

The 2021 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

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Drug Channels Institute

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Full report available at <https://drugch.nl/pharmacy>



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Drug Channels Institute combines Dr. Fein’s expertise and cutting-edge analysis—such as this *2021 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*—into interactive e-learning modules that offer your team a thorough grounding in crucial industry topics. [Click here to view a module list.](#)

These online learning tools explain highly complex economic and business data and concepts so you can:

- Make better decisions to achieve your business goals
- Improve relationships with key accounts
- Understand your customers, channels, and the economics of the U.S. pharmaceutical industry

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.](#)

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INTRODUCTION AND GUIDE TO THE 2021 REPORT

In 2020, the COVID-19 pandemic disrupted every aspect of the U.S. drug channel—and our lives. Pharmacy and healthcare provider markets experienced unprecedented volatility. Stable patterns of prescription demand became highly unpredictable.

However, this period also demonstrated the underlying resilience of U.S. distribution and dispensing channels for prescription drugs. Pharmaceutical wholesalers maintained shipments and operational capacity. Payers and pharmacy benefit managers (PBMs) waived benefit limitations so patients could access therapies. Pharmacies and pharmacists stepped up as critical providers of medications and are playing a crucial role in administering COVID-19 vaccines.

In the midst of the pandemic, the industry continues to confront a diverse set of commercial, political, and legal challenges. They are among the many issues we consider in this report:

- Total prescription dispensing revenues of retail, mail, long-term care, and specialty pharmacies reached a record \$465 billion in 2020. Specialty drugs accounted for nearly 40% of these revenues—and an even greater share of payers’ net prescription costs.
- Insurers, PBMs, and specialty pharmacies have combined into vertically integrated organizations. The COVID-19 pandemic has slowed or delayed some companies’ efforts to achieve vertical synergies. However, these organizations are still poised to exert greater control over patient access, sites of care, dispensing locations, and pricing.
- Payers and PBMs are tightening their management of specialty drugs, thereby pressuring independent specialty pharmacies, physician practices, and hospitals. The specialty pharmacy industry has become more concentrated, due to the acquisition of many large independent specialty pharmacies.
- The pharmacy industry remains intensely competitive, pressuring prescription profits. Retail pharmacies are undergoing a shakeout that is reducing the number of U.S. pharmacy locations, as small chains and supermarkets sell to larger competitors.
- List prices for brand-name drugs—which directly impact the revenues and profits of pharmacies and PBMs—are growing more slowly than they have historically. However, brand-name drugs’ net prices (after rebates and discounts) have declined for the third year. Consequently, growth in the number of people being treated and the number of prescriptions being dispensed has become a key driver of rising drug spending.
- Generic market pricing has stabilized after the periods of rapid inflation and deflation. Pharmacy profits have benefited from this stability, though low generic prices are limiting pharmacies’ revenues and gross profits from these prescriptions.

- Patients taking specialty drugs faced high out-of-pocket costs due to benefit design that favors deductibles and coinsurance spending. At the same time, a growing share of prescriptions is being dispensed with no patient out-of-pocket expense.
- Controversy over copay accumulator and maximizer programs is rising, as plans attempt to reduce their spending by accessing manufacturers' patient support funds.
- The gross-to-net bubble, which measures total rebates and discounts paid by manufacturers, reached \$187 billion for patent-protected brand-name drugs in 2020. Regulatory efforts to remove the role of rebates in the Medicare Part D program have been delayed, perhaps indefinitely.
- Regulators and lawmakers continue to scrutinize PBMs' profit models and incentives. Disclosures about PBMs' unexpectedly large profits in Managed Medicaid programs have triggered several larger states to carve-out pharmacy to fee-for-service Medicaid.
- The 340B Drug Pricing Program is now roughly the size of the nation's Medicaid outpatient drug market. Pharmacies' role in—and profits from—the 340B program were disrupted during 2020, when some manufacturers began limiting prescriptions dispensed via contract pharmacies. These highly controversial actions have triggered litigation and raised the prospect of greater government oversight of the 340B program.
- Amazon's pharmacy strategy has become clearer, though the company is still not poised to fundamentally disrupt the existing drug channel. Venture capital firms expanded their financing of numerous digital pharmacies that are attempting to alter conventional ways of doing business.
- The retail pharmacy clinic model is fading in favor of locations with broader healthcare services. Pharmacies are competing more directly with urgent care clinics and other healthcare providers.
- The federal government has finalized regulations for the commercial importation of drugs intended for Canada. However, industry opposition and practical challenges will limit any impact on pharmacies, PBMs, and U.S. drug prices.
- Federal legislative action regarding drug prices remains highly uncertain. However, states have already enacted a total of more than 160 laws targeting various aspects of the U.S. drug channel and its participants.
- New cell and gene therapies have been launched. Specialty pharmacies that are not owned or closely affiliated with a payer seem likely to play a limited role in these emerging distribution and reimbursement channel models.

Understanding an Evolving Marketplace

The 2021 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers—our 12th edition—remains the most comprehensive, fact-based tool for understanding the entire U.S. drug pricing, reimbursement, and dispensing system. This unique resource is your ultimate guide to the complex web of interactions within U.S. prescription drug channels.

This definitive, nonpartisan report includes the most current information about pharmacy dispensing channels, third-party payers, pharmacy benefit managers (PBMs), patients’ financial contributions, government regulations, and more. The report synthesizes a wealth of statistical data, research studies, financial information, and my own extensive 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.

Thousands of companies operate within the U.S. system, enabling more than 6.1 billion equivalent prescriptions to be dispensed and paid. The table below highlights the largest public companies that operate in the drug channel. Many of these firms are among the largest businesses on the *Fortune 500* list.

