The Outlook for Pharmacy Benefit Management: Evolution or Disruption?

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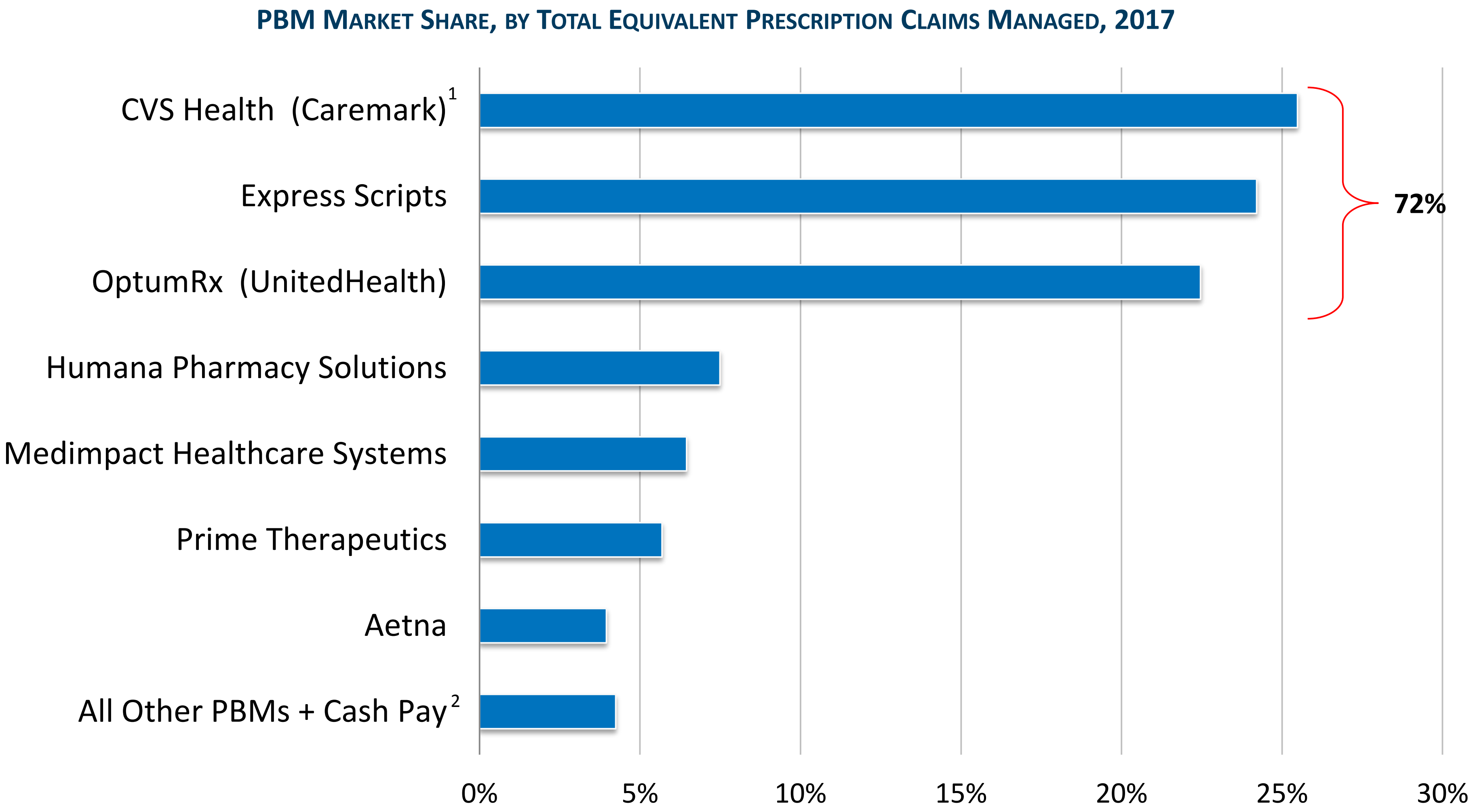
March 5, 2018

The Big Three Dominated Again in 2017



1. Excludes claims processed by Aetna. For 2017, CVS Health changed its publicly reported computation of equivalent prescription claims filled in network pharmacies.
2. Figure excludes cash pay prescriptions that use a discount card processed by one of the 7 PBMs shown on the chart.

Source: Drug Channels Institute research and estimates. Total equivalent prescription claims includes claims at a PBM's network pharmacies plus prescriptions filled by a PBM's mail and specialty pharmacies. Includes discount card claims. Note that figures may not be comparable with those of previous reports due to changes in publicly reported figures of equivalent prescription claims. Total may not sum due to rounding.

See Section 5.2 of *The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*

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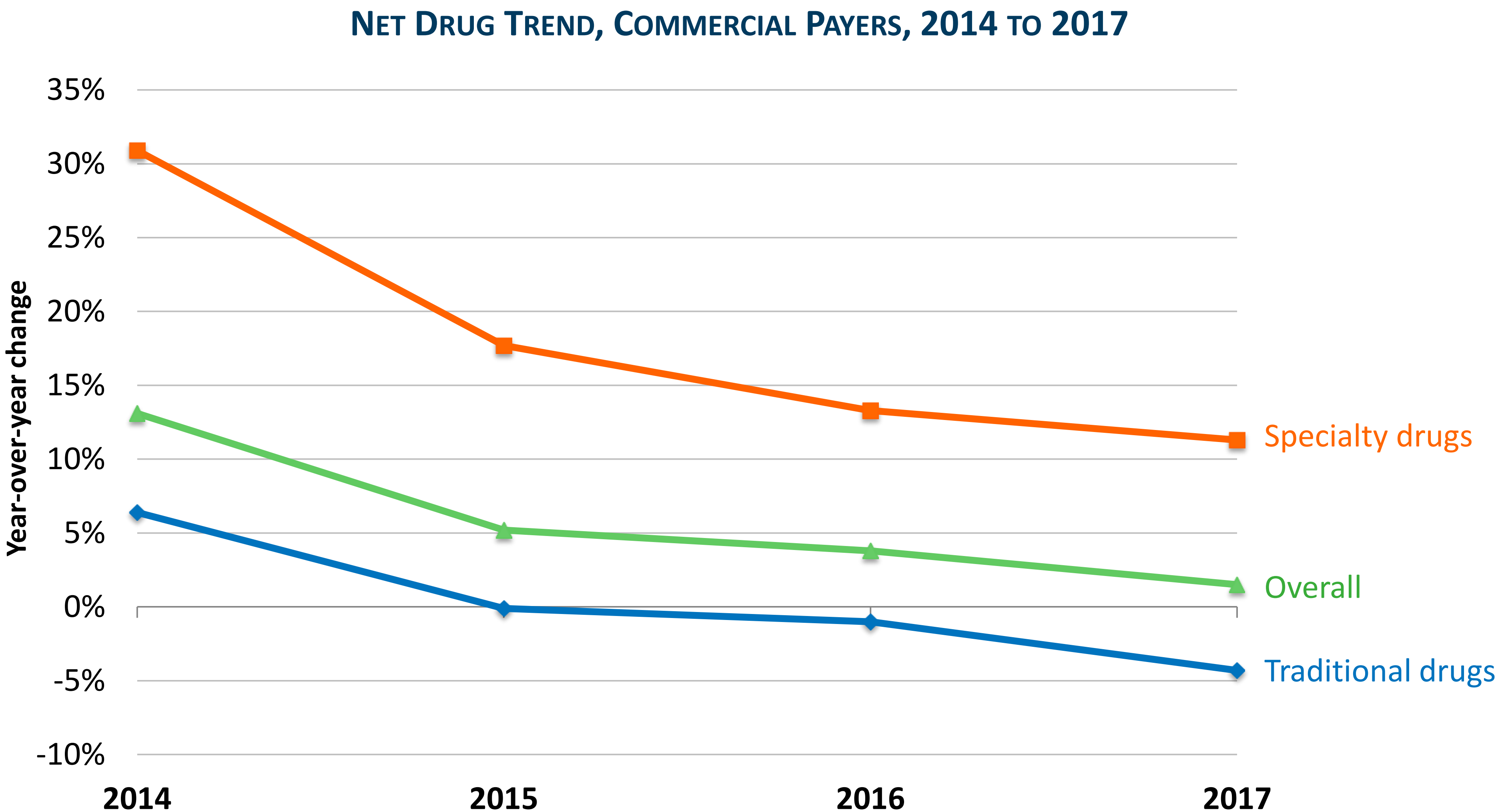
Drug Channel Economic Megatrends

Near Peak Generic Dispensing Rates

Specialty Boom Arrives

Government Crowds Out Private Payers

Drug spending slows



Source: Drug Channels Institute analysis of *Express Scripts Drug Trend Report*, various years. Includes the effect of rebates.

