The 2021-22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

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Drug Channels Institute also hosts live video webinars during which Dr. Fein discusses trends and policies that affect the pharmaceutical industry and its channels. Click here to view our current and previous video webinars.

To learn more about how Drug Channels Institute can help your business, please contact:

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INTRODUCTION AND GUIDE TO THE 2021-22 REPORT

In 2021, the pharmaceutical channel—and, for many, our way of life—began to recover from the unprecedented volatility triggered by the ongoing COVID-19 pandemic. As we documented in the previous edition of this report, U.S. distribution channels for prescription drugs were highly resilient during the height of the lockdowns in 2020.

Pharmacy and healthcare provider markets have rebounded to near pre-pandemic levels. Amid considerable uncertainty about the ultimate resolution of the pandemic, however, wholesalers continue to confront a diverse set of commercial, political, and legal challenges:

- Overall demand for prescription drugs has remained robust throughout the pandemic period. Wholesalers’ U.S. drug distribution revenues have continued to grow at mid-single-digit rates.

- Wholesalers are playing a crucial role in distributing the multiple vaccines and therapeutics for COVID-19. Pharmacies and pharmacists are playing a crucial role in administering COVID-19 vaccines.

- The pharmacy industry remains intensely competitive, pressuring prescription profits. Wholesalers’ retail pharmacy customers are undergoing a shakeout that is reducing the number of U.S. pharmacy locations and further concentrating wholesalers’ revenues.

- Specialty drugs account for nearly 40% of outpatient prescription revenues—and an even greater share of payers’ net prescription costs. Payers and PBMs continue to tighten their management of specialty drugs, thereby pressuring independent specialty pharmacies, physician practices, and hospitals. These actions have further consolidated the specialty pharmacy industry.

- The adoption of provider-administered biosimilars has accelerated significantly over the past year, as prices drop and plans relax medical benefit formularies. Wholesalers are now generating meaningful financial benefits as competition ramps up.

- List prices for brand-name drugs—which directly impact wholesalers’ revenues and profits—continue to grow more slowly than they have historically. Wholesalers have successfully adapted their business economics and channel relationships to this era of slower growth in list prices.

- The largest wholesalers have jointly announced a comprehensive, $21 billion proposed agreement that would settle most of the opioid lawsuits filed by state and local governmental entities. Once this agreement is finalized, it will remove considerable uncertainty about wholesalers’ potential financial liabilities.
• Wholesalers are pursuing divergent strategies for geographic expansion. During 2021, McKesson began to exit the European market, while AmerisourceBergen acquired a majority of Walgreen Boots Alliance’s European distribution businesses.

• Generic market pricing has stabilized after the periods of rapid inflation and deflation prior to 2016. Wholesaler profits have benefited from this stability, though low generic prices are limiting their pharmacy customers’ revenues and gross profits from these prescriptions.

• Federal and state government efforts to import drugs originally intended for the Canadian market remain stalled.

• New cell and gene therapies are being slowly adopted, although traditional channel participants (including wholesalers) appear to be playing a limited role in delivering these novel therapies.

Understanding an Evolving Channel

This 2021-22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors—our 12th edition—remains the most comprehensive, fact-based tool for understanding and analyzing the large and growing U.S. pharmaceutical distribution industry. We project that U.S. drug distribution revenues for the Big Three public wholesalers—AmerisourceBergen, Cardinal Health, and McKesson—will reach nearly $550 billion in 2021.

This definitive, nonpartisan resource thoroughly updates our annual exploration of the industry’s interactions with—and services for—other participants in our healthcare system. The report synthesizes a wealth of statistical data, research studies, financial information, and my own unique business consulting experience. It will aid pharmaceutical manufacturers, wholesalers, pharmacists, pharmacy owners, hospital executives, pharmacy buyers, benefit managers, managed care executives, policy analysts, investors, consultants, and many others.

Our 2021-22 edition contains the most current financial and industry data. We include detailed information about the strategies, market positions, and executive compensation of the three largest companies: AmerisourceBergen, Cardinal Health, and McKesson. The report updates our annual analysis of each wholesaler’s business segments and underlying business profitability, based upon our proprietary economic models. The information allows you to assess differences among the public wholesalers’ business organizations, strategies, and financial performance. Where appropriate, financial data have been restated based on updated disclosures.

