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Axsome Therapeutics (AXSM): Going Off Script

We are short Axsome Therapeutics (AXSM, “Axsome”, “the Company”). We believe Axsome’s launch of Auvelity for major depressive disorder (“MDD”) has been aided by undisclosed consignment deals with dodgy mail-order pharmacies that subvert prior authorizations (“PA”), inflating script counts and reported revenues.

The street has focused entirely on headline Auvelity script counts and reported revenues, but has ignored both the problematic drivers of these figures and Axsome’s inability to translate reported revenues into actual cash. Since Auvelity’s October 2022 launch, Axsome has reported \$188.6 million in total Auvelity revenues, which “*include significant estimates and judgements*” as to ultimate net sales prices. Axsome then claims that it is paid “within 60 days”, and yet receivables have ballooned to \$101.4 million (+\$81.1 million since launch), representing 148 days sales outstanding. **In short, Axsome has simply not been paid for 43% of its reported Auvelity revenues since launch.** Tellingly, Axsome dismissed its longtime auditor E&Y in June 2023, and in both of its past two annual reports, the Company disclosed critical audit matters related to revenue recognition.

Axsome’s flagship drug, Auvelity, is a combination of two widely available generic drugs: dextromethorphan (aka “Dex” or “DXM”, i.e., cough syrup) and bupropion (i.e., Wellbutrin). Per one former Axsome executive, there is “nothing” unique to Auvelity; the drug can be made in a compounding pharmacy, and indeed, many patients already opt for the “DIY” option as Axsome prices Auvelity at over \$1,000/month, a ~30x markup from the drug’s generic components at \$32/month. Given Auvelity’s exorbitant price tag amid a multitude of cheap alternatives, payors who cover Auvelity do so with stringent PA criteria, calling for patients to first show proof of failure on as many as 7 alternative drugs before finally covering Auvelity. **We believe that to avoid this burden of PAs at standard pharmacies, Axsome has engaged in an undisclosed program that both consigns Auvelity to a network of dodgy mail-order pharmacies then steers prescriptions towards those pharmacies. These pharmacies then use Axsome’s copay cards to fill Auvelity prescriptions prior to even submitting the claim to payors, let alone obtaining an approved PA. This raises anti-kickback concerns, false claims concerns, and revenue recognition concerns, in our view.** These practices were corroborated former Axsome reps, physicians, patients, and pharmacies themselves.

Former Axsome reps told us that they provide physicians with names of mail-order pharmacies that they know will fill scripts. One former rep we spoke with also emphasized the importance of these pharmacies, calling out “the Carolinas” as a particularly successful region. Numerous Cafepharm comments also allege foul play, calling out North Carolina and Florida¹ in particular.² Our research suggests that Auvelity is sold through Columbia Pharmacy (aka Script Rx Corp) in South Carolina, and through My Scripts Pharmacy in North Carolina.

We spoke with each of these two pharmacies, who practically bragged to us both that (a) they obtain Auvelity “directly” from Axsome and have “plenty” of the drug in stock, and also that they happily dispense the drug even without PAs. Axsome claims that it only sells to wholesale distributors, and the Company has never disclosed any consignment programs. For example, a pharmacist at SC-based Columbia Pharmacy (aka Script Rx Corp) told us:

¹ One comment reads: “So your contention is those territories got on the leaderboard organically and that no other “circumstances” aided them. Correct? In other words NC and FLA just have more depression than everywhere else... I believe there is enough of a documentable pattern of specific pharmacy fill direction that would otherwise call into question how those top territories became top territories (markets). And this pharmacy direction was allowed to continue in certain areas vaulting a handful of the same geographies to the top of the leaderboard. All of this with the knowledge of (leadership)... Think about “the why that is certain territories with certain targeted pharmacies” repeatedly are on top. Place needs some sunshine because it shady af.”

² Additional Cafepharm comments call out “obvious pharmacy games being played in certain regions,” while one response states: “Games? You must really mean illegal activity...” Others complain, “how many pharmacy compliance threat emails do we need?” and refer to, “...all of this NC gossip. Who’s paying off a pharmacist?” Yet more complain, “we should’ve of all set up specialty pharmacies and promoted the drug before launch like y’all [sic] so we could been on top too.”

“Oh we have plenty of those [Auvelity]. Yeah, stock is not an issue... we get it directly from the manufacturer, so I cannot imagine any day that we’re kind of running low or out... If you run into any trouble with a particular patient, just give me a call. I can help without a problem.”

We also spoke directly with the pharmacist-in-charge at NC-based My Scripts Pharmacy, who told us that the pharmacy typically dispenses Auvelity before any PA processes have even begun, let alone been approved:

“Typically we’ll start just applying the copay card and then in the backside start a prior authorization. So we can still apply the coupon even if it requires a prior authorization, so we’ll keep filling it, but we’ll attempt to get it covered by insurance... If something changes with the Auvelity program and they require coverage from the insurance then we might run into some issues if they haven’t met those requirements, but at the moment, we can keep filling the copay cards without insurance covering the medication.”

Prescribing physicians confirmed to us that they guide patients towards certain pharmacies on the advice of Axxsome reps. In the words of one physician we spoke with:

“We have pharmacy partners, that I just send the scripts there, and they do all the prior authorization paperwork. I just send the script and they handle it... My Axxsome rep I’ve known for a long time...She said if you have a pharmacy that won’t fill it, call me. My rep will do whatever I ask her to do.”

Patients claim that their physicians know which pharmacies have stock of Auvelity because they’ve been told so by Axxsome reps in advance. In the words of one Florida-based patient:

“My psych already knew the pharmacy that would have it... My [psychiatrist] talked about how the drug rep was there just earlier... and that’s how she knew the pharmacies with the best stock.”

As firsthand confirmation, we signed up with Axxsome’s telehealth partner, Brightside Health, and were prescribed Auvelity after just a single, 30-minute video call. We requested the prescription be sent to the aforementioned Columbia Pharmacy, and the next day, we called Columbia to check on the prescription. After giving the representative a name and birth date, Columbia told us plainly, *“that will be ten dollars”* and asked for a credit card number and shipping address. We received our Auvelity prescription just 2 days later:

Order # Ord-	[REDACTED]
Auvelity 45-105mg Tablet	\$10.00
30-day supply	
Total ▼	\$10.00
Order placed	05/28/2024
Ordered by	Columbia Pharmacy
Payment info	Visa ending in [REDACTED]
Delivery date	06/04/2024



Importantly, we never provided the pharmacy with Axxsome’s Auvelity copay card and never provided any documentation showing failure on other MDD drugs, as required by our Oscar commercial insurance plan.