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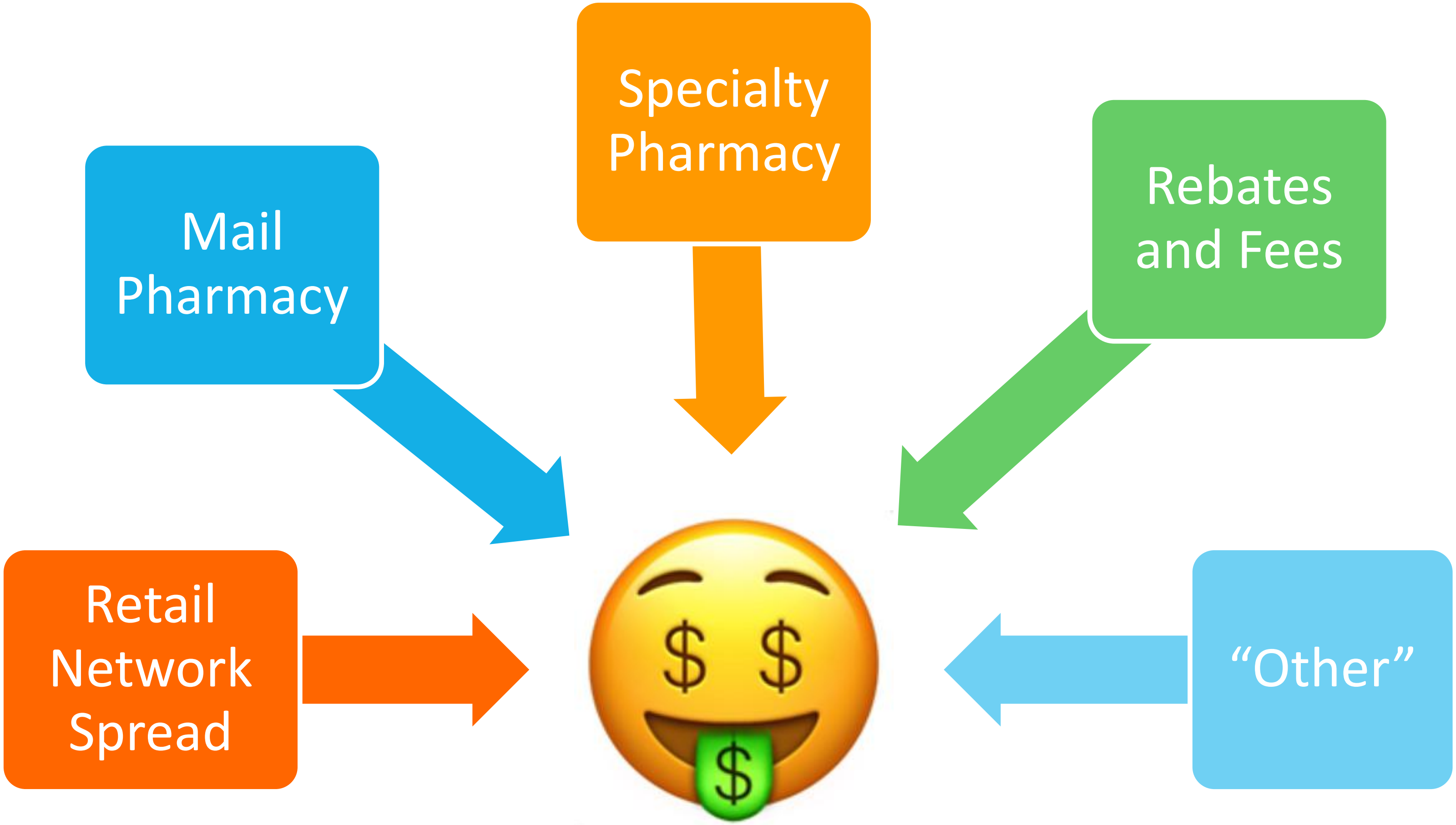
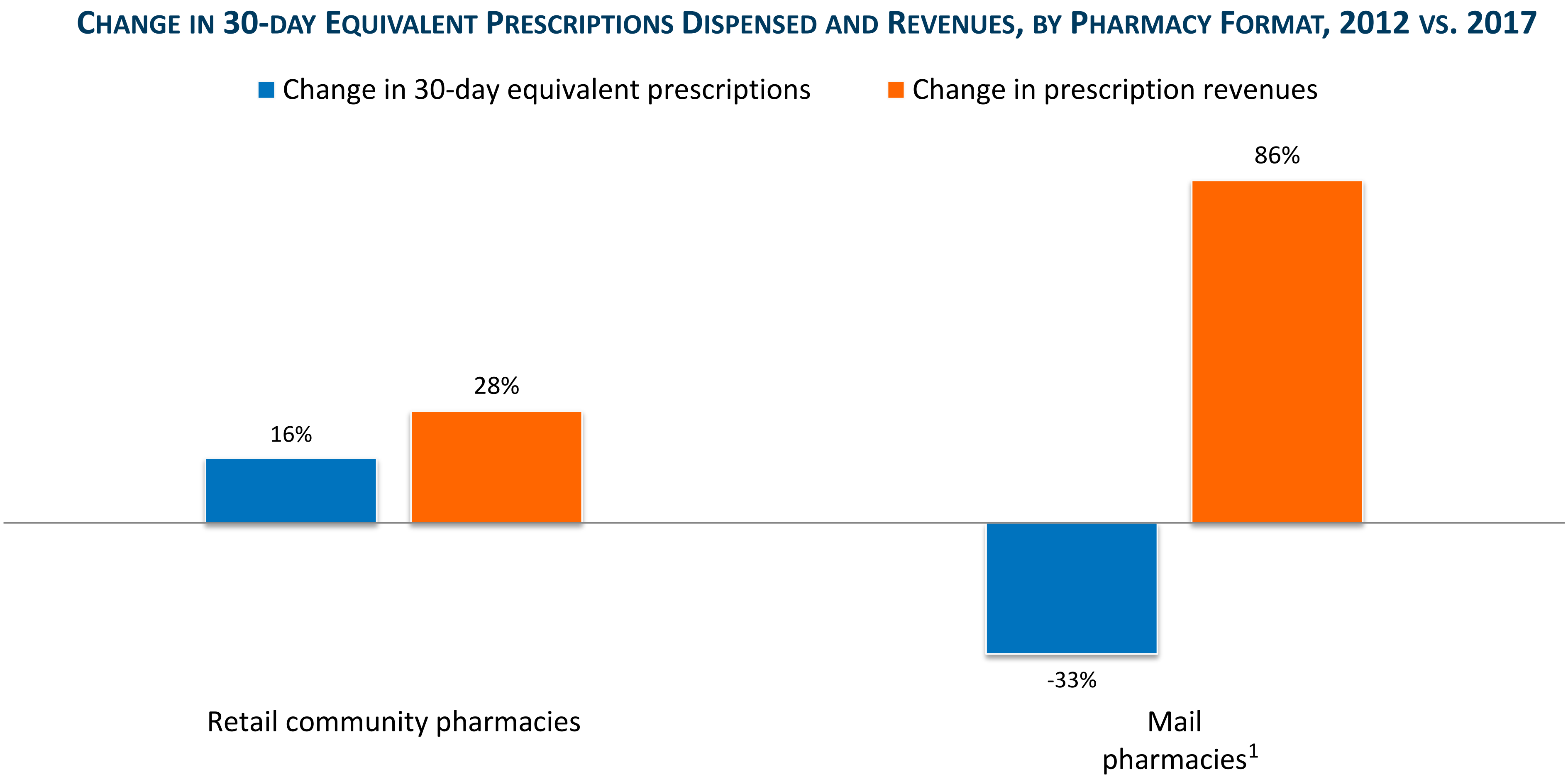
The Mysterious World of PBM Profits