What’s New in the 2021-22 Report

The 2021-22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors retains the overall structure of last year’s edition, and the chapters correspond to those of previous editions. However, certain material has been reorganized to reflect the latest industry developments. We have also added new sections and offer expanded analyses of various topics.
The notable new material in this 2021-22 edition includes three new sections:

- **Section 4.2.5.** analyzes how marketplace dynamics of provider-administered biosimilars affect wholesalers’ gross margins. (Section 4.4, in this edition introduces our estimates of these profits.)

- **Section 7.4.4.** reviews AmerisourceBergen’s entry into the European distribution market. (We consider McKesson’s exit from Europe in Section 9.4.3.)

- **Section 6.1.5.** summarizes key aspects of the wholesalers’ national opioid settlement.

Material that addresses COVID-19 and its impact on wholesalers has been integrated into our analyses throughout the report. We also update three sections that were introduced in last year’s edition:

- **Section 6.1.4.** examines the distribution of COVID-19 vaccines and therapeutics.

- **Section 6.2.2.** highlights the effects of COVID-19 on the pharmacy industry and the derivative impact on wholesalers.

- **Section 6.3.2.** traces how COVID-19 has impacted the buy-and-bill and inpatient drug market, and the derivative impact on wholesalers.

This report was prepared during an uncertain time, so we expect to revisit this material in future editions. We will also continue to monitor these trends on Drug Channels.

**Structure of the 2021-22 Report**

*The 2021-22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors* analyzes the industry in a preface and three primary sections, comprising nine total chapters.

**PREFACE: INDUSTRY TRENDS AND KEY REPORT THEMES** provides an integrated overview of the major themes that recur throughout our analysis. Each theme includes links to relevant chapters and sections within the report.

**SECTION I: WHOLESALER AND CUSTOMER INDUSTRY ANALYSIS**

- **Chapter 1: Industry Overview** (page 7) defines the industry, describes business differences between full-line wholesaling and specialty distribution, summarizes wholesalers’ obligations under the Drug Supply Chain Security Act (DSCSA), explains wholesalers’ channel roles, analyzes the products that wholesalers sell, and reviews insurance coverage of these products. This chapter also identifies the major full-line wholesalers and specialty distributors, and it provides the latest data on their market share and revenues.
• **Chapter 2: Channel Role for Retail, Mail, and Specialty Pharmacies** (page 32) analyzes the pharmacy market—the customer group that accounts for the majority of wholesalers’ revenues. It covers wholesalers’ services for smaller pharmacies, wholesalers’ participation in the pharmacy-PBM relationship via Pharmacy Services Administrative Organizations (PSAOs), and wholesalers’ interactions with pharmacy buying groups.

The chapter also analyzes how wholesalers work with larger pharmacies. We include our proprietary analysis of the large generic sourcing consortia between wholesalers and the largest pharmacies. **Section 2.4.** (page 58) analyzes wholesalers’ role in the distribution of patient-administered drugs that specialty pharmacies dispense. We also consider wholesaler-owned specialty pharmacies.

• **Chapter 3: Channel Role for Physician Office/Clinics and Hospitals** (page 68) examines channels for provider-administered medications, explains the buy-and-bill system for drugs administered in outpatient settings, and describes the role and functions that wholesalers perform for hospitals, including hospitals that participate in the 340B Drug Pricing Program. This chapter also provides an in-depth consideration of group purchasing organizations (GPOs) for both hospitals and physician practices. It includes material regarding pharmacy dispensing within buy-and-bill channels.

**SECTION II: BUSINESS ECONOMICS AND INDUSTRY TRENDS**

• **Chapter 4: Wholesaler Profitability** (page 111) delves into the industry’s income statement economics to explain the underlying sources of drug distribution profits. We deconstruct buy-side and sell-side gross margin components, distinguish sell-side profits from specialty and traditional drugs, and explain distribution service agreements (DSAs) with manufacturers. We analyze overall gross margins and operating profits, as well as wholesalers’ gross profits from brand-name, biosimilar, and generic drugs. This chapter explains how brand-name drug price inflation affects wholesalers’ profits and examines wholesalers’ operating expenses, operating profits, and employee compensation.

• **Chapter 5: Financial Stability and Cash Management** (page 142) provides a detailed analysis of the key metrics that illustrate wholesalers’ overall financial health. These include capital structures, debt (leverage), balance sheet assets, the cash conversion cycle, wholesalers’ capital deployment and uses of cash, return on invested capital, and stock market valuation and performance. Chapter 5 also explains executive compensation at the Big Three wholesalers.