In summary, our conversations with both Columbia and MyScripts along with the very fact that we obtained Auvelity for just \$10 without any PA approval or even a record of a claim suggests one of three (or a combination of these possibilities):

1. Axsome is giving Auvelity to pharmacies through undisclosed consignment programs, reporting inflated script counts, and allowing pharmacies to run copay cards with disregard for ultimate payor coverage. In our view, this looks like a “free goods program,” which Axsome has explicitly denied.
2. Axsome consigns the drug to pharmacies, pharmacies dispense the drug for \$10, and Axsome records inflated revenues on a per-script basis under the *false assumption* that the Company will eventually recoup “back-end” payments if PAs are eventually submitted and approved. In this case, these scripts are booked as revenue but will never translate to cash, as many scripts, like ours, will fail PA requirements. **This possibility also explains why Axsome’s receivables have ballooned to \$101.4 million; the Company is simply recording revenues that it will never be paid for. In this case, we believe Axsome would need to restate its historical revenues and write down current receivable balances.**
3. Axsome consigns the drug to pharmacies, pharmacies dispense the drug for \$10, and relay the full cost to payors, while Axsome records revenues that *correctly assume* the Company recoups back-end payments. However, given that many scripts, like ours, will never pass PA criteria, this would only seem possible if insurers were being dealt fake PA forms. (i.e., insurance fraud).

As it so happens, our research revealed that both Columbia Pharmacy and MyScripts Pharmacy are owned by or otherwise affiliated with Nirav M. Patel, pharmacist-in-charge at Texas-based Geesons’ Pharmacy.³ **In 2018, Geesons’ was sued by a whistleblower who alleged that the pharmacy was completing fraudulent PA forms for high-priced drugs from infamous fraud, Valeant Pharmaceuticals.**⁴

<p>D. Geesons and its Fraudulent Acts</p> <p>18. Geesons is a retail pharmacy in Arlington, Texas.</p> <p>19. However, Geesons has reached into Alabama to do business.</p> <p>20. In the last quarter of 2016, while reviewing PAs, Relator noticed a large amount of identical PA forms being submitted for Jublia—a high cost toenail fungus medication.</p> <p>21. The PAs were identical in that they contain the same treatment information for each submission. The only variance in each form were the patient’s general information and the prescriber’s information. Each PA contained the same previously-trying medications and the effects it had on the patient. In many cases, the dates for the previously tried medications were the same.</p>	<p>23. In the first half of 2017, Relator did a more detailed review. The review revealed several things. First, it confirmed Geesons was submitting fraudulent PAs. Second, it revealed Geesons was not only doing this in Alabama, but it was also doing it in other states. Third, it revealed that Geesons was not only submitting false PAs for Jublia; Geesons was also submitting false PAs for Solodyn, Zyclara, and Onexton. Each of these medications is manufactured by Bausch Health Companies or its subsidiaries.</p> <p>24. In the spring of 2017, Relator discovered even more fraudulent activity from Geesons. Relator discovered that if a PA for Solodyn was denied, Geesons would then run the prescription as the preferred generic medication—but, it would never dispense it. Since the record reflected a generic medication was attempted, it enabled the non-preferred more expensive medication to run without PA. Then days or months later, Geesons would edit the preferred generic medication as being the non-preferred more expensive medication and dispense it to the patient, enabling Geesons to be compensated for the more expensive medication.</p>
<p>22. More evidence that the PAs were fraudulent is that most of the forms listed the patient as diabetic, when in fact there is no medical or treatment history of diabetes in most patients. One of the PA criteria for Jublia is that the patient must have a compelling reason for treatment; therefore, unless the patient is diabetic, in severe pain, or immunocompromised, it is unlikely PA will be approved. Thus, Geesons fraudulently reported that patients were diabetic to assure PA approval.</p>	

Patel and his extended family are affiliated with several other pharmacies with regulatory red flags, including at least two state board orders/cease-and-desist letters for dispensing prescriptions out of state and continued customer allegations of physician kickback schemes levied as recently as February 2024.⁵ Within the past year, four insiders have started selling stock through both open market sales and 10b5-1 sale plans – the first sales that insiders have made since Axsome went public. In the LTM, Axsome burned \$193 million in cash, while shares trade at 14x LTM reported revenues as analysts expect Auvelity to become a blockbuster. We are short and believe Axsome shares are headed lower.

³ See state [inspection reports](#), state [pharmacy board](#) documentation. We also confirmed that Patel remains pharmacist-in-charge at Geesons’ during our conversation with MyScripts Pharmacy.

⁴ See United States of America ex rel., Jacqueline Nash vs. Bausch Health Companies, Inc. and P&M Pharma Corporation... Civil Action No. 2:18-cv-862-MHT-SRW, U.S. District Court Middle District of Alabama. The case was dismissed in 2021, with prejudice to the relator and without prejudice to the United States.

⁵ See pages 10 to 14 for full supporting documentation.

Axsome and Auvelity: Stroke of Genius or just Pharma Profiteering?

Axsome was founded in January 2012 by current Chairman and CEO Herriot Tabuteau. While Tabuteau obtained an M.D. from Yale in 1994, its unclear to us that in the ensuing 30 years, Tabuteau has ever practiced medicine or treated a patient. Instead, Tabuteau became an investment banker at Goldman Sachs, then served as an analyst at various banks and hedge funds. In 2012, Tabuteau [founded Axsome](#), and the Company IPOed in 2015 with two key drugs, AXS-02 and AXS-05 (now Auvelity).