The Evolving Pharmacy Market



1. Includes estimated TRICARE prescriptions.
Source: *The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*, Exhibit 27

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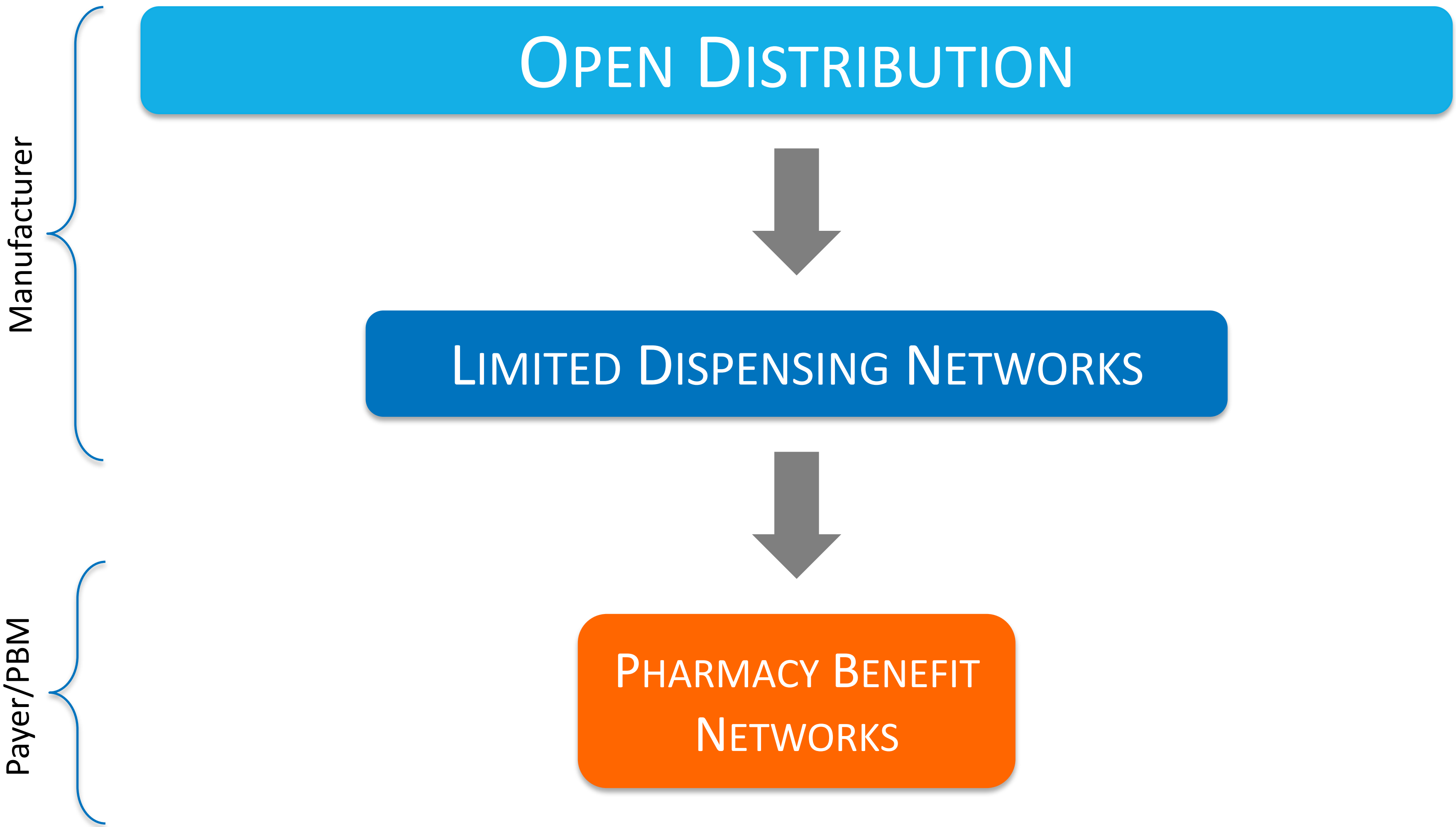
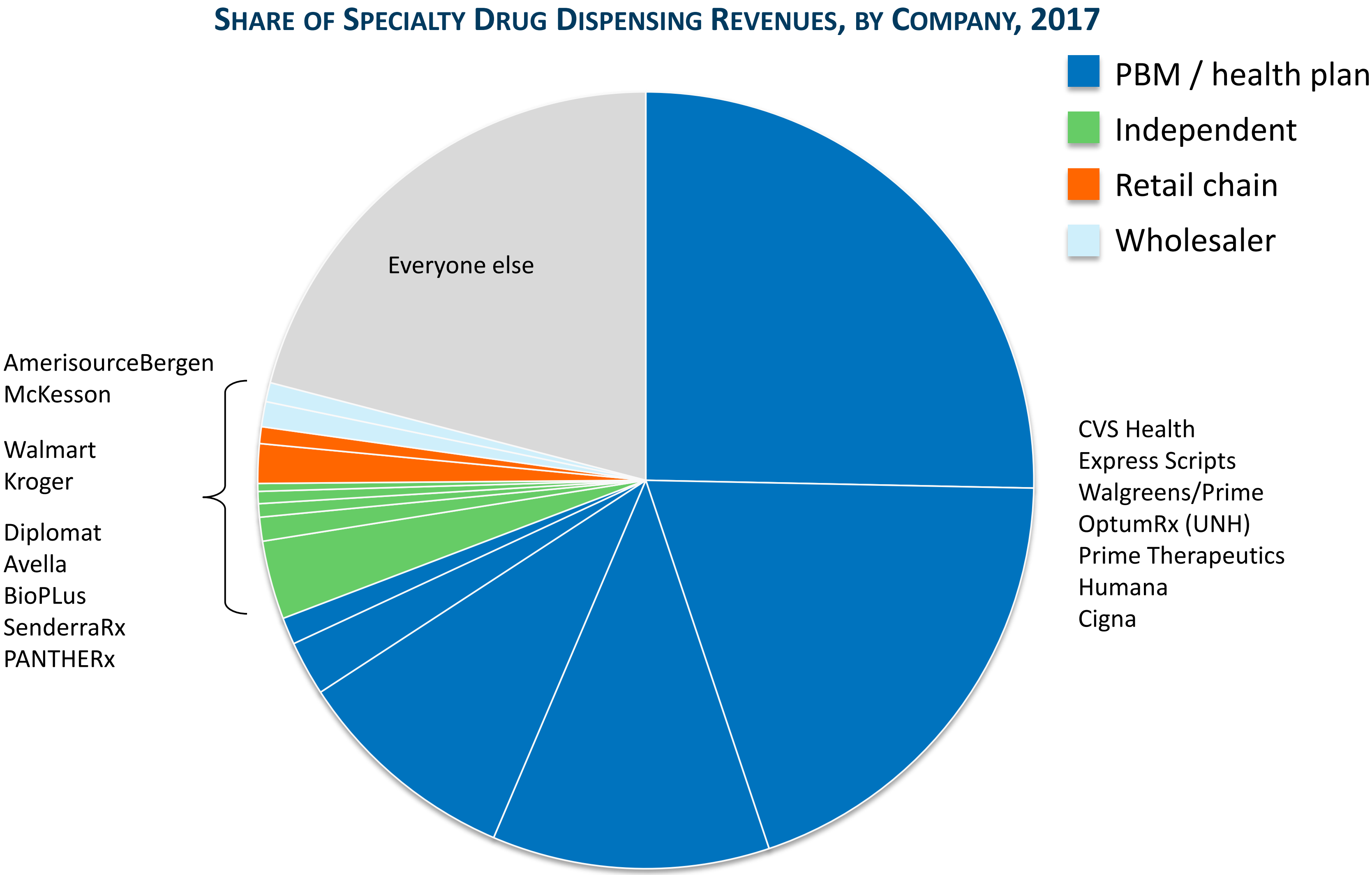
Payers and PBMs have narrowed networks…



…and now dominate specialty dispensing



Source: *The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*, Exhibit 42. Includes revenues from retail, specialty, and mail pharmacies. Excludes revenues from network pharmacies of PBM-owned specialty pharmacies and infusion services covered by medical benefit. Reflects pro-forma impact of 2017 acquisitions