• **Chapter 6: Forces of Change for Drug Distribution** (page 162) updates our analysis of the key industry trends that will impact the market structure and economics of the pharmaceutical wholesaling and specialty distribution industries. It presents the outlook for the U.S. prescription market, wholesalers’ projected revenues, and brand-name and generic pricing. Chapter 6 also contains three sections related to COVID-19.
In addition, we update our analyses of ongoing trends related to vertical integration activities by hospitals and cell and gene therapies. This chapter also reviews the status of and outlook for pharmacy-dispensed and provider-administered biosimilars.

SECTION III: BIG THREE WHOLESALER COMPANY PROFILES

In this section, we analyze the latest financial data and strategies of the largest public companies. Each chapter provides parallel examinations of the Big Three public wholesalers. We scrutinize each company’s business history, acquisitions and divestitures, business mix, profitability, largest customers, and company-specific business trends.

- Chapter 7: AmerisourceBergen Corporation (page 202)
- Chapter 8: Cardinal Health (Page 222)
- Chapter 9: McKesson Corporation (page 235)

How to Use the 2021-22 Report

The chapters are self-contained and do not need to be read in order. We include extensive internal references to help you navigate the entire document and customize it to your specific needs. After clicking a link, use the following shortcuts to return to your previous location in the document:

- Windows: ALT+Left Arrow
- Mac: Command+Left Arrow

We offer more than 500 endnotes, most of which have hyperlinks to original source materials. The report also includes a list of the Acronyms and Abbreviations (page 254) used within it. To search the entire PDF document for every occurrence of a word or phrase, use the following keyboard shortcuts:

- Windows: Shift+CTRL+F
- Mac: Shift+Command+F

As always, I welcome your feedback. Please contact me if you have any questions or comments about The 2021-22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors.

Adam J. Fein
October 2021

P.S. Click here for post-publication errata.
# CONTENTS

PREFACE: INDUSTRY TRENDS AND KEY REPORT THEMES ................................................................. 1

SECTION I: WHOLESALER AND CUSTOMER INDUSTRY ANALYSIS ......................................................... 6

Chapter 1: Industry Overview ............................................................................................................. 7

1.1. Wholesale Industry Fundamentals ................................................................................................. 7

   1.1.1. Defining Drug Wholesale Distribution ............................................................................... 7

   1.1.2. Full-Line Wholesalers ......................................................................................................... 8

   1.1.3. Specialty Distributors ........................................................................................................... 10

   1.1.4. Regulation and Supply Chain Security ............................................................................. 13

1.2. The Products That Wholesalers Sell ............................................................................................. 16

   1.2.1. Brand vs. Generic Drugs .................................................................................................... 16

   1.2.2. Route of Administration and Benefit Coverage ............................................................... 17

   1.2.3. Traditional vs. Specialty Drugs ......................................................................................... 19

1.3. Overview of Wholesalers’ Channel Roles ..................................................................................... 20

   1.3.1. Physical Distribution ......................................................................................................... 20

   1.3.2. Financial Intermediation ................................................................................................... 21

   1.3.3. Services for Pharmacies, Providers, and Manufacturers .................................................. 22

   1.3.4. Impact on Pharmacy and Provider Reimbursement .......................................................... 23

1.4. Industry Participants ...................................................................................................................... 24

   1.4.1. Big Three Wholesalers: Revenue and Growth Trends ....................................................... 24

   1.4.2. Specialty Product Distribution Market Share ................................................................. 27

   1.4.3. Other Wholesale Market Participants .............................................................................. 29

Chapter 2: Channel Role for Retail, Mail, and Specialty Pharmacies .................................................. 32

2.1. The Pharmacy Market .................................................................................................................. 32

   2.1.1. Outpatient Dispensing Formats ....................................................................................... 33

   2.1.2. Pharmacy Market Size and Structure ............................................................................. 35

2.2. Independent Pharmacies ............................................................................................................. 36