AXS-05 (Auvelity) is a simple combination of two generic drugs – dextromethorphan (“dex” i.e., cough syrup) and bupropion (i.e., Wellbutrin). Even as Tabuteau has been [heralded](#) as a doctor who is “revolutionizing Alzheimer’s treatment”, the entire foundation of Axsome’s business now rests on the idea of combining two low-cost drugs into one, then pricing this drug at a 30x markup. The FDA approved Auvelity for MDD in August 2022 and Axsome launched the drug in October 2022 with a sticker price well [over \\$1,000 per month](#) – roughly 30x the cost of Auvelity’s generic components.⁶ We spoke with a former Axsome executive who explained to us that clinically speaking, there is no difference between Axsome’s formulation of Auvelity and that which can be obtained in a DIY fashion⁷ or made by compounding pharmacies, hence posing a risk to the Company:

*“[There is] nothing different... The headwind that Auvelity had and still has is [that it consists of] two generics. [Prescribers ask] **‘Why can’t I just give them the two generics?’** That will forever sit as the stigma... Compounding pharmacies are a much bigger risk. They’ll put the correct dose in capsule formulation.”⁸ The biggest question would be what percent of prescribers are familiar enough to do that.”*

Indeed, some patients are already opting for the “DIY” option of combining OTC dex with generic Wellbutrin, either on their own or on advice of their physician, in order to combat the high costs of the drug. See for example patient comments [here](#), [here](#), and [here](#). Nevertheless, sell-side analysts have heralded Auvelity’s launch and call for over \$1.4 billion in peak revenues in MDD.

Auvelity’s Steep Pricing Amid Wide Field of Generics Leads to Stringent PA Requirements

Against Auvelity’s high list price, Axsome has set up a copay / [discount card program](#) meant to ease the financial burden of the drug for patients. Patients present the card to their pharmacist and Axsome buys down patients’ copays, while commercial payors continue to cover their portion of the prescription. Axsome claims Auvelity has coverage across “*approximately 70% of covered lives*,” with 48% of commercial lives covered and 100% of public payor lives covered. These figures are a red herring – Auvelity remains both incredibly expensive and subject to onerous PA criteria.⁹ As it was put to us by one former Axsome employee:

“Covered is a very broad term because there’s even tier 4 now. Covered and affordable are two different things. 48% [commercial coverage] means 48% of patients have access to it somehow...”

Axsome claims that its plan is “to drive volume” in order to see better formulary placements. See per COO Mark Jacobson at the May 2024 BAML Healthcare Conference:

⁶ See Missouri Medicaid information which follows.

⁷ Some

⁸ Note that Auvelity consists of 105mg bupropion hydrochloride and 45 mg dextromethorphan hydrobromide. Individuals can obtain the 45mg dex with 15mg tablets (x3), and most-often obtain the 105mg bupropion with 100mg tablets. In practice, we don’t believe there’s a meaningful difference between the 105mg in Auvelity and the 100mg available as generic Wellbutrin that discourages substitution.

⁹ See comments from EVP Ari Maizel on Q1 2024 conference call, May 6, 2024. Note at the May 2024 BAML conference, COO Mark Jacobson stated that “*that 48% [is] at the end of the first quarter. And so we’d expect that to tick up and that corresponds to when, say, PBMs or plans access rebates or put the product on formulary.*”

“...And you're right, the plan is to drive volume and that corresponds to increase field force and things like that. And as we drive volume, then we'd expect to seize a commensurate uptake or placement on formulary for Auvelity. So that work is underway, and we're pleased with where things stand right now and how things are moving.”

However, we don't foresee Auvelity becoming any more meaningful to payors so long as the drug remains priced so egregiously. Even Axsome CEO Tabuteau stated at the September 2022 Morgan Stanley Healthcare Conference – just prior to Auvelity's launch – that formularies should be settled within 6 to 12 months:

“If you look at the industry on the commercial payer side, that's most relevant for Auvelity since MDD is sold mostly through the commercial channel. It usually takes about from 6 to 12 months after launch of the product or to have full formulary placement and then you would expect for gross to net to normalize shortly thereafter.”

Now 20 months since Auvelity's launch, the payors who do cover Auvelity do so with onerous terms. Formularies we reviewed call for patients to show failure with as many as 7 other drugs prior to Auvelity. For example:

- In January 2024, [Missouri Medicaid](#) (“MO HealthNet”) not only did not move Auvelity up in its formulary, but **imposed new clinical criteria**, specifically citing the high cost of the drug versus its generic components. As such, Missouri Medicaid now requires patients seeking Auvelity to first provide proof of failure in at least 3 other drug classes, as well as documented failure with the “DIY” option: **“with the individual components (i.e., dextromethorphan and bupropion+) utilized concurrently...”**

Program-Specific Information:	Date Range 10/01/2022 to 9/30/2023				
	Drug	Participants	Claims	Spend	Cost per Month (2 tablets per day)
	AUVELITY ER 45-105 MG TABLET	12	42	\$18,336.38	\$1,002.87 NADAC
	Drug	Dose	Cost per Unit	Cost per Year	
	AUVELITY ER 45-105 MG TABLET	2 tablets per day	\$16.71 NADAC	\$12,198.30 NADAC	
	DEXTROMETHORPHAN HBR 15 MG CAPSULE	6 capsules per day	\$0.13 WAC	\$284.70 WAC	
	BUPROPION HCL 100 MG TABLET	2 tablets per day	\$0.14 NADAC	\$102.20 NADAC	

- [West Virginia Medicaid](#) requires the patient to show failure on not just two or three, but **seven prior drugs**, then also requires patients to fail Auvelity's generic components (“as to why the clinical need cannot be met with [sic] a combination of the preferred individual components.”)¹⁰
- [UnitedHealthcare Pharmacy](#) requires documented proof of at least 5 other drugs having been attempted and unsuccessful, for a minimum of 4 weeks each, prior to Auvelity. The drug is Tier 4 in United's [commercial drug list](#), and community plan pharmacy & therapeutics [committee minutes](#) from 2023 call out that “using the individual ingredients in combination would be significantly less expensive.” Anthem [lists Auvelity](#) as non-preferred with step criteria including failure on two other antidepressants. Most Aetna plans don't even list Auvelity, but when they do, it's [non-preferred](#).

¹⁰ See as well that [Cigna](#) places Auvelity on Tier 4 – not preferred, and that [Express Scripts](#) places Auvelity on Tier 3, with each requiring step therapy (i.e., other drugs first).