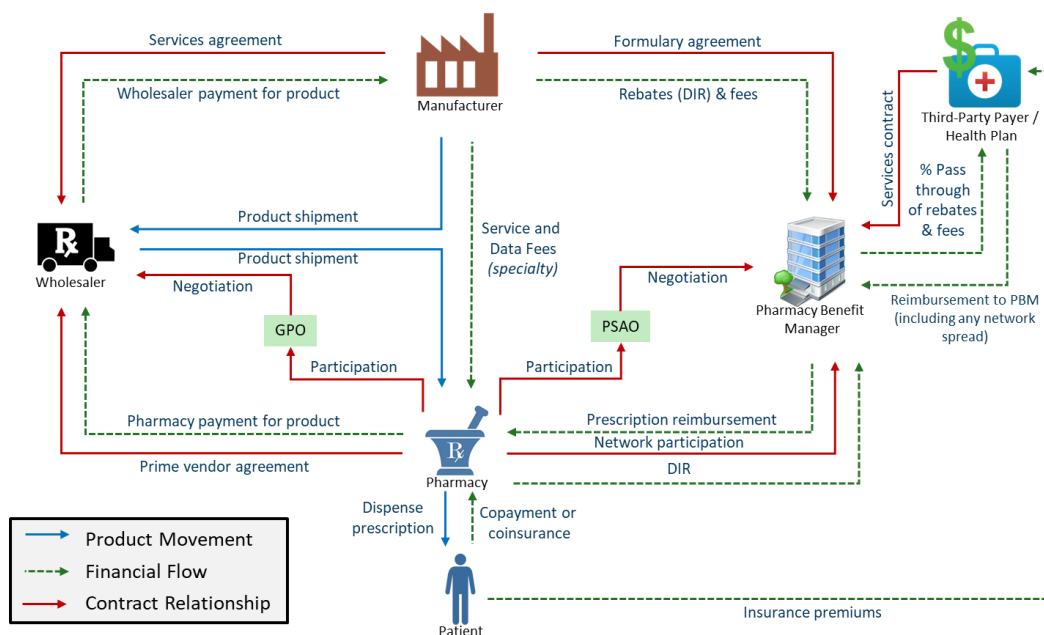
Major Public Companies Operating in U.S. Drug Channels

Company	Stock Ticker	Primary U.S. Channel Role(s)
Amazon	AMZN	Mail pharmacy
CVS Health	CVS	Insurer/PBM/Chain drugstore/Mail & specialty pharmacy/Long-term care pharmacy
GoodRx	GDRX	Discount card provider
Kroger	KR	Supermarket with pharmacy/PBM/Specialty pharmacy
Rite Aid Corporation	RAD	Chain drugstore/PBM/Mail & specialty pharmacy
Walgreens Boots Alliance	WBA	Chain drugstore/Mail & specialty pharmacy/Long-term care pharmacy
Walmart Stores, Inc.	WMT	Mass merchant with pharmacy/Specialty pharmacy
Anthem	ANTM	Insurer/PBM
Centene	CNC	Insurer/PBM/Mail & specialty pharmacy
Cigna	CI	Insurer/PBM/Mail & specialty pharmacy
Humana	HUM	Insurer/PBM/Mail & specialty pharmacy
UnitedHealth Group	UNH	Insurer/PBM/Mail & specialty pharmacy
AmerisourceBergen	ABC	Pharmaceutical wholesaler/Specialty pharmacy
Cardinal Health	CAH	Pharmaceutical wholesaler
McKesson Corporation	MCK	Pharmaceutical wholesaler/Specialty pharmacy

PBM = pharmacy benefit manager
Source: Drug Channels Institute research

These and other companies discussed in this report operate within a complex distribution, payment, and reimbursement system, illustrated on the next page.

The U.S. Pharmacy Distribution and Reimbursement System for Patient-Administered, Outpatient Brand-Name Drugs



GPO = Group Purchasing Organization; PSAO = Pharmacy Services Administrative Organization; DIR = Direct and Indirect Remuneration
 Source: Drug Channels Institute. Chart illustrates flows for Patient-Administered, Outpatient Drugs. Please note that this chart is illustrative. It is not intended to be a complete representation of every type of product movement, financial flow, or contractual relationship in the marketplace.

The 2021 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers discusses and analyzes the key channel flows illustrated above:

- **Product Movement**, which traces shipments from pharmaceutical manufacturers to the drug wholesalers that supply pharmacies. Retail, mail, long-term care, and specialty pharmacies mark the final step in which a prescription is dispensed to a patient.
- **Financial Flows**, which transfer money from third-party payers to pharmacy benefit managers (PBMs), which in turn reimburse pharmacies. Funds flow to manufacturers via pharmacies, which purchase drugs from wholesalers. Funds flow from manufacturers to PBMs in the form of rebates and fees. The PBMs share most of these payments with plan sponsors, reducing plans' net prescription costs. Manufacturers' payments to PBMs and other third-party payers do not flow through wholesale or retail channels.
- **Contractual Relationships**, which govern the relationships between: 1) payers and PBMs; 2) PBMs and pharmacies; 3) pharmacies and wholesalers; 4) wholesalers and manufacturers; and 5) manufacturers and PBMs.

In Sections II and III of the report, we revisit this chart to link each flow with the corresponding report chapters that explain and analyze it. To further explain these flows and their corresponding report chapters, the chart appears as [Exhibit 66](#) (page 108).

What's New in the 2021 Report

The 2021 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers retains the overall structure we employed in last year's edition. As always, we have updated all market and industry data with the most current information available, including our annual analyses of the market positions of the largest pharmacies, specialty pharmacies, and PBMs.

The most notable new material throughout this 2021 edition addresses COVID-19 and its impact on the pharmacy and PBM industries. Given this uncertainty, we plan to revisit the topic in future editions. We will also continue to monitor these trends on [Drug Channels](#).