   2.2.1. Industry Position and Wholesaler Market Shares .............................................................. 37

   2.2.2. Wholesaler Services for Independent Pharmacies .......................................................... 40

   2.2.3. Franchise Programs and Marketing Groups ................................................................. 42

   2.2.4. PSAOs and the Wholesalers’ Role in the Pharmacy-PBM Relationship ......................... 44

   2.2.5. Pharmacy Group Purchasing Organizations and Wholesaler Relationships ............... 49
4.1. Sources of Wholesaler Gross Profits and Gross Margin ........................................................ 112
4.2. Components of Buy-Side Gross Margin ...................................................................................... 112
  4.2.1. Distribution Service Agreements ........................................................................................ 114
  4.2.2. Payment Discounts .............................................................................................................. 115
  4.2.3. Specialty Distribution Service Agreements ........................................................................ 116
  4.2.4. Generic Sourcing Formularies ............................................................................................ 118
  4.2.5. Provider-Administered Biosimilars .................................................................................... 119
  4.2.6. Wholesaler Compensation and Bona Fide Service Fees ..................................................... 121
4.3. Sell-Side Gross Margins and Cost-Minus Discounts ................................................................. 122
4.4. Gross Margins ............................................................................................................................ 124
  4.4.1. Overall Gross Margins ......................................................................................................... 124
  4.4.2. Estimates of Buy-Side and Sell-Side Gross Margins ............................................................ 125
4.5. Gross Profits of Brand, Biosimilar, and Generic Drugs ........................................................... 127
  4.5.1. Lifecycle Profits for Traditional Generic Drugs ................................................................. 129
  4.5.2. Lifecycle Profits for Provider-Administered Generic Drugs ............................................... 132
  4.5.3. Private Label Generic Drugs .............................................................................................. 133
4.6. The Profit Impact of Brand-Name Drug Price Inflation .......................................................... 134
  4.6.1. Brand-Name Drug Inflation and Wholesaler Fees ............................................................. 134
  4.6.2. Inventory Appreciation and Revaluation ......................................................................... 137
4.7. Operating Expenses and Operating Profit .............................................................................. 139
Chapter 5: Financial Stability and Cash Management ................................................................ 142
  5.1. Debt, Coverage, and Liquidity Ratios ..................................................................................... 142
  5.2. Balance Sheet Assets ............................................................................................................. 145
  5.3. Cash Conversion Cycle .......................................................................................................... 145
    5.3.1. Inventory Levels and Days Sales in Inventory (DSI) ......................................................... 148
    5.3.2. Accounts Receivable and Days Sales Outstanding (DSO) ............................................. 150
    5.3.3. Accounts Payable and Days Payable Outstanding (DPO) ............................................ 153
  5.4. Capital Deployment and Uses of Cash ..................................................................................... 153
  5.5. Return on Invested Capital .................................................................................................... 155
  5.6. Stock Market Performance .................................................................................................... 156
  5.7. Executive Compensation ........................................................................................................ 158
Chapter 6: Forces of Change for Drug Distribution .................................................................... 162
6.1. Industry Outlook .................................................................................................................. 163
  6.1.1. The Outlook for U.S. Wholesaler Revenues ................................................................. 163
  6.1.2. The Outlook for Brand-Name Drug Prices ................................................................. 165
  6.1.3. The Outlook for Generic Drug Prices ......................................................................... 168
  6.1.4. Distribution of COVID-19 Vaccines and Therapeutics ............................................... 170
  6.1.5. Impact of the National Opioid Settlement .................................................................. 171
6.2. Future Trends for Pharmacy Dispensing Channels ............................................................ 172
  6.2.1. Pharmacy Market Evolution and Wholesaler Impact ................................................ 172
  6.2.2. Impact of COVID-19 on Pharmacy Channels .............................................................. 175
  6.2.3. Importation From Canada ............................................................................................ 176
6.3. Future Trends for Buy-and-Bill Channels .......................................................................... 179
  6.3.1. Update on Vertical Integration of Hospitals and Physician Practices ............................ 179
  6.3.2. Impact of COVID-19 on Provider-Administered Channels .......................................... 185
  6.3.3. The Impact of Cell and Gene Therapies on Wholesale Channels ................................. 188
6.4. The Impact of Biosimilars on Wholesalers ....................................................................... 191
  6.4.1. 2021 Update on the Biosimilar Market ...................................................................... 191
  6.4.2. Biosimilars Under the Pharmacy Benefit ................................................................. 193
  6.4.3. Biosimilars Under the Medical Benefit ...................................................................... 195
SECTION III: BIG THREE WHOLESALER COMPANY PROFILES ............................................. 201
Chapter 7: AmerisourceBergen Corporation .............................................................................. 202
  7.1. Business Overview .......................................................................................................... 202
    7.1.1. Company Information ................................................................................................. 202
    7.1.2. Company History ...................................................................................................... 202
    7.1.3. Acquisitions and Divestitures ................................................................................... 203
    7.1.4. Business Segments ................................................................................................... 205
  7.2. Profitability ....................................................................................................................... 207
    7.2.1. Overall Pharmaceutical Distribution ......................................................................... 207
    7.2.2. Profitability by Business Sub-Segment ..................................................................... 208
  7.3. Customers ......................................................................................................................... 210
    7.3.1. The 10 Largest Customers ........................................................................................ 210
    7.3.2. Walgreens Boots Alliance ......................................................................................... 212
    7.3.3. Express Scripts ......................................................................................................... 215
9.3.2. CVS Health .................................................................................................................. 245
9.3.3. Rite Aid ....................................................................................................................... 247
9.4. Growth Trends .............................................................................................................. 248
  9.4.2. McKesson’s Specialty Businesses ........................................................................... 249
  9.4.3. McKesson Europe ................................................................................................. 250
  9.4.4. McKesson Canada ............................................................................................... 251
Acronyms and Abbreviations ............................................................................................. 254
Endnotes ................................................................................................................................ 255
The 2021–22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