Former Auvelity Reps Say They Guide Physicians to Certain Friendly Pharmacies

We believe that Auvelity's growth has been driven by a network of otherwise small mail-order pharmacies. Per one former Auvelity account manager we spoke with: "*Big box pharmacies like CVS, Walgreens, they won't even talk to us.*" Another former Auvelity account manager we spoke with corroborated this view, stating:

"... often times the prior authorization wouldn't get to the payor... If there's a generic, they would say we don't have Auvelity, but they suggest the generic to the patient instead."

Many [patients also complain](#) that CVS and other big box pharmacies need first have Auvelity shipped to the pharmacy, hence lengthening wait times on top of an already cumbersome PA process: "*Every time I get a new script, it has taken my CVS a bit of time to get it shipped to the pharmacy...*" The first former account manager we spoke with explained that rather than dealing with these issues, **Axsome reps provide prescribers with the names of certain mail-order pharmacies that will fill the scripts:**

Former Axsome Rep: "*Any time I give pharmacy advice, I have to kind of give a list of pharmacies to keep it balanced. But specialty pharmacies, mom and pop, they're better at running the cards."*

Culper: "*So you just give doctors a list of a few pharmacies that you knew would fill it?"*

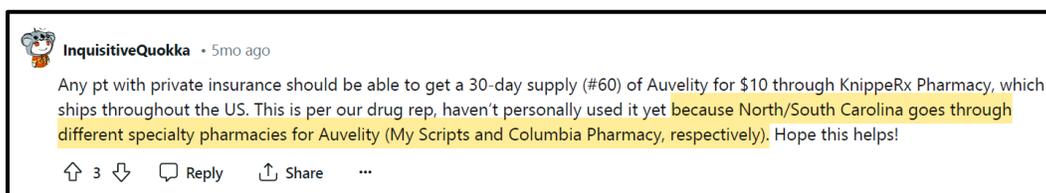
Former Axsome Rep: "*Absolutely.*"

This notion was corroborated by one high-prescribing physician we spoke with, who added that these "partner pharmacies" also "*do all the prior authorization paperwork*" for them:

*"The minute they [the patient] can't go through CVS, I just tell them there's 4 specialty pharmacies that will help me. Those other pharmacies will mail it to the patient ... We have pharmacy partners, that I just send the scripts there, and **they do all the prior authorization paperwork. I just send the script and they handle it** ... My Axsome rep I've known for a long time ... **She said if you have a pharmacy that won't fill it, call me. My rep will do whatever I ask her to do.**"*

We Uncovered Numerous Red Flags at Auvelity Dispensing Pharmacies

As noted, both a former employee and Cafepharma comments claim Auvelity has been particularly strong in "the Carolinas", driven by the Company's relationship with certain pharmacies. We uncovered these "Auvelity-friendly" pharmacies in each North Carolina and South Carolina. Not only were they riddled with red flags, but each directly confirmed to us that they get product directly from Axsome and dispense the drug even without PAs. See from a [Reddit comment](#) in which a user claims that "*North/South Carolina goes through different specialty pharmacies for Auvelity (**My Scripts and Columbia Pharmacy, respectively**).*"¹¹



¹¹ The Reddit user elsewhere [claims](#) to work as a physician's assistant (PA) at an outpatient psychiatrist's office, and we validated that both Columbia and My Scripts distribute Auvelity statewide by simply calling the pharmacies and asking.

Script Rx Corp dba Columbia Pharmacy (South Carolina)

Columbia Pharmacy (a.k.a. Script Rx Corp) is an otherwise small mail-order pharmacy [located in Irmo, SC](#) operating out of a single ~1,200 square foot strip mall storefront, shown below. In May 2024, we visited the pharmacy, where our investigators sat for 3+ hours during normal business hours and witnessed zero customers.



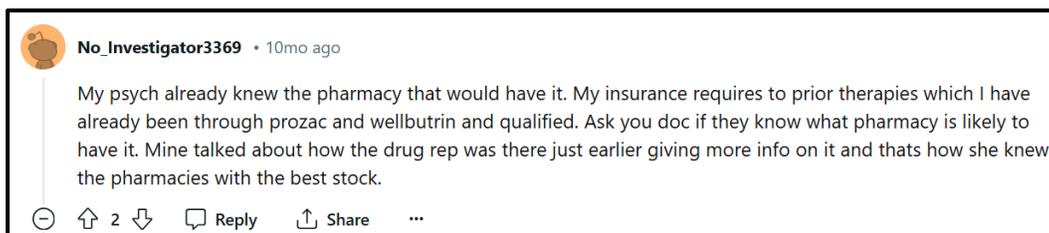
Columbia’s online footprint is similarly sparse. The pharmacy has just eight (8) [Google reviews](#), all of which have been posted within the past 2 years. We couldn’t find any website for the pharmacy, only a phone number. South Carolina [Pharmacy Board records](#) reveal that Script Rx’s license was first issued in February 2021, and pharmacist-in-charge Thanh Hoang Vo, only received their pharmacist’s license 3 months earlier, in November 2020, having previously worked as a nail technician. Vo’s [LinkedIn](#) does not explicitly state that he works for Script Rx or Columbia Pharmacy, but that he is a Staff Pharmacist at “PharmD on Demand,” which appears to be a staffing agency connecting pharmacists and pharmacies. Pharmacy board records also reveal Columbia’s corporate name, Script Rx Corp. More on Columbia’s ownership and affiliations to follow...

Columbia Told us They Have “Plenty” of Auvelity, As They Get Stock “Directly” From Axsome

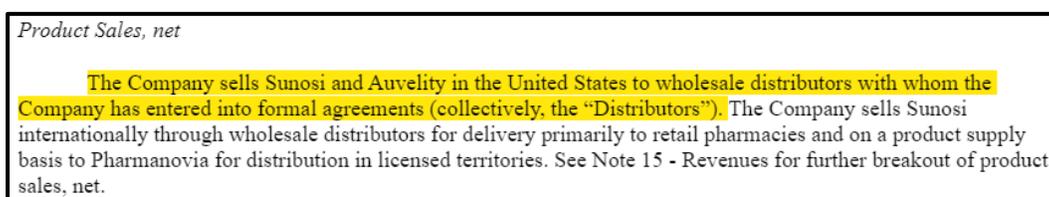
We called Columbia Pharmacy and asked if the pharmacy had Auvelity available. Shockingly, the pharmacist not only stated that they could dispense Auvelity, but launched into a pitch for the drug and for Axsome’s discount card program, **even claiming that they had “plenty” of Auvelity in stock as “we get it directly from the manufacturer.”** The pharmacist also offered to help us with any patient troubles and claimed that “one way or another” the drug would always be \$10 for patients:

“Oh we have plenty of those. Yeah, stock is not an issue. I mean, you know, once it gets to the point, we get it directly from the manufacturer, so I cannot imagine any day that we’re kind of running low or out ... And then you are probably aware of right, if it’s a commercial patient, you know, normally they won’t be more than \$10. It’s you know, one way or the other, if anything, it’s not covered by their plan, it’s supported by the manufacturer to get it for \$10... If you run into any trouble with a particular patient, just give me a call. I can help without a problem.”