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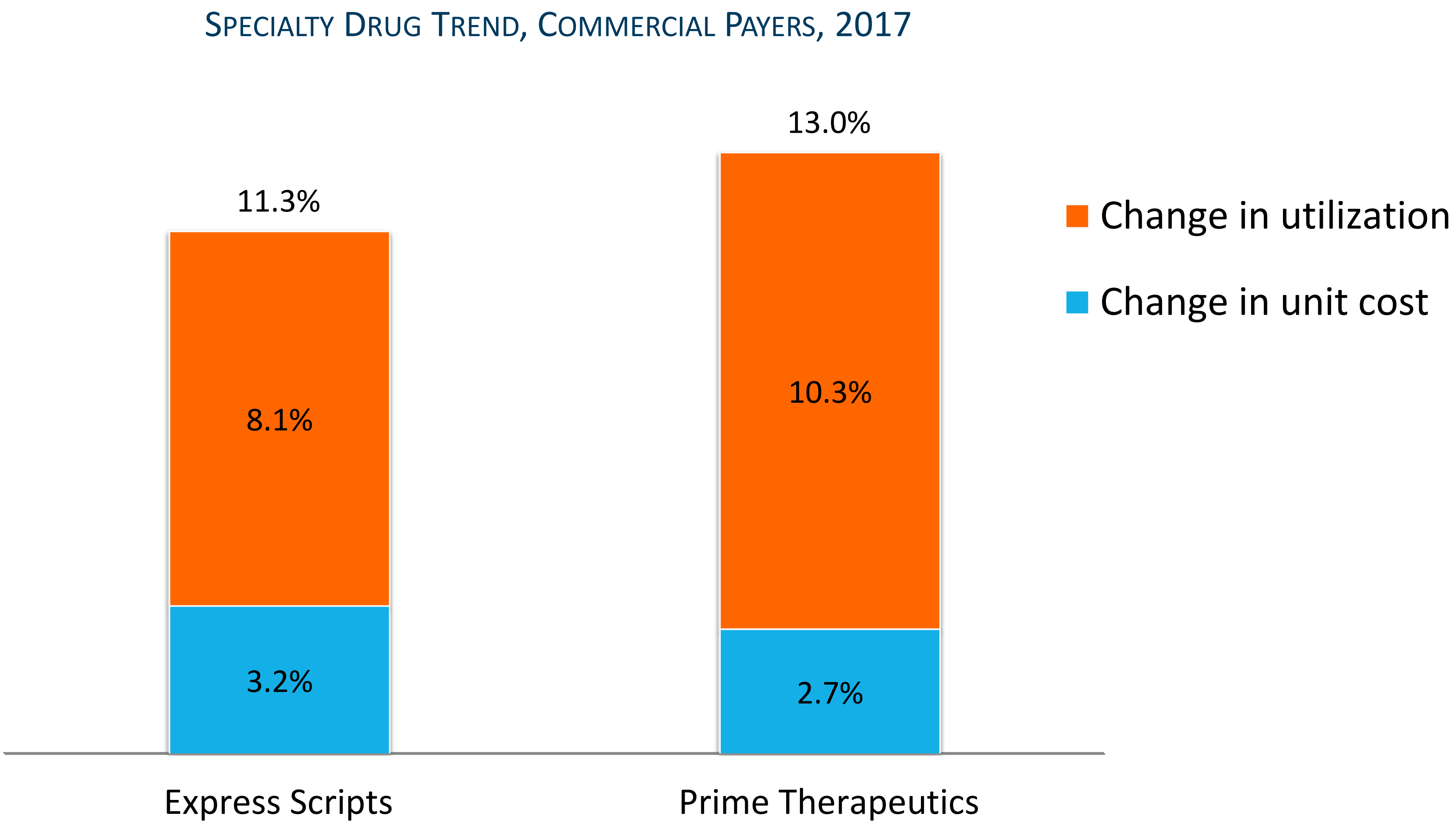
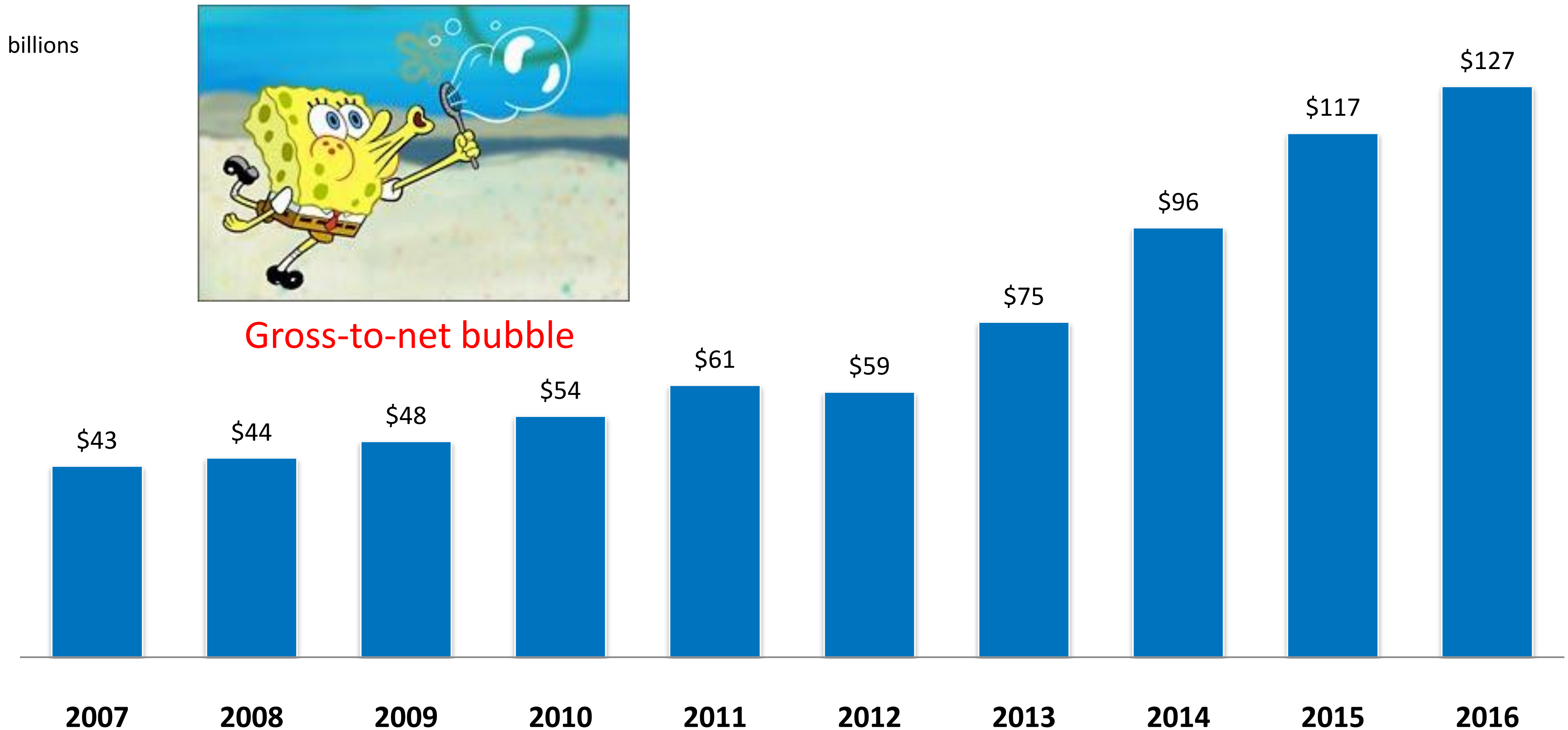
Managing vs. Dispensing Specialty Drugs



Source: Drug Channels Institute analysis of company reports. See [New Express Scripts Data: The Drug Spending Slowdown Is Real](), *Drug Channels*, February 2017.

The Great Rebate Debate: Who Benefits?