Many sections and chapters have been expanded and/or reorganized to better cover the latest industry developments. Changes and updates in this 2021 edition include:

- Chapter 1 includes new material about healthcare and clinical services at retail locations, as well as additional data about vaccine and immunization services.
- Chapter 2 incorporates new data analyses that address COVID-19 and its impact on the pharmacy industry.
- We have further expanded and updated our Chapter 3 analyses of the specialty market, including additional information about PBMs, hospitals, and specialty hubs.
- Chapter 4 includes new estimates of health insurance coverage and our projections of how COVID-19 will alter these figures. We also incorporate CMS's comprehensive revision to national healthcare spending data, including outpatient prescription drugs.
- Section 4.3. has been split into two sections to better cover the cash-pay prescription market and the role of discount cards.
- Chapter 5 expands our coverage of PBMs to include additional market participants. We have also updated and expanded our analyses of spread pricing in Managed Medicaid.
- In Chapter 6, the data on patient out-of-pocket expenses include new information on cost sharing, coinsurance, and average out-of-pocket spending.
- Chapter 8 contains new material discussing the differences between pharmacy reimbursement under fee-for-service and managed care approaches in Medicaid.
- Chapter 9 offers a new section on pricing for the Department of Veterans Affairs.
- Chapter 11 includes significant new information about pharmacies' profits from the 340B Drug Pricing Program.

- Chapter 12, which covers the industry outlook and emerging trends, has been significantly updated to reflect developments that have occurred since the preceding edition of this report.
- Throughout the report, we have added new industry data sources, deepened our coverage of many topics, and added more trending information. There are 211 exhibits in the 2021 edition, compared with 203 in the 2020 edition and 180 in the 2019 edition.

Structure of the 2021 Report

This report analyzes the industry in 3 major sections, comprising 12 total chapters:

SECTION I: THE U.S. PHARMACY INDUSTRY

- [Chapter 1: Industry Overview](#) (page 12) defines the industry and its regulatory framework, describes the different products and prescriptions that a pharmacy dispenses, provides data on traditional and specialty prescription costs, delineates among different pharmacy industry participants, and quantifies differences among dispensing formats. This chapter includes our analysis of pharmacist-provided clinical services (including medication therapy management services) and healthcare clinics.
- [Chapter 2: Pharmacy Industry Market Structure](#) (page 46) analyzes the industry's prescription and revenue growth trends. It identifies the largest pharmacies based on prescription revenues. It then analyzes recent market share trends for each dispensing format and for the major national companies.
- [Chapter 3: Specialty Drugs and Specialty Pharmacies](#) (page 69) provides a comprehensive overview of the pharmacies dispensing specialty medications. It includes our exclusive analyses of national market share for pharmacy-dispensed specialty drugs and accreditation trends among pharmacies. It also provides a competitive analysis of the various organizations that compete to dispense specialty medications. The chapter reviews the channel strategies that pharmaceutical manufacturers use for specialty drugs, explains the role of service fees, and profiles the specialty hub services market.

SECTION II: THIRD-PARTY PAYMENT AND PHARMACY BENEFITS

- [Chapter 4: Payment and Spending for Prescription Drugs](#) (page 109) examines the primary payers for prescription drugs at retail, mail, long-term care, and specialty pharmacies. It analyzes recent changes in the payer mix and spending on traditional vs. specialty drugs. Chapter 4 also reviews the cash-pay prescription market and the use of discount card programs.
- [Chapter 5: Pharmacy Benefit Management](#) (page 130) identifies the services and roles of pharmacy benefit managers (PBMs). Chapter 5 also analyzes the structure of the PBM

industry and reviews the business strategies of the largest PBMs. It describes the relationship between PBMs and the pharmacies that participate in a PBM's network, reviews how pharmacy services administrative organizations (PSAOs) intermediate between retail pharmacies and PBMs, and explains how plan sponsors compensate PBMs for benefit management services. Chapter 5 includes a detailed review of PBMs' spread pricing profits from Managed Medicaid programs. This material appeared in Chapter 11 of the 2020 edition.

- [**Chapter 6: Consumer Copayments and Coinsurance**](#) (page 161) analyzes the benefit designs and plan structures that determine patients' out-of-pocket spending for the major third-party payers: employer-sponsored health plans, Health Insurance Marketplace (HIM) plans, Medicare Part D, and Medicaid. We explore manufacturers' out-of-pocket payment support programs, explain the emergence and use of copay accumulators and maximizers, and provide data on patient out-of-pocket expenses. We also explore how benefit design affects patients' costs.
- [**Chapter 7: Narrow Pharmacy Networks**](#) (page 198) analyzes the structure, utilization, and economics of narrow network models. We explain the use and economics of narrow networks for pharmacies in commercial health plans and Medicare Part D. We review mail and retail pharmacies as narrow network options for maintenance prescriptions. This chapter also evaluates the latest data on payer-defined networks for specialty drug dispensing in commercial health plans and for buy-and-bill channels.

SECTION III: DRUG CHANNEL ECONOMICS AND OUTLOOK

- [**Chapter 8: Prescription Reimbursement by Third-Party Payers**](#) (page 222) explains the formulas and methodologies for computing a pharmacy's revenue from brand-name, generic, and specialty prescriptions. It also delves into maximum allowable cost (MAC) prices as well as the regulations and laws related to MAC prices. This chapter compares traditional list price methods with acquisition-cost reimbursement approaches now utilized in fee-for-service Medicaid programs. We also review the economics of mail vs. retail pharmacies for payers and consumers.
- [**Chapter 9: Drug Pricing, Rebates, and Payer Costs**](#) (page 237) explores rebates in commercial health plans, Medicare Part D, Medicaid, and the Department of Veterans Affairs. It explains how PBMs negotiate with manufacturers, analyzes trends in list and net drug prices, and describes the gross-to-net bubble phenomenon. The chapter explains how plan sponsors use rebates, the role of point-of-sale rebates, and controversies over rebates. The chapter concludes by illustrating how prescription reimbursement, formulary rebates, and consumer copayments affect a plan sponsor's net costs for a typical traditional and specialty prescription.
- [**Chapter 10: Relationships With Pharmaceutical Wholesalers**](#) (page 270) explores pharmacies' interactions with their primary wholesale suppliers of drugs. It explains

wholesalers' channel roles and services, identifies the largest wholesale suppliers, and analyzes how wholesalers affect pharmacies' acquisition costs for drugs. We present our latest data on pharmacy group purchasing organizations and the generic sourcing relationships between wholesalers and large pharmacies.

