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BUSINESS

Amazon Buys Online Pharmacy PillPack for \$1 Billion

Retail giant outbid Walmart for startup that gives it nationwide access to prescription business



The acquisition of PillPack adds to recent moves by Amazon to wade deeper into health care. PHOTO: MARK LENNIHAN/ASSOCIATED PRESS

By Sharon Terlep and Laura Stevens

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Amazon.com Inc. [AMZN -1.16% ▼](#) is buying online pharmacy PillPack Inc. giving the e-commerce giant the ability to ship prescriptions around the country, and overnight, making it a direct threat to the more than \$400 billion pharmacy business.

Amazon is paying roughly \$1 billion in cash for PillPack, which presorts medications and ships them to customers' homes in 49 U.S. states, excluding Hawaii, according to

people familiar with the matter. The online retailer beat out Walmart Inc., which also was in talks for the five-year-old startup, one of the people said. Walmart had no immediate comment.

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.

Shares of CVS, Walgreens Boots Alliance Inc. [WBA -0.61% ▼](#) and Rite Aid Corp. [RAD 1.19% ▲](#) tumbled Thursday, and the three companies lost more than \$11 billion in market value.

But the health-care market may be challenging for Amazon to disrupt. It is highly regulated, and depends on a complex web of contracts, interconnected data systems and other relationships with health plans, drug-benefit managers and other health-care players that Amazon may not want to alienate if it wants its pharmacy business to prosper.

Walgreens executives were holding a conference call with financial analysts when Amazon announced the deal. Walgreens CEO Stefano Pessina said the company is “not particularly worried” about the move.

The drugstore chain is “not complacent,” Mr. Pessina said, but “the pharmacy world is much more complex than just delivering certain pills or packages. I strongly believe that the role of the physical pharmacy will continue to be very, very important in the future.”

PillPack's specialty—packaging a month's supply of pills for chronic-disease patients—is just a small part of the overall market and “has never achieved much retail share,” Raymond James & Associates said in a note to investors.

The acquisition adds to recent moves by Amazon to wade deeper into health care, from pushing supplies for hospitals to helping form a nonprofit aimed at addressing rising costs. It is also the latest move by Amazon into a major new category via acquisition, following its purchase last year of Whole Foods Market, which allowed it to buy supply-chain expertise and a physical network of stores.

Amazon has been debating internally whether to enter the pharmacy market for years, according to people familiar with its thinking.

Amazon acquired PillPack with the intention of keeping both the brand and the pharmaceutical licenses, according to a person familiar with the matter. That strategy is in line with past acquisitions including deals for Whole Foods Market Inc. and Zappos.com Inc. While it is still early days, Amazon has typically worked on integrating and streamlining the back end of its acquisitions' operations with its supply chain expertise as opposed to making major consumer-facing changes.

Boston-based PillPack, which was started in 2013, has raised \$118 million from venture capitalists including Atlas Venture, Accel Partners and CRV. Its co-founder and CEO TJ Parker said in November that it had tens of thousands of customers and was on track for more than \$100 million in annual revenue.

The deal is expected to close during the second half of this year, the companies said Thursday.

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CVS played down the threat from Amazon's deal, saying it already offers multi-dose packaging that can be mailed to a patient's home or local pharmacy for pickup.

"We believe that we are well-positioned in the market and ahead in this area," a spokesman said. "Keep in mind, that we have not seen a large

shift of patients that are looking for their medications to be delivered versus coming to a retail pharmacy."

To stave off home-delivery service competition from Amazon and other rivals, CVS earlier this month struck a deal with the U.S. Postal Service to pick up prescriptions at CVS stores and bring them to customers' homes in one or two days. Customers will be

charged \$4.99 per delivery, which could include over-the-counter products such as aspirin or face wash.

CVS's \$66 billion bid for insurer Aetna Inc. was in part an attempt to position the company to better defend against Amazon as a potential rival.

The news could impact other companies that play important roles in the drug-supply chain beyond retail pharmacies, including middlemen such as Express Scripts [ESRX 2.46% ▲](#) Holding Co. that oversee prescription-drug benefits for employers and health insurers, as well as drug wholesalers such as AmerisourceBergen Corp. [ABC 1.12% ▲](#) Shares of both companies also retreated.

Drug-benefit managers, which include CVS's Caremark unit and UnitedHealth Group Inc.'s OptumRx, have mail-order pharmacies that ship prescriptions to patients. PillPack works with all of the major drug-benefit managers, but Amazon's purchase threatens a powerful new source of competition.

Wholesalers, including McKesson Corp. and Cardinal Health Inc., buy drugs from their manufacturers and ship the therapies to pharmacies. Their relatively low margins could be pressured even further by Amazon. But Evercore ISI notes that Amazon tends to use secondary distributors, such as FedEx and UPS, rather than undercut them in order to extract profit.

In anticipation of the online threat to their businesses, the drug-supply chain has been moving to consolidate. Express Scripts agreed to be bought by health insurer Cigna Corp. for \$54 billion, while AmerisourceBergen has discussed a deal with Walgreens, The Wall Street Journal has reported.

Amazon has had an on-again-off-again interest in health care. In 1999, it bought a 40% stake in Drugstore.com Inc. Drugstore.com eventually was bought by Walgreens, which said in 2016 it was shutting down the site to focus on its own digital efforts.

Amazon rattled the health-care market when it announced earlier this year it was forming a nonprofit venture with JPMorgan Chase & Co. and Berkshire Hathaway Inc. aimed at reducing the three companies' health-care costs. The company last week announced its new CEO.

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