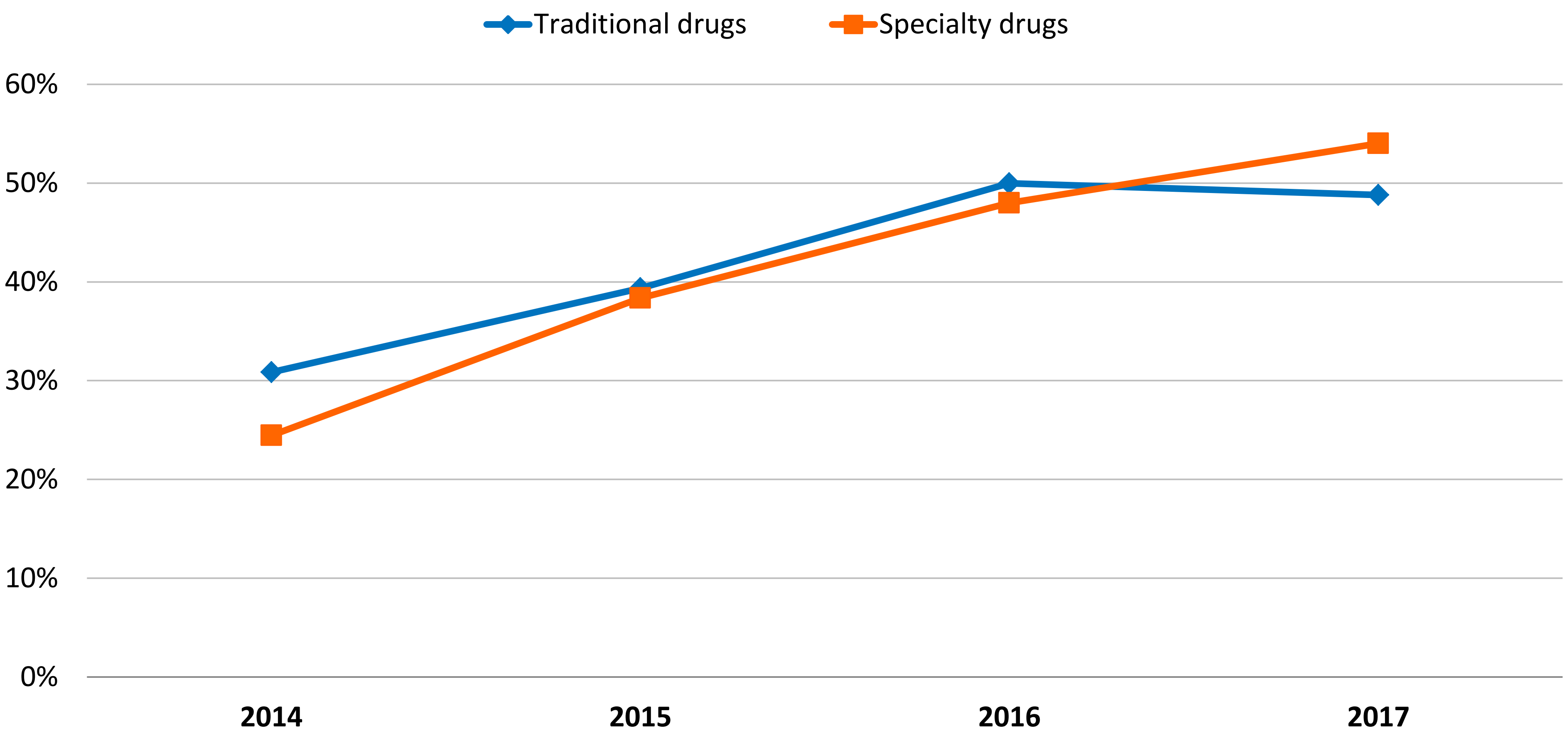
PHARMACEUTICAL MANUFACTURERS' OFF-INVOICE DISCOUNTS, REBATES, AND PRICE CONCESSIONS, 2007-2016



Source: Drug Channels Institute analysis of *Medicines Use and Spending in the U.S.: A Review of 2016 and Outlook to 2021*, IQVIA, May 2017.
See New Data Show the Gross-to-Net Rebate Bubble Growing Even Bigger, *Drug Channels*, June 2017.

Employers Extract More Rebate Dollars from PBMs

Share of Employers Receiving 100% of Rebates, Traditional vs. Specialty Drugs, 2014 to 2017



Source: Drug Channels Institute analysis of PBMI reports, various years. Where appropriate, data were recomputed to exclude those who were not sure if their company receives rebates. See Employers Are Extracting More of Their Rebate Dollars from PBMs, *Drug Channels*, January 2018.

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Warped incentives?

"Part D sponsors may have weak incentives, and, in some cases even, no incentive, to lower prices at the point of sale or to choose lower net cost alternatives to high cost-highly rebated drugs when available."

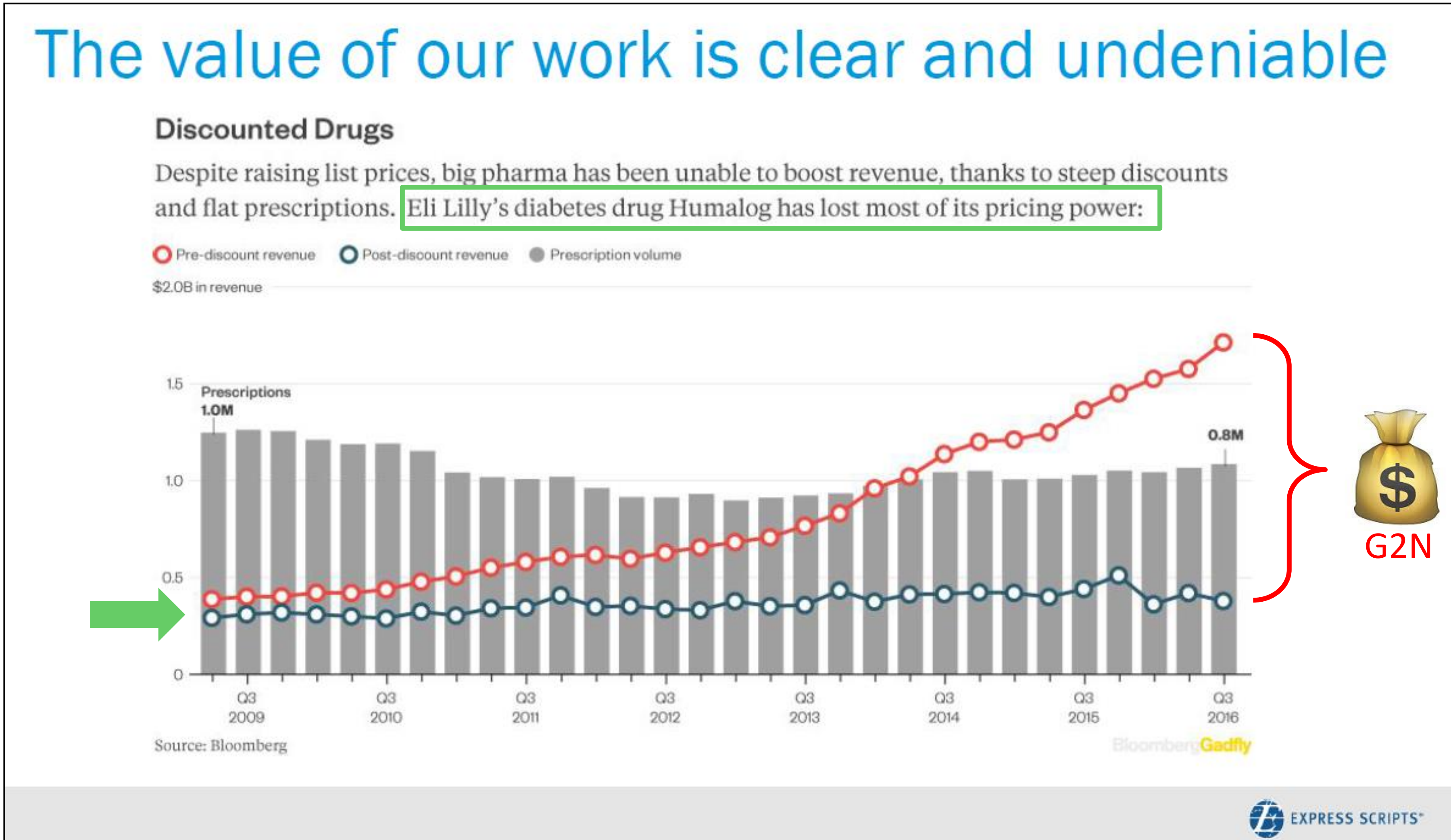
Centers for Medicare & Medicaid Services, November 2017

"The system encourages manufacturers to set artificially high list prices, which are reduced via manufacturers' rebates but leave uninsured individuals facing high drug prices"

The Council of Economic Advisers, February 2018

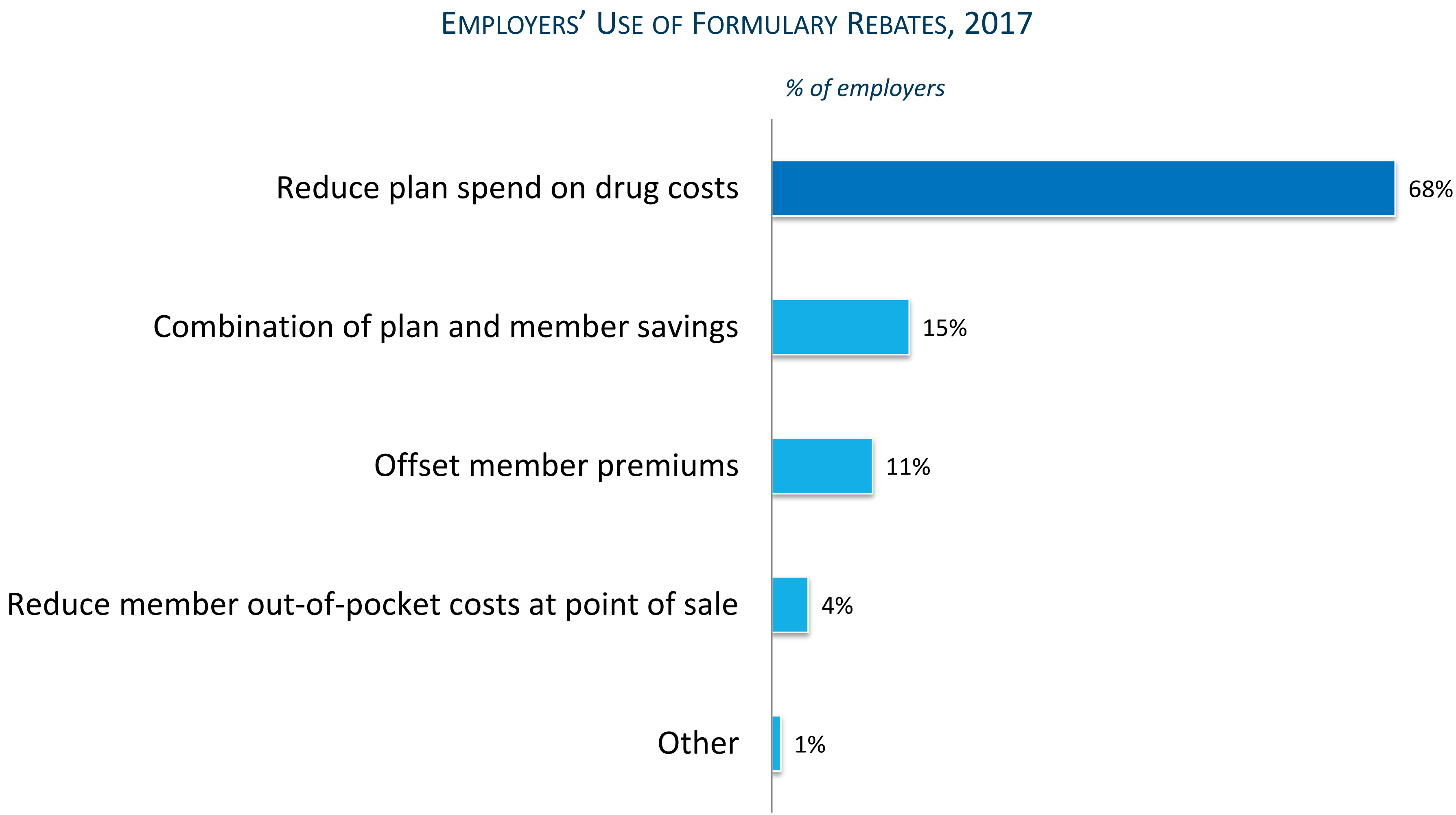
See Will CMS Pop the Gross-to-Net Bubble in Medicare Part D With Point-of-Sale Rebates?, *Drug Channels*, November 2017

Express Scripts: Good news or bad news?



Source: Express Scripts presentation, J.P. Morgan conference, January 2017.

Warped incentives?



Source: Drug Channels Institute analysis of *Trends in Benefit Design Report*, PBMI, 2017. Total does not sum to 100% due to rounding.
See Employers Are Getting More Rebates Than Ever—But Sharing Little With Their Employees, *Drug Channels*, January 2018.

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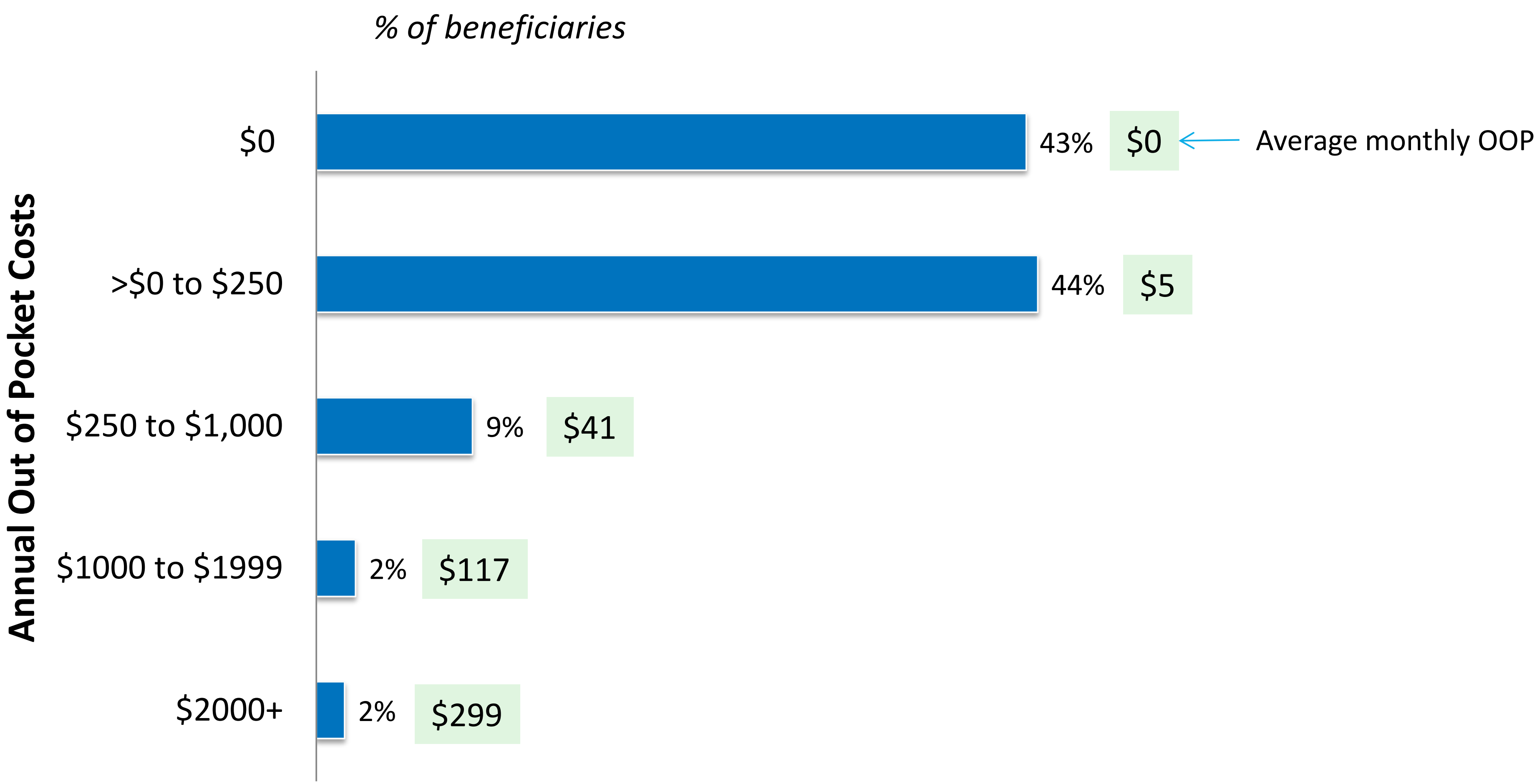
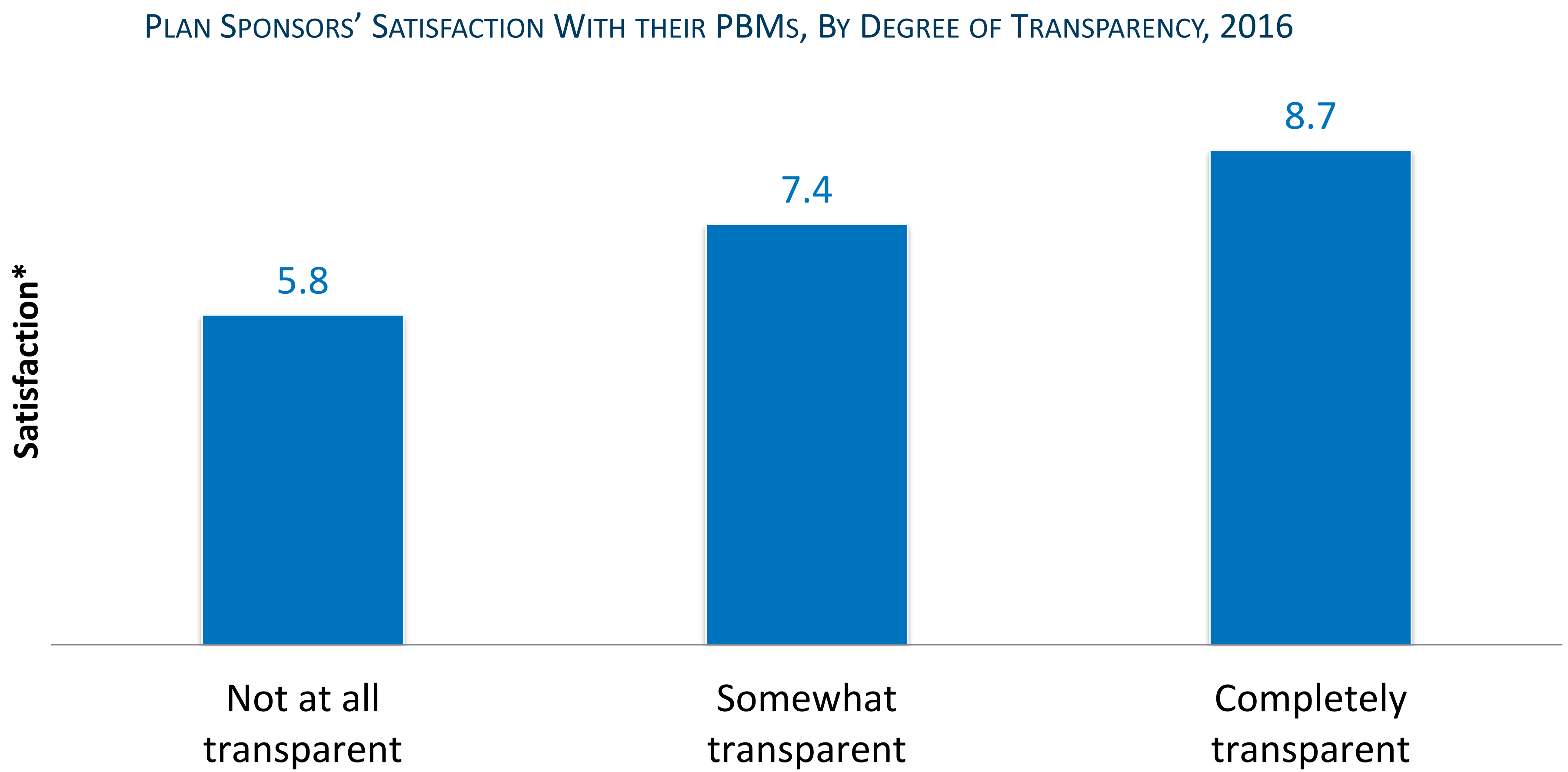
OOP Rx Costs in HDHP: Low for most, High for a few



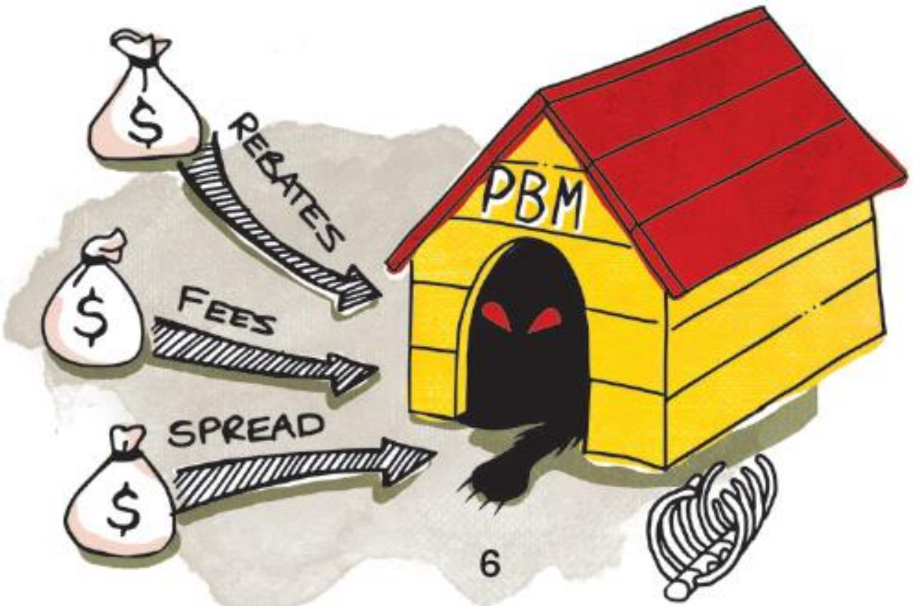
Source: Drug Channels Institute analysis of Express Scripts data. Totals may not sum due to rounding. Data include only commercially-insured beneficiaries with high-deductible health plans. Computation of out-of-pocket costs excludes the effect of manufacturer copayment support and patient assistance programs. OOP = out of pocket
See Exclusive Express Scripts Data: Most People Have Very Low Out-Of-Pocket Prescription Costs, *Drug Channels*, February 2018.

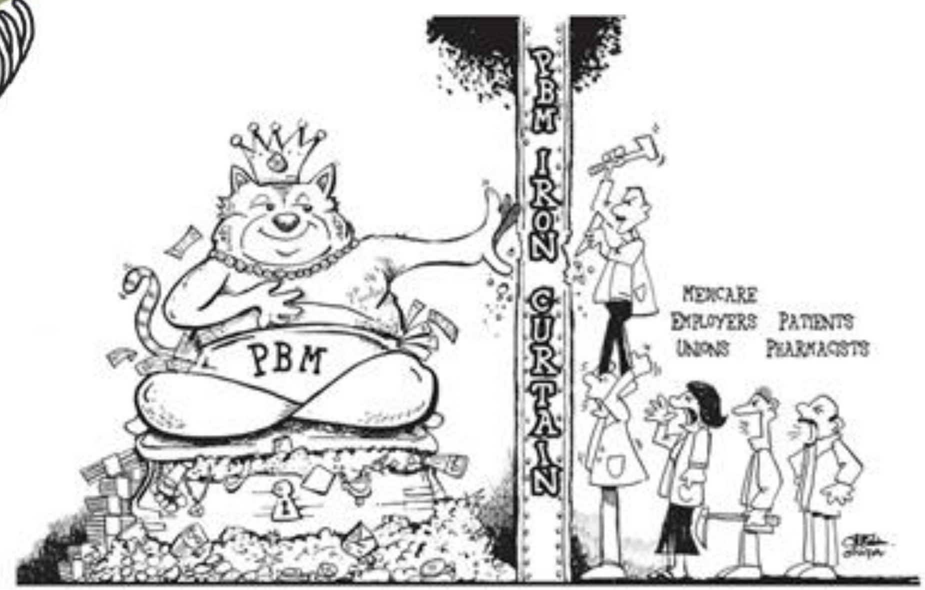
Trust Issues for PBMs



* Plan sponsors' satisfaction was measured on a scale of 1 to 10, where 1 equaled "highly dissatisfied" and 10 equaled "highly satisfied."
Source: Drug Channels Institute analysis of *2016 Pharmacy Benefit Manager Customer Satisfaction Report*, PBMI, 2016.
See Plan Sponsors Like More Transparent PBMs—Yet Not All Choose Transparency, *Drug Channels*, December 2016.

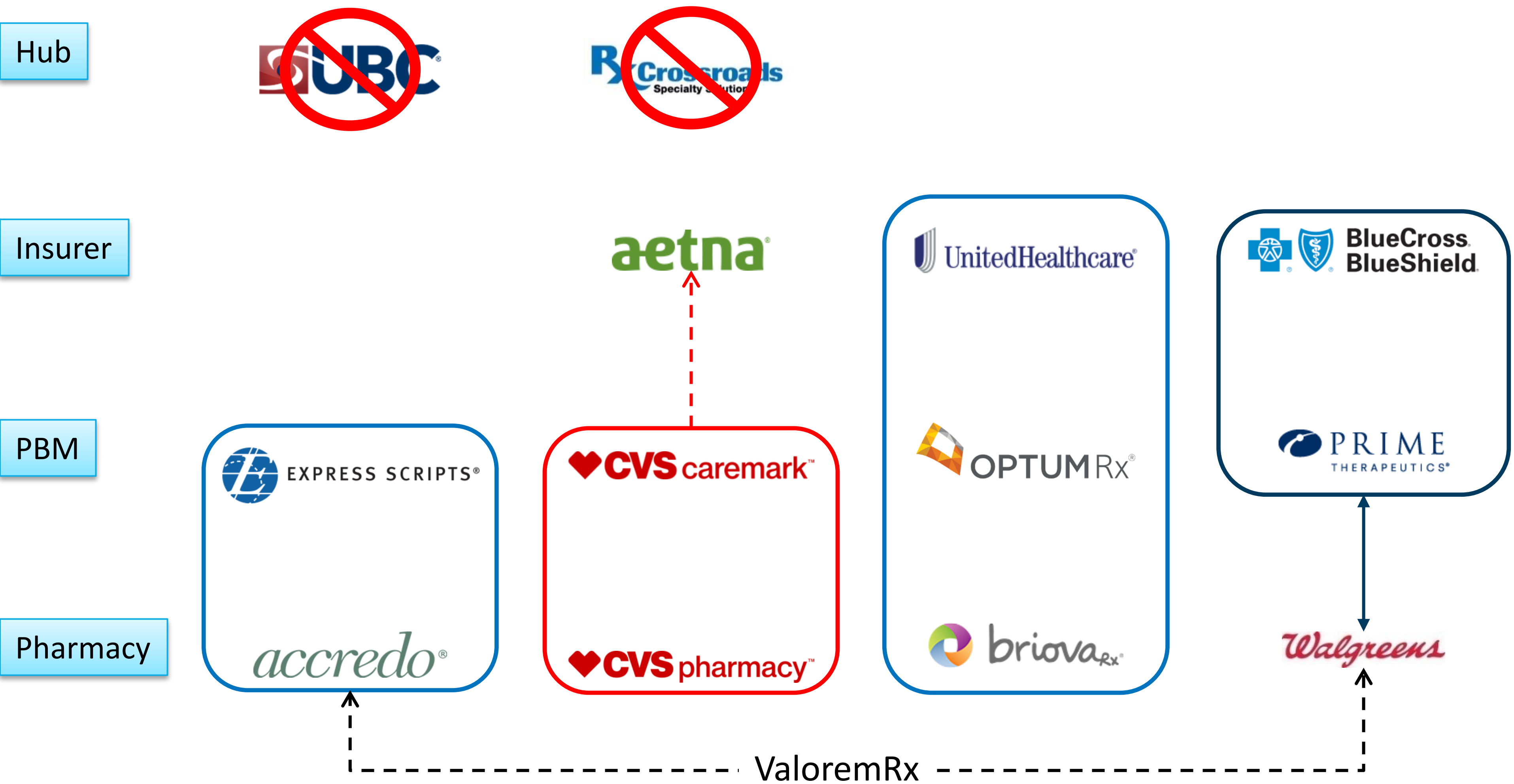
Pharmacy Owners vs. PBMs





Source: National Community Pharmacists Association

The Payer-Aligned Medical-Pharmacy Future



See the following *Drug Channels* articles:

- Why CVS Health and Express Scripts Sold—and McKesson Bought—a Specialty Hub Business
- Why the Walgreens/Prime Deal Could Transform the PBM Industry
- The CVS-Aetna Deal: Five Industry and Drug Channel Implications

Implications and Outlook

- Plan sponsors will seek even greater pass-through of rebates, admin fees, and other PBM profit sources
- PBMs will seek compensation that supports specialty dispensing profits
- PBMs, pharmacies, wholesalers, health plans, and providers will battle for control of the specialty market, patient journey, and medical spending
- PBMs will face more political and legal scrutiny over their impact on “drug prices” and consumers’ out-of-pocket spending
- The reality of the U.S. pharmacy supply chain will create deep confusion for regulators, legislators, patients, and plan sponsors
- Amazon may (or may not) change everything

General Resources

DRUG CHANNELS
Expert Insights on Pharmaceutical Economics and the Drug Distribution System

Free industry updates from the Drug Channels blog (www.DrugChannels.net)

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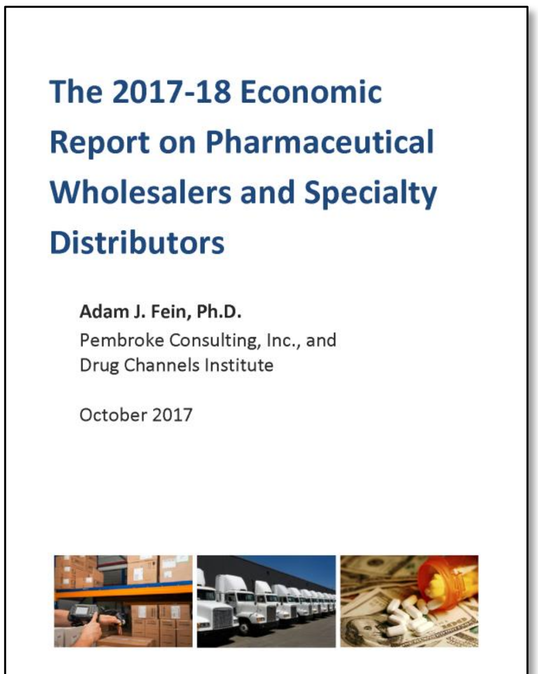
Daily tweets about cool and intriguing stuff

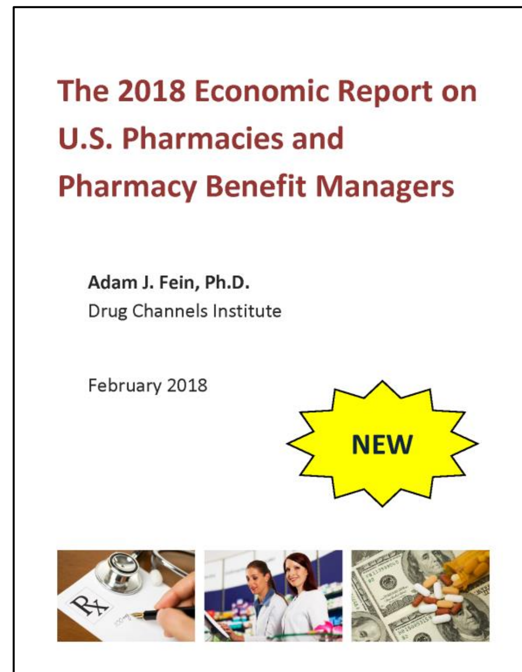


The 2017-18 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

Adam J. Fein, Ph.D.
Pembroke Consulting, Inc., and
Drug Channels Institute

October 2017

http://drugch.nl/wholesale



The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

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February 2018

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