Similarly, see a [Reddit comment](#) from a Florida-based patient suggests that their psychiatrist knew where to send the prescription because **the Axsome rep had told the psychiatrist which pharmacies had Auvelity in stock:**



However, Columbia’s claims stand in contrast to Axsome’s [10-K filings](#), which state that the Company sells Auvelity through agreements with wholesale distributors. Axsome has also never disclosed any pharmacy consignment programs.



MyScripts Pharmacy Told Us They Dispense Auvelity Prior To PAs Even Being Started

We also spoke with the pharmacist-in-charge at North Carolina’s My Scripts Pharmacy. They confirmed to us that the pharmacy applies Axsome’s copay card and dispenses Auvelity even without an approved PA. In their words:

“So typically we’ll start just applying the copay card and then in the backside start a prior authorization. So we can still apply the coupon even if it requires a prior authorization, so we’ll keep filling it, but we’ll attempt to get it covered by insurance with that prior authorization.”

We then confirmed that the pharmacy would continue this practice even if a patient would not meet PA requirements. MyScripts again explained that this would not be a problem, citing a seeming green light from “the Auvelity program”:

*“Yes, it will still work. If something changes with the Auvelity program and they require coverage from the insurance then we might run into some issues if they [patients] haven’t met those requirements, but at the moment, **we can still keep filling the copay card without insurance covering the medication.**”*

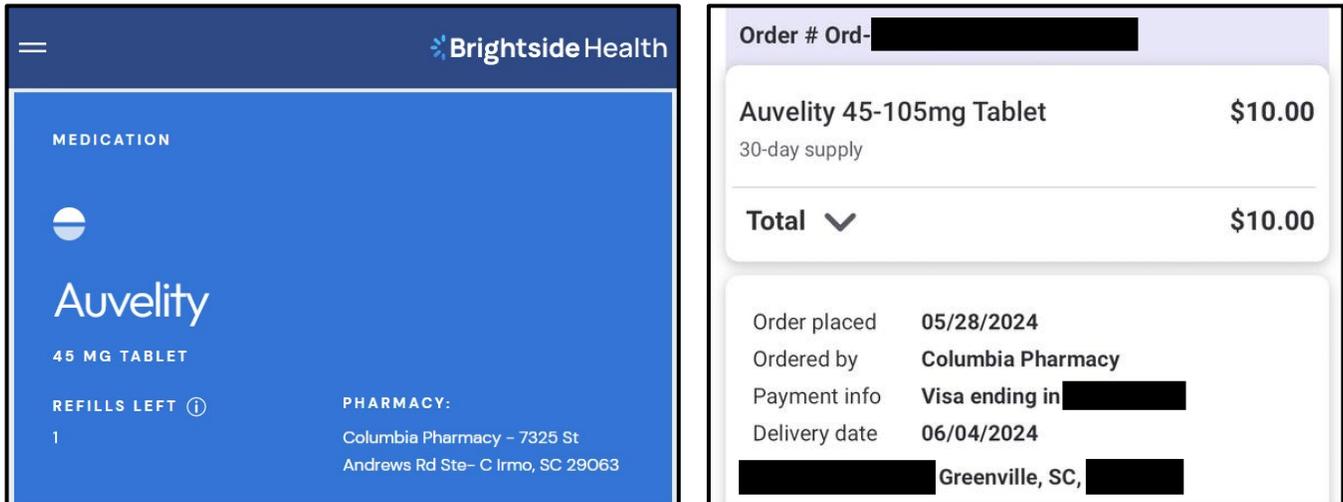
For its part, Axsome explicitly denies running a “free goods program,” claiming that only the “first script or early scripts” might be provided to patients “while a PA maybe routing through submission and potential approval.”¹² However, our call with My Scripts’ again flies in the face of the Company’s narrative, and further suggests that Axsome could be left holding the bag on many scripts. This notion is also directly corroborated by [Cafepharm comments](#) as recent as March 2024 that allege Axsome is “eating” scripts as pharmacies run cards “willy nilly.”

*“many of those scripts the company is eating. It’ll be more interesting to see which territories are actually converting the most scripts that are **actually being picked up by the insurers and not just being paid for 100% with the copay card and a specialty pharmacy willing to continue running them** willy nilly.”*

¹² See comments from COO Mark Jacobson at Axsome’s May 2024 presentation at the Bank of America conference.

Columbia Gave us Auvelity for \$10. No PA, No Problem

As firsthand confirmation, [we signed up](#) for telehealth psychiatry services through Axsome’s “virtual mental healthcare partner,” Brightside Health. After a single, 30-minute video call in which we described having relatively generic symptoms of depression and anxiety, we requested an Auvelity prescription, and our physician prescribed us the drug and sent the prescription to our preferred pharmacy, Columbia Pharmacy, as shown below:



The next business day, we called Columbia in order to check on the status of our prescription. The pharmacist straightaway told us that the drug would cost \$10, and asked for a credit card number and mailing address. Importantly, we never provided any documented proof of having tried and failed at least 3 other MDD drugs [as required](#) by our commercial insurer Oscar, nor did we provide the pharmacy with Axsome’s [copay card](#), meant to lower the cost of the drug to \$10. Yet we paid just \$10 anyway, and received the drug 2 days later:



As of the time of writing, our commercial insurer also does not have any Auvelity claims records, which seems to violate the copay card's [terms and conditions](#) that call for the patient to "have private health insurance that provides coverage for **some portion** of the cost of Auvelity." We wonder if the pharmacy ran the copay card at all, given that submitting the claim to the primary third-party payer is the first step in the redemption process:

<p>Terms and Conditions: By using this offer, the patient certifies that he or she understands and will comply with all the following Terms and Conditions and any terms of his or her health insurance contract requiring notification to his or her payor of the existence and/or value of this offer.</p> <p>Patient Eligibility Requirements: This offer is valid only for patients 18 years of age or older. Patient must have a valid prescription for Auvelity® (dextromethorphan HBr and bupropion HCl) extended-release tablets 45mg/105mg at the time the prescription is filled by the pharmacist and dispensed to the patient. Patient must have private health insurance that provides coverage for some portion of the cost of Auvelity. Patient is a resident of the United States or U.S. territories based on patient's address.</p>	<p>For Pharmacists</p> <p>How to redeem (for a Patient with an Eligible Third Party):</p> <ol style="list-style-type: none"> 1. Submit the claim to the primary Third-Party Payer first 2. Submit the balance due to Change Healthcare as a Secondary Payer COB with patient responsibility amount and a valid Other Coverage Code. Valid Other Coverage Code required. <ul style="list-style-type: none"> • Use Other Coverage Code 08 for commercially insured and medication-covered patients • Use Other Coverage Code 03 for commercially insured and medication-not-covered patients <p>For any questions regarding Change Healthcare online processing, call the Help Desk at 1-800-641-4654</p>
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In Summary: Three Possibilities, None of Which are Good for Axsome...

In summary, our conversations with both Columbia Pharmacy and MyScripts Pharmacy, along with the fact that we were dispensed Auvelity for just \$10 without any prior authorization, suggests one of three possibilities (or some combination of these possibilities), none of which we think are favorable for Axsome:

1. Axsome is giving Auvelity to pharmacies through undisclosed consignment programs, reporting inflated script counts, and allowing pharmacies to run copay cards with disregard for ultimate payor coverage. In our view, this looks like a "free goods program," which Axsome has explicitly denied.
2. Axsome consigns the drug to pharmacies, pharmacies dispense the drug for \$10, and Axsome records inflated revenues on a per-script basis under the *false assumption* that the Company will eventually recoup "back-end" payments if PAs are eventually submitted and approved. In this case, these scripts are booked as revenue but will never translate to cash, as many scripts, like ours, will fail PA requirements. **This possibility also explains why Axsome's receivables have ballooned to \$101.4 million; the Company is simply recording revenues that it will never be paid for. In this case, we believe Axsome would need to restate its historical revenues and write down current receivable balances.**
3. Axsome consigns the drug to pharmacies, pharmacies dispense the drug for \$10, and relay the full cost to payors, while Axsome records revenues that *correctly assume* the Company recoups back-end payments. However, given that many scripts, like ours, will never pass PA criteria, this would only seem possible if insurers were being dealt fake PA forms. (i.e., insurance fraud).

Meet the Patels: Allegations of PA Fraud, Kickback Schemes, and More...

To that end, numerous allegations of misbehavior have already been levied against the Patel/Desai clan and their extended network of pharmacies across the Southern U.S. Most concerning, [Nirav Patel has been pharmacist-in-charge](#) at Geesons' Pharmacy, signing Geesons' inspection records as recently as November 2022 ([latest available](#)).¹³ Vireshchandra Desai's two sons are also affiliated with Geesons'.¹⁴ **In 2018, Geesons' was sued by a**

¹³ Geesons' Pharmacy's corporate entity is named P&M Pharma Corporation, dba Geesons' Pharmacy.

¹⁴ See that [NPI information](#) lists Manish Desai as owner of PM Pharma Corporation dba Geesons' Pharmacy. Also see that Samir Desai, who we believe to be the son of Vireshchandra Desai, appears as an [officer of SVDRX](#) Corporation, which shares an address with Geesons' Pharmacy at 5201 S Cooper St Ste 117, Arlington, TX, 76017.

whistleblower who alleged Geesons' was submitting fraudulent prior authorization forms for Jublia and other high-cost medications with generic alternatives for now infamous fraud, Valeant Pharmaceuticals.¹⁵

D. Geesons and its Fraudulent Acts

18. Geesons is a retail pharmacy in Arlington, Texas.

19. However, Geesons has reached into Alabama to do business.

20. In the last quarter of 2016, while reviewing PAs, Relator noticed a large amount of identical PA forms being submitted for Jublia—a high cost toenail fungus medication.

21. The PAs were identical in that they contain the same treatment information for each submission. The only variance in each form were the patient's general information and the prescriber's information. Each PA contained the same previously-tried medications and the effects it had on the patient. In many cases, the dates for the previously tried medications were the same.

¹⁵ See United States of America ex rel., Jacqueline Nash vs. Bausch Health Companies, Inc. and P&M Pharma Corporation d/b/a Geesons Pharmacy. Civil Action No. 2:18-cv-862-MHT-SRW, U.S. District Court Middle District of Alabama, Complaint Filed October 3, 2018.

22. More evidence that the PAs were fraudulent is that most of the forms listed the patient as diabetic, when in fact there is no medical or treatment history of diabetes in most patients. One of the PA criteria for Jublia is that the patient must have a compelling reason for treatment; therefore, unless the patient is diabetic, in severe pain, or immunocompromised, it is unlikely PA will be approved. Thus, Geesons fraudulently reported that patients were diabetic to assure PA approval.

23. In the first half of 2017, Relator did a more detailed review. The review revealed several things. First, it confirmed Geesons was submitting fraudulent PAs. Second, it revealed Geesons was not only doing this in Alabama, but it was also doing it in other states. Third, it revealed that Geesons was not only submitting false PAs for Jublia; Geesons was also submitting false PAs for Solodyn, Zyclara, and Onexton. Each of these medications is manufactured by Bausch Health Companies or its subsidiaries.

24. In the spring of 2017, Relator discovered even more fraudulent activity from Geesons. Relator discovered that if a PA for Solodyn was denied, Geesons would then run the prescription as the preferred generic medication—but, it would never dispense it. Since the record reflected a generic medication was attempted, it enabled the non-preferred more expensive medication to run without PA. Then days or months later, Geesons would edit the preferred generic medication as being the non-preferred more expensive medication and dispense it to the patient, enabling Geesons to be compensated for the more expensive medication.