- [Chapter 11: Pharmacy and Prescription Profitability](#) (page 282) unites the reimbursement and cost discussion from Chapter 8 and Chapter 10 by presenting the latest available data on pharmacy and prescription profitability. This chapter documents overall drugstore profitability, pharmacy margins for prescriptions from different dispensing formats, profit differences between brand and generic prescriptions, and PBMs' gross profits from network and mail pharmacies. Chapter 11 also includes material on the direct and indirect remuneration (DIR) fee payments that pharmacies make to PBMs and health plans. Finally, we consider pharmacies' role and profits in the 340B Drug Pricing Program.
- [Chapter 12: Outlook and Emerging Trends](#) (page 315) presents the outlook for net prescription drug spending and our updated projections for the pharmacy industry's product mix and revenues in 2025. This chapter also considers future trends, including pharmacy-dispensed biosimilars, importation, state and federal legislation, cell and gene therapies, and such new entrants as Amazon and venture-backed startup pharmacies.

How to Use the 2021 Report

The chapters are self-contained and do not need to be read in order. We include extensive internal clickable hyperlinks 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**

There are more than 700 [endnotes](#), most of which have hyperlinks to original source materials. The report also includes a list of the [Acronyms and Abbreviations](#) used within it. To search the entire PDF document for every occurrence of a word or phrase, use the following 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 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*.

Adam J. Fein
March 2021

P.S. [Click here for post-publication errata.](#)

CONTENTS

PREFACE: INDUSTRY TRENDS AND KEY REPORT THEMES	1
SECTION I: THE U.S. PHARMACY INDUSTRY	11
Chapter 1: Industry Overview	12
1.1. Pharmacy Fundamentals.....	12
1.1.1. Defining the Practice of Pharmacy.....	12
1.1.2. Pharmacies and the Drug Supply Chain Security Act.....	13
1.2. The Products That Pharmacies Dispense	17
1.2.1. Brand vs. Generic Drugs.....	17
1.2.2. Traditional vs. Specialty Drugs	20
1.2.3. Top Therapy Classes and Average Prescription Costs.....	23
1.3. Pharmacy Industry Participants	25
1.3.1. Pharmacy Dispensing Formats.....	25
1.3.2. Differences Among Outpatient Retail Dispensing Formats	26
1.3.3. Pharmacist Salaries and Employment.....	31
1.4. Healthcare and Clinical Services	34
1.4.1. Retail Clinics and Healthcare Services.....	34
1.4.2. Medication Therapy Management (MTM), Clinical Services, and Provider Status	38
1.4.3. Immunization and Vaccination	43
Chapter 2: Pharmacy Industry Market Structure	46
2.1. Industry Trends	46
2.1.1. Total and 30-Day Equivalent Prescriptions	46
2.1.2. Prescription Dispensing Revenues	49
2.2. National Prescription Dispensing Market Share, by Company	50
2.3. Trends by Dispensing Format.....	52
2.3.1. Long-Term Trends in Revenues and Prescriptions.....	52
2.3.2. Market Changes in 2020	53
2.3.3. National Retail Chains	56
2.3.4. Regional Chains	61
2.3.5. Independent Pharmacies	63

2.3.6. Mail Pharmacies.....	66
Chapter 3: Specialty Drugs and Specialty Pharmacies	69
3.1. Specialty Pharmacies.....	69
3.1.1. Defining Specialty Pharmacy.....	69
3.1.2. Clinical and Data Services	70
3.1.3. Accreditation.....	72
3.2. Specialty Pharmacy Market Structure	75
3.2.1. Specialty Pharmacy Industry Market Size.....	75
3.2.2. Number of Accredited Specialty Pharmacies.....	77
3.2.3. National Market Share for Specialty Dispensing, by Company	78
3.2.4. Mergers and Acquisitions Among Specialty Pharmacies in 2020	79
3.3. Trends by Specialty Dispensing Format	82
3.3.1. Overview of the 2020 Marketplace	82
3.3.2. Pharmacy Benefit Managers and Health Plans.....	85
3.3.3. Independent Specialty Pharmacies.....	87
3.3.4. Retail Chains.....	88
3.3.5. Hospitals and Health Systems.....	91
3.3.6. Physician Practices and Other Providers	96
3.3.7. Pharmaceutical Wholesalers.....	99
3.4. Manufacturer Channel Strategies for Specialty Drugs.....	100
3.4.1. Manufacturer-Defined Dispensing Networks and REMS.....	100
3.4.2. Compensation for Clinical and Data Services	102
3.4.3. Specialty Hub Services and Leading Providers.....	105
SECTION II: THIRD-PARTY PAYMENT AND PHARMACY BENEFITS	108
Chapter 4: Payment and Spending for Prescription Drugs	109
4.1. U.S. Healthcare Spending.....	109
4.1.1. Enrollment in Health Insurance and COVID-19 Impact.....	109
4.1.2. Prescription Drugs and U.S. Healthcare Spending	112
4.2. Payer and Spending Trends.....	114
4.2.1. Payment for Outpatient Prescription Drugs	114
4.2.2. Trends in Drug Spending, by Payer	117

4.2.3. Trends in Drug Spending: Traditional vs. Specialty	119
4.2.4. Deconstructing Changes in Cost vs. Utilization	121
4.3. Patient-Paid Prescriptions	124
4.3.1. Cash-Pay Prescriptions and Usual & Customary Pricing	124
4.3.2. Discount Card Programs	127
Chapter 5: Pharmacy Benefit Management	130
5.1. Overview of Pharmacy Benefit Management	130
5.1.1. Services for Plan Sponsors	131
5.1.2. Relationships with Plan Sponsors	131
5.1.3. Formulary Development and Management	134
5.1.4. Formulary Exclusions	135
5.1.5. Utilization Management	139
5.2. PBM Industry Structure	143
5.2.1. National Market Share, by PBM	143
5.2.2. Business Trends for the Largest PBMs	145
5.3. Relationships Between PBMs and Pharmacies	150
5.3.1. Pharmacy Participation in PBM Networks	150
5.3.2. PBM-Pharmacy Negotiations	151
5.3.3. Pharmacy Services Administrative Organizations (PSAOs)	151
5.4. PBM Compensation by Plan Sponsors	155
5.4.1. Spread Pricing	156
5.4.2. Pass-Through Pricing	159
Chapter 6: Consumer Copayments and Coinsurance	161
6.1. Cost Sharing in Pharmacy Benefit Design	161
6.1.1. Employer-Sponsored Health Plans	162
6.1.2. Health Insurance Marketplace Plans	168
6.1.3. Medicare Part D	170
6.1.4. Medicaid	176
6.2. Manufacturer Out-of-Pocket Payment Support	176
6.2.1. Copayment Offset Programs	177
6.2.2. Copay Accumulator Adjustment and Copay Maximizers	181

6.2.3. Patient Assistance Programs.....	186
6.3. Out-of-Pocket Expenses.....	187
6.3.1. Actual Patient Out-of-Pocket Spending on Prescriptions	187
6.3.2. Consequences of Pharmacy Benefit Designs	191
Chapter 7: Narrow Pharmacy Networks.....	198
7.1. Overview of Pharmacy Benefit Network Models.....	198
7.1.1. Network Options.....	198
7.1.2. The Economics of Narrow Pharmacy Networks.....	200
7.1.3. Legal and Regulatory Restrictions on Network Design	201
7.2. Retail Pharmacy Networks	203
7.2.1. Preferred Retail Networks in Medicare Part D	203
7.2.2. Narrow Retail Networks in Commercial and Other Plans.....	210
7.2.3. Narrow Networks for Maintenance Prescriptions	212
7.3. Payer-Defined Specialty Dispensing Networks	215
7.3.1. Commercial Health Plans	215
7.3.2. Specialty Pharmacies’ Role in Buy-and-Bill Channels	216
SECTION III: DRUG CHANNEL ECONOMICS AND OUTLOOK	221
Chapter 8: Prescription Reimbursement by Third-Party Payers.....	222
8.1. The Basics of Prescription Reimbursement	222
8.1.1. Estimated Acquisition Cost (EAC).....	222
8.1.2. Dispensing Fees.....	224
8.1.3. Service and Data Fees	225
8.2. Reimbursement for Brand-Name and Specialty Prescriptions	226
8.2.1. Wholesale Acquisition Cost (WAC) and Average Wholesale Price (AWP) List Prices	226
8.2.2. AWP Discounts for Pharmacy Reimbursement	227
8.2.3. Why Mail Pharmacies Accept Lower Reimbursements	229
8.3. Reimbursement for Generic Prescriptions.....	230
8.3.1. AWP Discounts for Generic Prescriptions.....	230
8.3.2. Maximum Allowable Cost (MAC) Limits and Generic Effective Rate (GER).....	231
8.3.3. Regulations and Laws Regarding MAC Limits	232
8.3.4. Medicaid and Federal Upper Limits	233

8.4. Acquisition Cost Reimbursement.....	234
Chapter 9: Drug Pricing, Rebates, and Payer Costs	237
9.1. Rebates to Third-Party Payers.....	237
9.1.1. How Commercial Payers Access Rebates.....	238
9.1.2. Rebates and DIR in Medicare Part D.....	241
9.1.3. The Medicaid Drug Rebate Program.....	244
9.1.4. Department of Veterans Affairs.....	249
9.2. Gross and Net Drug Pricing	250
9.2.1. List vs. Net Drug Prices.....	250
9.2.2. The Gross-to-Net Bubble in 2020.....	254
9.3. Issues with the Rebate System	257
9.3.1. How Plan Sponsors Use Rebates.....	257
9.3.2. Point-of-Sale (POS) Rebates.....	259
9.3.3. Controversies Over Rebates and Rebate Reform	261
9.4. How Prescription Reimbursement, Formulary Rebates, Consumer Copayments, and PBM Expenses Affect Plan Sponsor Costs	264
Chapter 10: Relationships With Pharmaceutical Wholesalers	270
10.1. Overview of Wholesale Drug Channels.....	270
10.1.1. Industry Participants.....	270
10.1.2. Product Distribution.....	271
10.1.3. Financial Intermediation	272
10.1.4. Other Services for Pharmacies, Providers, and Manufacturers.....	273
10.1.5. Impact on Pharmacy Reimbursement	274
10.2. Determinants of Pharmacies' Acquisition Costs	274
10.2.1. Wholesaler Pricing of Brand-Name Drugs to Pharmacies	274
10.2.2. Pharmacy Group Purchasing Organizations.....	276
10.2.3. Generic Sourcing Relationships Between Wholesalers and Large Pharmacies	278
Chapter 11: Pharmacy and Prescription Profitability	282
11.1. Overall Drugstore Gross Margins.....	282
11.1.1. Industry Averages	282
11.1.2. Chain Drugstores.....	284

11.2. Pharmacy Per-Prescription Profits	285
11.2.1. Sources of Per-Prescription Profits	285
11.2.2. Average Per-Prescription Profits for Pharmacies	287
11.2.3. PBM Gross Profits from Network and PBM-Owned Pharmacies.....	289
11.2.4. The Impact of Brand-Name Inflation on Prescription Profits	291
11.2.5. Pharmacy Profits With Acquisition Cost-Based Reimbursement	292
11.3. Lifecycle Profitability for Generic Prescriptions	294
11.4. Pharmacy DIR Fees in Medicare Part D Networks	298
11.4.1. Computation of Pharmacy DIR Fees	299
11.4.2. Financial Impact of Pharmacy DIR Fees	300
11.4.3. The Outlook for Pharmacy DIR Fees	302
11.5. Pharmacy Profits from the 340B Drug Pricing Program	303
11.5.1. Overview of the 340B Program and Drug Prices	303
11.5.2. Companies Participating As 340B Contract Pharmacies.....	305
11.5.3. Flow of Funds for a 340B Contract Pharmacy Network.....	309
11.5.4. Pharmacy and Covered Entity Profits from 340B Prescriptions	310
Chapter 12: Outlook and Emerging Trends	315
12.1. Industry Outlook	315
12.1.1. U.S. Net Spending on Outpatient Prescriptions from 2020 to 2025.....	315
12.1.2. Pharmacy Revenues from Traditional vs. Specialty Drugs in 2025.....	317
12.2. Drug Prices	319
12.2.1. The Outlook for Brand-Name Drug Prices	319
12.2.2. The Outlook for Generic Drug Prices	320
12.3. The Outlook for Biosimilars.....	323
12.3.1. 2020 Update on the Biosimilar Market	323
12.3.2. Biosimilars Under the Pharmacy Benefit	324
12.4. Emerging Trends	327
12.4.1. Vertical Integration of Insurers, PBMs, Specialty Pharmacies, and Providers.....	327
12.4.2. Importation From Canada.....	330
12.4.3. State Legislation of the Drug Channel.....	332
12.4.4. Specialty Pharmacies’ Role in Cell and Gene Therapy Channels	334

12.4.5. Controversy Over the 340B Program and Recent Manufacturer Actions	337
12.5. New Entrants and Potential Pharmacy Market Disruption.....	340
12.5.1. Update on Amazon’s Potential Impact	340
12.5.2. Venture-Backed Digital Pharmacies.....	342
Acronyms and Abbreviations	345
Endnotes	346

LIST OF EXHIBITS

Exhibit 1: Timeline of DSCSA Requirements for Pharmacies (Dispensers), 2013 to 2023	14
Exhibit 2: Unbranded and Branded Generics, Share of U.S. Prescriptions, 2003 to 2025	17
Exhibit 3: Variation in State Generic Substitution Policies, 2020	18
Exhibit 4: Top Traditional Therapy Categories, Generic Drugs As a Share of Prescriptions and Net Spending, 2019	19
Exhibit 5: Specialty Prescriptions, Number and Share of Total, 2016 to 2020	20
Exhibit 6: Top Specialty Therapy Categories, Generic Drugs As a Share of Prescriptions and Net Spending, 2019	23
Exhibit 7: Top Traditional Therapy Categories, Share of Net Spending, and Average Net Prescription Costs, 2019	24
Exhibit 8: Top Specialty Therapy Categories, Share of Net Spending, and Average Net Prescription Costs, 2018	24
Exhibit 9: Chain Drugstore Revenues, by Type of Merchandise, 2017	27
Exhibit 10: Average Annual Number of Prescriptions per Pharmacy, by Retail Dispensing Format, 2020	28
Exhibit 11: Average Wait Time for Prescription Pickup, by Retail Dispensing Format, 2020	28
Exhibit 12: Average Annual Prescription Revenue per Pharmacy Outlet, by Retail Dispensing Format, 2020	29
Exhibit 13: Top Four Reasons for Pharmacy Selection, by Dispensing Format, 2020	30
Exhibit 14: Customer Satisfaction With Pharmacies, by Dispensing Format and Company, 2020	30
Exhibit 15: Pharmacist Employment and Salary, by Practice Setting, 2019	31
Exhibit 16: Share of Pharmacist Employment, by Industry, 2013 vs. 2019	32
Exhibit 17: Pharmacists and Healthcare Workers, Change in Annual Average Salary, by Employer, 2014 to 2019	33
Exhibit 18: Pharmacist Employment, by Industry and Dispensing Format, 2019 vs. 2020	34
Exhibit 19: Insurance Coverage for Retail Clinics, 2010 to 2020	35
Exhibit 20: Number of U.S. Retail Clinics, 2004 to 2021	36
Exhibit 21: Providers of Medication Therapy Management Services, Medicare Part D, 2015 vs. 2019	40
Exhibit 22: Current Procedural Terminology (CPT) Codes Used by Pharmacists	41
Exhibit 23: CPESN Networks and Pharmacies, 2018 to 2020	42
Exhibit 24: Sites of Vaccine Administration for Medicare Beneficiaries, 2018	43
Exhibit 25: Adult Influenza Vaccination, by Place of Vaccination, 2018-19 vs. 2020-21	44
Exhibit 26: Pharmacy Availability and Consumer Usage of Immunization, by Dispensing Format, 2016 vs. 2020	45
Exhibit 27: Total U.S. Pharmacy Industry Prescription Revenues, Prescriptions, and Locations, by Dispensing Format, 2020	46
Exhibit 28: Prescriptions, Annual Total and Growth, 2017 to 2020	47
Exhibit 29: 30-Day Equivalent Prescriptions, Annual Total and Growth, 2017 to 2020	48
Exhibit 30: 90-Day Prescriptions As a Percentage of Total Prescriptions, by Dispensing Format, 2017 to 2020	48
Exhibit 31: Pharmacy Industry Prescription Revenues, Annual Total and Growth, 2016 to 2020	50
Exhibit 32: Largest 15 U.S. Pharmacies, by Total Prescription Revenues, 2020	51
Exhibit 33: Total Change in 30-Day Equivalent Prescriptions Dispensed and Prescription Revenues, by Pharmacy Type, 2010 vs. 2020	52

Exhibit 34: 30-Day Equivalent Prescriptions Dispensed per Location, by Dispensing Format, 2010 to 2020	53
Exhibit 35: Year-over-Year Change in Weekly Number of 30-Day Equivalent Prescriptions Dispensed, January to December 2020	54
Exhibit 36: Number of 30-Day Equivalent Prescriptions, by Dispensing Format, 2019 vs. 2020.....	54
Exhibit 37: Prescription Dispensing Revenues, by Dispensing Format, 2019 vs. 2020	56
Exhibit 38: Year-Over-Year Change in Same-Store Prescription Count, by Chain, 2016 to 2020	57
Exhibit 39: Walgreens Boots Alliance, U.S. Store Count, 2016 to 2020.....	58
Exhibit 40: Largest Regional Chain Drugstores, by Total Prescription Revenues, 2020.....	61
Exhibit 41: Pharmacy Locations Acquired, by Company, 2010 to 2020	62
Exhibit 42: Number of Independent Pharmacies, 2001 to 2020	63
Exhibit 43: Pharmacy Franchise and Marketing Programs, 2020	64
Exhibit 44: Share of Mail Pharmacy Dispensing Revenues, by Company, 2020	68
Exhibit 45: Importance of Specialty Pharmacy Services to Patients, 2020.....	71
Exhibit 46: Usage of Specialty Pharmacy Services by Patients, 2018 vs. 2020	72
Exhibit 47: Specialty Prescription Dispensing Revenues, Annual Total and Growth, 2016 to 2020.....	75
Exhibit 48: Specialty Prescription Dispensing Revenues As a Percentage of Total, 2013 to 2020	76
Exhibit 49: Specialty Drugs As a Percentage of Payers' Pharmacy Benefit Spending, by PBM, 2013 vs. 2019	76
Exhibit 50: Number of Pharmacy Locations With Specialty Pharmacy Accreditation, by Organization, 2015 to 2020	77
Exhibit 51: Locations With URAC Specialty Pharmacy Accreditation, 2008 to 2020	78
Exhibit 52: Prescription Revenues and Market Share from Specialty Pharmaceuticals, by Company, 2020	79
Exhibit 53: Merger and Acquisition Transactions, Specialty Pharmacy and Infusion Services, 2014 to 2020.....	80
Exhibit 54: Pharmacy Locations With Specialty Pharmacy Accreditation, by Corporate Ownership, 2020	82
Exhibit 55: Share of Pharmacy Locations With Specialty Pharmacy Accreditation, by Corporate Ownership, 2015 vs. 2020	83
Exhibit 56: Specialty Drug Prescription Revenues, by Dispensing Format, 2020.....	84
Exhibit 57: Number of Private Specialty Pharmacies Ranked on <i>Inc.</i> 5000 List, 2012 to 2020.....	88
Exhibit 58: Retail Companies With Specialty Pharmacy Businesses, 2020	90
Exhibit 59: Hospitals With a Specialty Pharmacy, by Number of Staffed Beds, 2015 vs. 2019	92
Exhibit 60: Prescription Dispensing Revenues from Specialty Pharmacy, by Health System, 2020	94
Exhibit 61: Health Systems' Requirements for Employee Use of an In-House Pharmacy, 2020	95
Exhibit 62: Percentage of Oncology Practices With In-Practice Oral Oncology Drug Dispensing, 2013 to 2019	97
Exhibit 63: Frequency of Manufacturer Contracting for Specialty Pharmacy Services, by Type of Service, 2019	104
Exhibit 64: Example of Specialty Hub Workflow.....	106
Exhibit 65: Leading Specialty Hub Services Providers and Ownership, 2020	107
Exhibit 66: Chapter Coverage of Flows in the U.S. Distribution and Reimbursement System	108
Exhibit 67: Comprehensive Health Insurance Enrollment, by Payer, 2018 to 2020	110
Exhibit 68: Change in Membership, Commercial vs. Managed Medicaid, by Insurer, 2020	110

Exhibit 69: Medicaid Enrollment, 2005 to 2020	111
Exhibit 70: Share of U.S. National Health Expenditures, by Category, 2019	112
Exhibit 71: Share of U.S. National Health Expenditures, by Major Spending Category, 1979 to 2019.....	113
Exhibit 72: Growth Rate in U.S. National Health Expenditures, by Major Spending Category, 2010 to 2019.....	114
Exhibit 73: Outpatient Prescription Drug Expenditures, by Source of Payment, 2019	115
Exhibit 74: Outpatient Prescription Drugs As a Share of Payer’s Total Health Expenditures, by Payer, 2005 to 2019	115
Exhibit 75: Outpatient Prescription Drug Dispensing, by Source of Payment, 2019	116
Exhibit 76: Prescription Expenses per Person, by Age, 2018.....	117
Exhibit 77: Change in Net Spending for Outpatient Prescription Drugs, by Payer, 2018 vs. 2019	117
Exhibit 78: Hospital Care vs. Prescription Drugs, Total Expenditures and Consumer Out-of-Pocket Spending, 2019	119
Exhibit 79: Change in Commercial Payer Net Drug Spending, Traditional vs. Specialty Drugs, 2014 to 2019	119
Exhibit 80: Change in Commercial Payer Net Drug Spending, Traditional vs. Specialty Drugs, by PBM, 2019	120
Exhibit 81: Components of Change in Net Commercial Payer Drug Spending, by PBM, 2019	122
Exhibit 82: Components of Change in Net Specialty Drug Spending, by PBM, 2018.....	123
Exhibit 83: Cash-Pay Prescriptions As a Share of Total Prescriptions, 2017 to 2020.....	124
Exhibit 84: Relative Cash Prescription Prices for Generic and Brand-Name Drugs, by Dispensing Format, 2019.....	125
Exhibit 85: Pharmacy Benefit Management Contracting Approach, by Company Size, 2017 vs. 2020.....	132
Exhibit 86: Medicare Part D Plan Sponsor Use of PBMs, by Benefit Management Service, 2016.....	134
Exhibit 87: Number of Unique Products on PBM Formulary Exclusion Lists, Single-Source vs. Multiple-Source, 2014 to 2020.....	136
Exhibit 88: Number of Products on PBM Formulary Exclusion Lists, by PBM, 2012 to 2021	136
Exhibit 89: Formulary Exclusions for Specialty Drugs, Medicare Part D Plans, 2019.....	139
Exhibit 90: Prevalence of Utilization Management Tools to Manage Specialty Drug Costs, Employer-Sponsored Health Plans, 2016 vs. 2020.....	141
Exhibit 91: Prevalence of Utilization Management Tools, Medicare Part D Plans, 2020	142
Exhibit 92: PBM Market Share, by Total Equivalent Prescription Claims Managed, 2020	143
Exhibit 93: Largest Pharmacy Services Administrative Organizations, by Members and Ownership, 2020	153
Exhibit 94: Key Components of PBM Compensation.....	155
Exhibit 95: Average PBM Spread in Medicaid Managed Care, by State, 2018-19	157
Exhibit 96: Average Pharmacy Reimbursement and PBM Spread, by Type of Prescription, Maryland Medicaid Managed Care, 2019.....	157
Exhibit 97: Imatinib Mesylate, Fee-for-Service and Managed Medicaid Payments vs. Pharmacy Acquisition Cost, 2016 to 2020.....	158
Exhibit 98: Plan Sponsors’ Perceived Transparency of PBM Relationship, by PBM Size, 2018	160
Exhibit 99: Common Pharmacy Benefit Plan Designs.....	162
Exhibit 100: Share of Employees Covered by a High Deductible Health Plan, 2006 to 2020	163

Exhibit 101: Distribution of Cost Sharing Formulas for Prescription Drug Benefits in Employer-Sponsored Plans, by Plan Type, 2020	163
Exhibit 102: Type of Cost Sharing for Prescription Drug Benefits, Employer-Sponsored Plans Without High Deductibles, by Benefit Tier, 2020.....	164
Exhibit 103: Type of Cost Sharing for Prescription Drug Benefits, Employer-Sponsored Plans With High Deductibles, by Benefit Tier, 2020	164
Exhibit 104: Average Cost Sharing by Prescription Drug Tier, Employer-Sponsored Plans, 2020	165
Exhibit 105: Distribution of Coinsurance Structures for Prescription Drug Benefits, Employer-Sponsored Plans, Fourth and Specialty Tiers, 2020	166
Exhibit 106: Percentage of Covered Workers With a Separate Prescription Drug Deductible, by Plan Type, 2019 ..	167
Exhibit 107: Percentage of Covered Workers With Pharmacy Benefit Deductibles, Employer-Sponsored Plans, 2005 to 2020.....	167
Exhibit 108: Type of Cost Sharing for Prescription Drug Benefits, Silver Health Insurance Marketplace Plans, 2019	169
Exhibit 109: Average Cost Sharing by Prescription Drug Tier, Silver Health Insurance Marketplace Plans, 2020.....	169
Exhibit 110: Presence of Separate Prescription Drug Deductibles in Silver Plans on Health Insurance Marketplaces, 2014 to 2020.....	170
Exhibit 111: Medicare Part D Enrollment, by Type of Plan, 2010 to 2020	171
Exhibit 112: Standard Medicare Prescription Drug Benefit, 2020.....	172
Exhibit 113: Distribution of Cost Sharing Formulas for Medicare Part D Plans, 2020	173
Exhibit 114: Median Copayments by Prescription Drug Tier, Medicare Part D PDPs, 2020.....	173
Exhibit 115: Median Cost Sharing by Prescription Drug Tier, Medicare Advantage Plans, 2020	174
Exhibit 116: Distribution of Coinsurance Rates for Specialty Drugs, Medicare Part D Plans, 2019.....	174
Exhibit 117: Median Cost Sharing Amounts for 20 Largest Medicare Part D Plans, 2020.....	175
Exhibit 118: Manufacturer Spending on Copay Offset Programs, 2010 to 2020.....	177
Exhibit 119: Prevalence of Copayment Offset Programs for Specialty Drugs, 2016 vs. 2020	178
Exhibit 120: Share of Patients Using Manufacturer Cost Sharing Assistance for Specialty Drugs, by Therapy, 2015 vs. 2019	178
Exhibit 121: Maximum Annual Benefit for Copayment Offset Programs, by Specialty Therapy Class, 2020.....	179
Exhibit 122: Large Employers' Tactics for Managing Copay Offset Programs, 2019 to 2021.....	180
Exhibit 123: Employer Views on Copayment Assistance Programs, 2019.....	180
Exhibit 124: Pharmacist Views on Copayment Assistance Programs, 2020	181
Exhibit 125: Copay Accumulator Adjustment and Copay Maximizers, Prevalence and Use in Commercial Insurance, 2018 to 2021.....	183
Exhibit 126: Pharmaceutical Manufacturer Charitable Foundations, by Total Giving, 2018.....	187
Exhibit 127: Per Capita Out-of-Pocket Spending on Outpatient Prescription Drugs, 2010 to 2019.....	188
Exhibit 128: Consumers' Out-of-Pocket Spending Share of Outpatient Prescription Drug Expenditures, 1965 to 2019	188
Exhibit 129: Average Per-Prescription Patient Out-of-Pocket Costs, by Type of Prescription, 2015 vs. 2019	189

Exhibit 130: Distribution of Annual Patient Out-of-Pocket Spending, by Type of Health Plan, 2019.....	190
Exhibit 131: Cost Sharing Waived for Medications to Treat Chronic Conditions, by Company Size, 2020	191
Exhibit 132: Type of Cost Sharing for Out-of-Pocket Prescription Spending, 2015 to 2019.....	192
Exhibit 133: Type of Cost Sharing for Out-of-Pocket Prescription Spending on Specialty Drugs, by Therapy and Average Cost, 2019.....	193
Exhibit 134: Medicare Part D, Share of Benefit Liability, by Payer, 2007 vs. 2017	194
Exhibit 135: New-to-Product Prescription Abandonment, by Patient Out-of-Pocket Cost, 2019	195
Exhibit 136: Consumer Understanding of Health Insurance Terms, 2019.....	196
Exhibit 137: CVS Health, Quarterly Retail Prescription Revenues, 2014 to 2020	197
Exhibit 138: Summary of Pharmacy Benefit Network Design Options	199
Exhibit 139: Average Distance to Nearest Pharmacy, by Core Based Statistical Area (CBSA) Status, 2017	200
Exhibit 140: Medicare Part D PDPs With Preferred Pharmacy Networks, 2011 to 2021	204
Exhibit 141: Participation As a Preferred Cost Sharing Pharmacy in Selected Medicare Part D PDPs, by Retail Chain, 2021	206
Exhibit 142: Enrollment in Medicare Part D PDPs with Preferred Cost Sharing Networks, by Pharmacy Chain, 2020 vs. 2021.....	207
Exhibit 143: Participation As a Preferred Cost Sharing Pharmacy in Selected Medicare Part D PDPs, by PSAO, 2021	209
Exhibit 144: Share of Large Employers with a Narrow Retail Pharmacy Network, 2013 to 2020	211
Exhibit 145: Mandatory Mail Pharmacy Utilization for Maintenance Medications, Employer-Sponsored Plans, 2013 to 2018.....	213
Exhibit 146: TRICARE, Net Spending on Outpatient Prescriptions, by Dispensing Outlet, 2012 to 2019	214
Exhibit 147: Payers' