Mallinckrodt CEO FRAUD exposed by the new Medicare Drug Dashboard

Mallinckrodt Stock Target Price - $20

Mallinckrodt CEO Mark Trudeau has been caught red handed committing securities fraud -- exposed by none other than the newly released Medicare drug-spending dashboard.

This long-promised, just released public information database demonstrates that HP Acthar Gel is The Single Most Expensive Drug per Treatment as reimbursed by Medicare / Medicaid.

Background

October 2015 was the tipping point for pharmaceutical pricing scrutiny in the United States. As Valeant collapsed following exposure of their orchestrating the "Phildor scheme", the media and Congress both went head-hunting for abusers of the healthcare reimbursement system.

In response to public outcry and pressure to search for systemic reimbursement abusers, by December 2015 Medicare had launched an online drug spending dashboard. Results have just been just made public this week and it exposes the dirty secrets of Mallinckrodt.


Failure to Disclose

On an October 5, 2015 conference call, while the shit was hitting the fan in the pharmaceutical business, CEO Mark Trudeau was asked about the company’s reliance on Medicare for revenues for Acthar:
As we now learn, the concentration for Acthar paid by Medicare has ballooned to 61% as Trudeau lied to Wall Street.

At the time, Trudeau must have calculated the investing public would never know the damning truth, but only two months later in response to public outrage, this information was on its way to being revealed to the public.

For the year 2015, Medicare and Medicaid Spending is not merely "a little bit" higher than 25%. In fact, it is over 61% of Acthar sales.

**H.P. Acthar CMS Spending**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>HP Acthar Spending by</td>
<td>$49.457</td>
<td>$141.452</td>
<td>$262.582</td>
<td>$391.190</td>
<td>$503.999</td>
</tr>
<tr>
<td>Medicare (CMS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>y/y growth</td>
<td>186.01%</td>
<td>85.63%</td>
<td>48.98%</td>
<td>28.84%</td>
<td></td>
</tr>
<tr>
<td>HP Acthar Spending by</td>
<td>$40.007</td>
<td>$57.410</td>
<td>$83.939</td>
<td>$126.837</td>
<td>$144.566</td>
</tr>
<tr>
<td>Medicaid (CMS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>y/y growth</td>
<td>43.50%</td>
<td>46.21%</td>
<td>51.11%</td>
<td>13.98%</td>
<td></td>
</tr>
<tr>
<td>Total H.P. Acthar spending</td>
<td>$89.464</td>
<td>$198.861</td>
<td>$346.520</td>
<td>$518.027</td>
<td>$648.565</td>
</tr>
<tr>
<td>combined (CMS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>y/y growth</td>
<td>122.28%</td>
<td>74.25%</td>
<td>49.49%</td>
<td>25.20%</td>
<td></td>
</tr>
<tr>
<td>% of Acthar Revenue by CMS</td>
<td>41.01%</td>
<td>39.05%</td>
<td>45.51%</td>
<td>60.20%</td>
<td>61.32%</td>
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<tr>
<td>Calculated cost per beneficiary by Medicare</td>
<td>$57,980</td>
<td>$89,357</td>
<td>$108,014</td>
<td>$133,421</td>
<td>$162,371</td>
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<tr>
<td>y/y growth</td>
<td>54.12%</td>
<td>20.88%</td>
<td>23.52%</td>
<td>21.70%</td>
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<tr>
<td>Calculated cost per</td>
<td>$41,458</td>
<td>$44,060</td>
<td>$41,533</td>
<td>$45,331</td>
<td>$44,102</td>
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<tr>
<td>beneficiary Medicaid</td>
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<td></td>
</tr>
<tr>
<td>y/y growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined calculated cost</td>
<td>$49,210</td>
<td>$68,906</td>
<td>$77,835</td>
<td>$90,406</td>
<td>$101,624</td>
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</table>
Let's not forget that Acthar continues to represent a massively disproportionate chunk of Mallinckrodt's bottom line, a number that Trudeau always is happy to dance around, rather than disclose the true concentration risk it took on when it levered up massively to acquire this never-proven drug.

This is securities fraud plain and simple. Moreover it points to the elephant in the room: What else is Trudeau lying about?

- Kickbacks to doctors?
- Patient assistant programs?
- Unreported clinical studies that failed to prove HP Acthar efficacy?
- Free patient dinners at Olive Garden?

**The Insurance Companies Figured It Out**

It was just 2 years ago when pharmaceutical industry newsletter Fierce Pharma published a piece asking if "Medicare is Wasting $220 million a year on Acthar"

http://www.fiercepharma.com/financials/medicare-wasting-220m-a-year-on-questcor-s-controversial-acthar

Then, a 2014 Wall Street Journal piece foresaw the move from private pay to government coming. It quoted Ed Pazella, the National Medical Director for Pharmacy Policy and Strategy at Aetna when he stated:

"The combination of “aggressive marketing and aggressive price increases finally caused it to become a line item that a finance guy looked at and said: 'What the hell are we paying for this? Why? What is it?' And that's when we started looking at what’s our policy around this stuff.”"

As insurance companies became aware of the scheme, Mallinckrodt has protected its revenue stream by pushing more and more of the bill onto Medicare/Medicaid. In the past two years the bill to CMS has increased from $346 million to $648 million because those private payers opened their eyes.

Jonathan Blum, a former principal deputy director at the Centers for Medicare and Medicaid Services (CMS) was quoted in the same article:

“The case (Acthar) underscores a need for Congress to reconsider the limited role that Medicare has in assessing and negotiating for drugs. – And at the time they did not even know it would grow to be the most expensive drug in the system.”

The importance of the above LIE told by Trudeau is to cover up to the government and to Wall Street that insurance companies have made reimbursements for Acthar more difficult, not just because of price but because of an utter lack of evidence about its efficacy.

IT GETS WORSE – Someone tell this to Paul Ryan.

We now find out through this new Medicare dashboard. that HP Acthar Gel is the most expensive drug per use in all of Medicare despite the lack of any clinical data ... AMAZING!
So Acthar is **the most expensive drug per treatment in the Medicare system**. And just two months ago we read in Neurology Today Journal:

There is no evidence that ACTHar gel... is in any way superior to methylprednisolone for MS relapses — indirect comparisons suggest that it may be associated with more adverse events and its current Average Wholesale Price of $40,840.80 for a 5 ml/40 unit bottle makes routine use of this product for MS relapses difficult to justify,” they wrote.

Dr. Bourdette said use of ACTHar gel should cease.

“That's something that can happen right now. Neurologists just shouldn't be using it because there's no evidence that it warrants that high price,” he said.

http://journals.lww.com/neurotodayonline/Fulltext/2016/09220/Five_Steps_for_Cost_Cutting_in_MS_Treatment.1.aspx

Remarkably similar commentary from Lily Jung Henson, medical director of neurology at Swedish Medical Center's Ballard campus in Seattle, who stated, ironically that she thinks Medicare should push for more studies to determine if the product actually works in those patients.

"I can't afford to waste their money by giving them a drug that I can't convince myself has been effective," she said.

As the new GOP majority debates the future of the Medicare system, and if one wants to determine if the system is broken or not just think about this:

**Doctors do not even know if the most expensive drug reimbursed by Medicare, at $162,000 per patient, even works.**

**Where is the outrage from Claire McCaskill??**

Although Claire McCaskill has used her standing to go after Valeant and Mylan CEO's, she has put her head in the sand when it comes to Mallinckrodt, whose offices are a mere 3 miles from her office in St Louis, and contributed to her campaign.

To put the Acthar - Medicare problem in perspective. EpiPen cost Medicare $87.9 million in 2014 compared to over $400 million for Acthar ... and at least we know EpiPen works!

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**Conclusion**

**Medicare/Medicaid is spending $640 million a year on a drug with no real clinical data**

President-Elect Trump has made it a promise to cut waste, fraud, and abuse from the government's healthcare reimbursement system. With Medicare's own data, Citron has now proven that Mallinckrodt is the embodiment of all three.

When the GOP gets a grasp on the cold reality that 65% of all sales of Acthar sales go to the Federal Government, you will hear a war cry from President Elect Trump and the GOP, who have been looking to dismantle Medicare or regain the right to negotiate drug pricing.

*LASTLY, Citron’s million-dollar challenge still stands.* We will contribute $1 million to a legitimate MS charity if Mallinckrodt agrees to fully and openly double-blind test HP ACTHAR GEL for efficacy compared to inexpensive synthetic ACTH, inexpensive corticosteroid therapies and of course placebo ... we are waiting.

**Cautious Investing to All**