25. Each of the medications is manufactured by Bausch Health Companies or its subsidiaries. Bausch knew, or should have known, based on the sales volume, that Geesons and/or its sister pharmacies were submitting fraudulent PAs for its medications.

From 2016 to 2020, Valeant and its former executives were subject to a flurry of charges related to their use of undisclosed agreements with pharmacies such as Philidor. In November 2016, the [DOJ charged](#) former Valeant executive (Gary Tanner) and Philidor CEO (Andrew Davenport) for illegal fraud and kickbacks; in October 2018, Tanner and Davenport [were found guilty](#) and sentenced each to one year and one day in prison; in December 2019, Valeant [paid \\$1.2 billion to settle](#) a shareholder class action [lawsuit](#); in July 2020, [the SEC charged](#) Valeant (then renamed Bausch Health) and three former executives, and Valeant paid \$45 million. By 2021, the Geesons' qui tam complaint was dismissed with prejudice to the relator and without prejudice to the U.S.

The Patel/Desai network also extends to [DFW Wellness Pharmacy](#), [Your Rx Pharmacy](#), [Long Prairie Pharmacy](#)¹⁶, and [Matlock Pharmacy](#).¹⁷ Cafepharm [comments](#) posted amid increasing scrutiny on Valeant – note, well prior to the Geesons' whistleblower complaint – suggested that these pharmacies had become “*the new Philidor*”:

¹⁶ Also see https://www.pharmacy.texas.gov/dbsearch/phy_zoom.asp?id=27944



These pharmacies have also been subject to regulatory issues. In 2016, Matlock faced a Texas state [board order for disciplinary action](#) for allegedly unlawfully dispensing prescriptions out-of-state, in Louisiana, where it didn't have a license. In October 2018, Matlock was [issued a cease-and-desist](#) from the Illinois Department of Financial and Professional Regulation for operating without a license. More recently, patient reviews of these pharmacies allege that they continue to engage in referral/implied kickback programs with physicians:

[DFW Wellness, February 2024](#): *"If you have a choice DO NOT use this pharmacy. I realize probably most of their business comes from doctor referrals, if so, ask your doctor for another pharmacy..."*

[DFW Wellness, April 2023](#): *"This pharmacy is running some kind of scam and is in league with certain physicians, conning patients that the medication can't be filled at the patient's preferred pharmacy..."*

[DFW Wellness, March 2023](#): *"Seems this pharmacy is thrust on me automatically by doc. I will be reporting this action to him. I mistrust any pharmacy I do not have free choice on."*

[Your Rx Pharmacy, 2019](#): *"I think these people have a kickback with their doctors..."*

According to the pharmacist-in-charge at MyScripts, Patel also owns several other pharmacies. Though she could not name all of them, she did also confirm that Patel owns Columbia Pharmacy:

"Nirav is in Texas and he has a couple different pharmacies... Most of them are in Texas, and they do cover kind of the Midwest area. We have one in South Carolina as well called Columbia Pharmacy..."

We also uncovered the the inconspicuously named pharmacy Roswell Pharmacy, located at 11105 Crabapple Rd, Roswell, GA.¹⁸ See that Columbia and Roswell share a logo and color scheme, as shown below:



¹⁷ Our research suggest Praful Patel, named on many of these corporate documents, is directly related to Nirav Patel. Moreover, corporate documents for these pharmacies also list Manish Desai, son of Vireshchandra Desai, and/or Samir Desai, another son of Vireshchandra.

¹⁸ Fulton county [property records](#) reveal the owner of this property to be Gajraj RX LLC, [which lists](#) Raman Baral, Nirav Patel's associate, as member. Baral and Nirav Patel also [appear as directors](#) of Georgia-based Shree Shivay Corp. Patel's Texas-based address, 4916 Barn Owl Trail, Grand Prairie, TX is listed on [Shree Shivay's corporate filings](#), confirming his identity. Moreover, in May 2024, we visited Columbia Pharmacy and noted a car in the parking lot that we later identified as belonging to Raman Baral.

Roswell and Script Rx also share job postings. See that on March 7, 2024, Script Rx Corp [posted a job](#) seeking a Pharmacy Technician. That same job was [also posted and closed](#) by Roswell on the same two days. The job descriptions themselves also raised alarm bells for the way in which they described the role as focused on handling insurance and lowering copays “using different manufacturer’s savings cards” as compared to more traditional pharmacy technician roles we reviewed that usually highlight the technician’s role in preparing medications, managing inventory, and communicating with patients regarding order status.

Script Rx Corp

Pharmacy Technician/Entering and Billing at least 100 RX Accurately Daily ... 🔖 ⚡ Easy Apply

Irmo, SC

*Job description- Pharmacy Technician focused on Data Entry, Entering Rx, and Billing Insurance Accurately Experienced Pharmacy Technician (Expert Level) who can handle Data Entry Que very efficiently. Be expert in typing New Prescription [99% rx are E prescriptions], handle all insurance adjudication problems, be able to recognize opportunity to lower the copays by using different manufacturer’s saving cards for eligible patients. Fixed hours: Monday to Friday 9-5 pm. Closed on Saturday and Sunday.

Pharmacy Technician/Data Entry/Typing RX Mostly

Roswell Pharmacy Job Openings at Roswell Pharmacy → Similar Jobs →

Roswell, GA | Full Time

POSTED ON 3/7/2024 | CLOSED ON 3/21/2024

Job Posting for **Pharmacy Technician/Data Entry/Typing RX Mostly** at **Roswell Pharmacy** NEXT

Job description- Pharmacy Technician focused on Data Entry all day.

Experienced Pharmacy Technician who can handle Data Entry Que very efficiently. Be expert in typing New Prescription (99% rx are E prescriptions), handle all insurance adjudication problems, be able to recognize opportunity to lower the copays by using different manufacturer’s saving cards for eligible patients. Fixed hours: Monday to Friday 9-5 pm. Closed on Saturday and Sunday.

Pharmacy Technician

Concord Pharmacy - Lawrenceville, GA

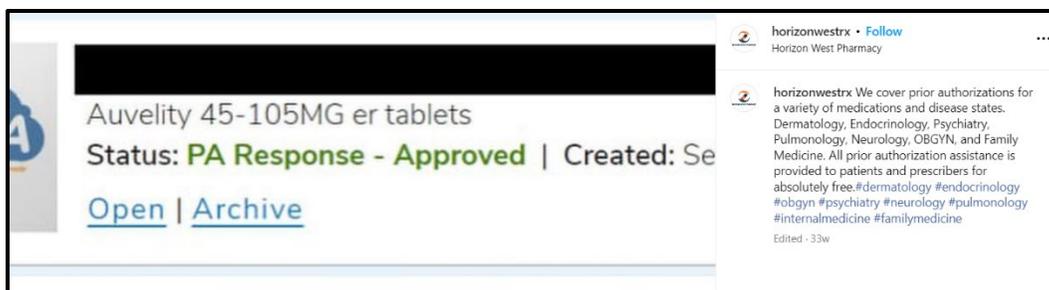
View Job Details

Horizon West Pharmacy (Florida)

We also uncovered one pharmacy outside of the Patel/Desai network that also raises alarm bell. We spoke with one high-prescribing Florida-based physician who named Horizon West Pharmacy as one “partner” that that makes their job easier by doing “all” of the prior authorization paperwork:

“We have pharmacy partners, that I just send the scripts there, and they do all the prior authorization paperwork. I just send the script and they handle it.”

Horizon West was [formed](#) in March 2022 as [OM RX Partners LLC](#). According to Instagram posts by Horizon West, the pharmacy [opened](#) in September 2023. Since then, the group has continually touted its prior authorization prowess, even via [Instagram](#) and [Facebook posts](#) as captured below:



Axsome's Financials Bolster Our Views: Ballooning Receivables, Mid-2023 Auditor Change, and Insider Selling

Analysts have been focused on Auvelity weekly script counts and reported revenues, but ignored Axsome's mounting financial issues, bolstering our bearish views. Axsome admits in its [Form 10-K](#) that reported revenues are based on the Company's own estimates and judgments as to Auvelity's ultimate net sales price:

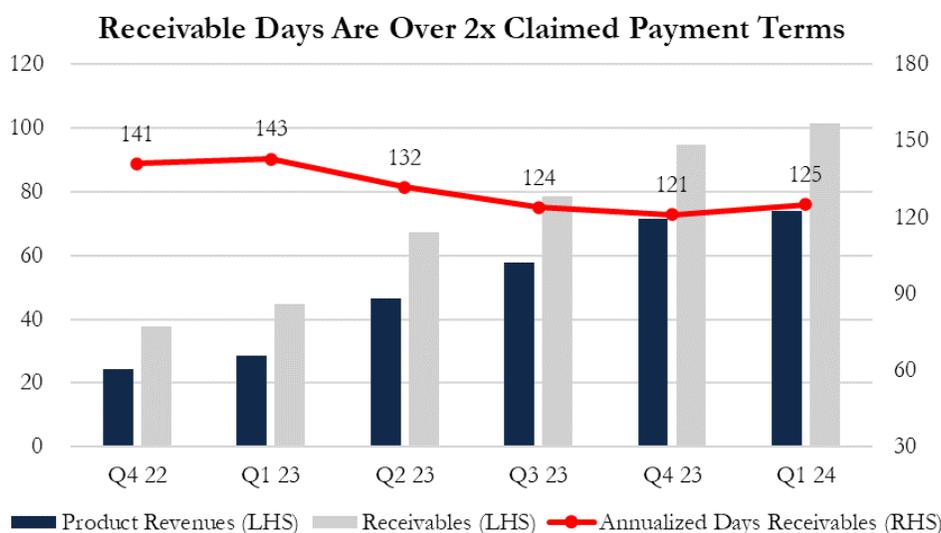
"Revenues from product sales are recorded at the net sales price, which includes estimates of variable consideration... We make significant estimates and judgements that materially affect our recognition of net product revenue."

As such, we can judge whether or not these estimates are sound by comparing Axsome’s reported revenues with the Company’s actual cash generation. The resulting picture is ugly. Axsome claims that the Company receives payment for product sales in “typically 60 days or less” as per its Form 10-K:

Accounts Receivable, net

The Company’s accounts receivable, net, arise from product sales. They are generally stated at the invoiced amount and do not bear interest. Accounts receivable allowances result from chargebacks, prompt pay discounts, and distribution fees. Payment terms are typically 60 days or less.

Yet when it comes to Axsome’s ability to collect the cash, the picture is ugly. Since Auvelity’s October 2022 launch, annualized days sales outstanding have ranged from 121 to 143 days, consistently more than double the Company’s 60-day claims.¹⁹



In other words, Axsome has reported \$188.6 million in cumulative Auvelity revenues since launch, yet receivables have grown from \$20.3 million to \$101.4 million today, an increase of \$81.1 million.²⁰ Meanwhile, Sunosi revenues have remained relatively flat, suggesting to us that the Company’s skyrocketing receivable balances are overwhelmingly tied to reported Auvelity revenues.²¹ **In short, Axsome hasn’t been paid for 43% of its reported Auvelity revenues since launch, raising revenue recognition questions and corroborating our concerns regarding the practices detailed throughout this report.**

From 2014 to 2022, Axsome relied on Ernst & Young as its independent registered public accounting firm. In June 2023, the Company dismissed E&Y and appointed Deloitte & Touche. In both of Axsome’s Form 10-Ks for the years-ended [2022](#) and [2023](#), the Company disclosed critical audit matters related to revenue recognition “*net of provisions for rebates, discounts, and other incentives and returns...*” including “*Commercial Managed Care rebate programs*” which “*involve the use of significant assumptions and judgements...*”

Finally, Axsome insiders have – for the first time since the Company went public – started [selling stock](#), beginning in September 2023 and continuing to May 2024. We are short and believe shares are headed lower.

¹⁹ Revenues are product revenues. Our presentation of annualized days sales outstanding presents a Company-favorable view as compared to days sales outstanding based on LTM revenues, which as of Q1 2024 would be 148 days.

²⁰ Note that receivables are already net of reserves for variable consideration.

²¹ Sunosi revenues were \$17M in Q3 2022, \$19M in Q4 2022, and \$21M in Q1 2024, or \$82M LTM vs. Auvelity’s \$168M LTM revenues.