pricing and margins for those companies. In our view, those fears are well founded.

Using Amazon's history of disruption as a guide, we expect the company to offer PillPack as another added benefit for its Prime Members. PillPack aligns nicely with Amazon's goal of constantly improving the user experience.

The company's goal is to solve the problem of drug adherence by simplifying the medicine cabinet.

Medication arrives in the mail presorted into clear plastic packets, each marked in a large font with vital information: day, time, pills inside, and dosages—something many consumers would find beneficial.

Next, Amazon will advertise its new in-house pharmacy to consumers 55 and older to boost interest in Amazon Prime Membership for that demographic, which has the lowest penetration rate among Prime Members. Amazon will also use PillPack to get Prime Now (household items and essentials with 2-hour free delivery) to scale faster by increasing the order frequency, basket size, and profit margins.

After using its pharmacy business to improve consumer experience, Amazon will set its sights on lowering the consumers' out-of-pocket spending on healthcare. Armed with more than 70 million Prime Members and years of consumer/patient data, Amazon will be able to bypass the supply chain middlemen and go directly to drug manufacturers. Eventually, this path of disruption will lead to Amazon's pharmacy business merging with the Amazon/Berkshire/J.P. Morgan joint venture aiming to reduce healthcare administrative costs. To be sure, the scenario we've laid out is complicated, will take several years to complete, and may not be successful. However, given Amazon's track record of disrupting industries including retail, logistics, and cloud computing, it's a risk that investors and companies in the healthcare supply chain cannot ignore.

For more information, [please contact your Key Private Bank Advisor.](#)

**Publish Date: July 09, 2018**

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