LIST OF EXHIBITS

Exhibit 1: Full-Line Wholesale Revenues, by Type of Customer, 2019 .......................................................... 9
Exhibit 2: Full-Line Wholesalers, Inventory Levels vs. Product Sales, by Product Type, 2019 ......................... 9
Exhibit 3: Full-Line Wholesalers, Inventory Levels and Product Sales, by Product Type, 2011 vs. 2019 .......... 10
Exhibit 4: Specialty Distributor Revenues, by Customer Type, 2019 ............................................................ 11
Exhibit 5: Specialty Distributor Sales, by Therapeutic Area, 2019 .................................................................. 12
Exhibit 6: Distribution Center Operational Metrics, Full-Line Wholesalers vs. Specialty Distributors, 2019 .... 12
Exhibit 7: Timeline of DSCSA Requirements for Wholesale Distributors, 2013 to 2023 ................................. 13
Exhibit 8: Unbranded and Branded Generics, Share of U.S. Prescriptions, 2003 to 2025 ......................... 17
Exhibit 9: Allowance for Doubtful Accounts at Big Three Wholesalers, by Company, 2020/2021 ............ 22
Exhibit 10: U.S. Drug Distribution and Related Revenues at Big Three Wholesalers, Calendar Year 2020 ...... 25
Exhibit 13: Change in Quarterly U.S. Drug Distribution and Related Revenues, Big Three Wholesalers, 2019 to 2021 ....................................................................................................................................... 27
Exhibit 14: Specialty Product Distribution Revenues, by Division and Parent Company, 2020 .................... 28
Exhibit 15: The U.S. Pharmacy Distribution and Reimbursement System for Patient-Administered, Outpatient Brand-Name Drugs ........................................................................................................ 33
Exhibit 16: Total U.S. Pharmacy Industry Revenues, Prescriptions, and Locations, by Dispensing Format, 2020 ....................................................................................................................................... 35
Exhibit 17: Independent Pharmacy Purchasing Source, by Product Type, 2020 ............................................ 37
Exhibit 18: Number of Independent Pharmacy Locations, 2001 to 2020 ......................................................... 37
Exhibit 19: Independent Pharmacies As a Percentage of Full-Line Wholesaler Revenues, 2014 to 2020 ...... 38
Exhibit 20: Independent Pharmacies, Average Per-Prescription Gross Profits and Margins, 2015 to 2019 .... 40
Exhibit 21: U.S. Pharmacy Franchise and Marketing Programs, 2021 ......................................................... 42
Exhibit 22: McKesson Health Mart, Store Count, 2006 to 2021 ............................................................... 43
Exhibit 24: Largest Pharmacy Services Administrative Organizations, by Membership and Ownership, 2021 47
Exhibit 25: Pharmacy Buying Groups and Primary/Preferred Wholesaler Relationships, by Number of Pharmacies, 2021 ............................................................................................................. 50
Exhibit 26: Wholesaler Generic Source Programs, Number of SKUs and Manufacturers, 2011 to 2019 ...... 52
Exhibit 27: Largest U.S. Pharmacies and Their Primary Wholesale Suppliers, 2021 ......................................... 53
Exhibit 28: Alignment Between the Big Three Wholesalers and the Top Five Pharmacy Companies, 2020 ...... 54
Exhibit 29: Full-Line Wholesaler Sales to Retail Chain Warehouses, 2007 to 2019 ................................. 55
Exhibit 30: Share of U.S. Generic Purchasing Volume, by Organization, 2021 ................................................ 56
The 2021–22 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

Exhibit 31: Specialty Drug Prescription Revenues, by Dispensing Format, 2020 ................................................................. 59
Exhibit 32: Prescription Revenues and Market Share from Specialty Pharmaceuticals, by Company, 2020 ...... 60
Exhibit 33: Alternative Channels to Specialty Pharmacies in Limited Dispensing Networks ............................................. 63
Exhibit 34: Medical Benefit Spending on Outpatient Provider-Administered Drugs, by Drug Category and Payer, 2019 ......................................................................................................................... 69
Exhibit 35: Spending for Outpatient Medical Benefit Drugs, by Site of Care and Payer, 2019 ....................... 69
Exhibit 36: Medicare Part B Spending for Outpatient Provider-Administered Drugs, by Site of Care and Drug, 2019 ................................................. ....................................................................... 70
Exhibit 37: Commercial Medical Benefit Spending for Outpatient Provider-Administered Drugs, by Site of Care and Drug, 2019 ......................................................................................................................... 71
Exhibit 38: Buy-and-Bill System for Distribution and Reimbursement of Provider-Administered Outpatient Drugs ........................................................................................................................................ 72
Exhibit 39: Primary Roles of Third-Party Payer, Distributor, and Provider in Buy-and-Bill System .............. 73
Exhibit 40: Chargebacks As a Percentage of Net Sales, Full-Line Wholesalers, 2009 to 2019 ................. 75
Exhibit 41: UnitedHealthcare, Requirements for White Bagging, by Specialty Pharmacy and Therapeutic Class, 2021 ........................................................................................................................................ 78
Exhibit 42: Drug Sourcing for Infused Therapies, Oncology vs. Non-Oncology, by Practice Type and Source, 2019 vs. 2021 .................................................................................................................................. 79
Exhibit 43: Reimbursement Method for Provider-Administered Drugs Paid Under the Commercial Medical Benefit, by Site of Care, 2017 .................................................................................................................................. 85
Exhibit 44: Reimbursement Rate and Administration Cost for Provider-Administered Drugs Paid Under the Commercial Medical Benefit, by Site of Care, 2020 ......................................................................................................................... 86
Exhibit 45: Monthly Cost of Provider-Administered Specialty Drugs for Privately Insured Individuals, by Site of Care, 2018 .................................................................................................................................. 87
Exhibit 46: Avastin, Commercial Health Plan Reimbursement, by Payer and Hospital, 2021 .................. 87
Exhibit 47: Patient Cost Sharing for Provider-Administered Drugs, 2020 .................................................. 89
Exhibit 48: Physician Employment, by Practice Ownership, 2012 vs. 2020 ............................................... 90
Exhibit 49: Most Important Service Offered by Community Practice GPOs ................................................ 92
Exhibit 50: Specialty Physician Practice GPOs and Ownership, 2021 ..................................................... 93
Exhibit 51: Percentage of Oncology Practices With In-Practice Oral Oncology Drug Dispensing, 2013 to 2020 .................................................................................................................................. 96
Exhibit 52: U.S. Hospitals, by Type and Ownership, 2019 ........................................................................ 97
Exhibit 53: Share of Community Hospitals, by Health System Affiliation, 2000 to 2019 .................. 98
Exhibit 54: Ten Largest Integrated Delivery Networks, by Number and Type of Facilities, 2020 ............. 98
Exhibit 55: Hospital Costs, by Type of Expense, 2018 ........................................................................ 99
Exhibit 56: Prescription Drug Costs As a Percentage of Hospital Expenses, 2006 to 2019 .............. 99
Exhibit 57: Number of Inpatient Pharmacists and Pharmacy Technicians per 100 Occupied Hospital Beds, 2002 to 2019 .................................................................................................................................. 100
Exhibit 58: Number and Share of Pharmacists Employed by Hospitals, 2011 to 2020 .................... 100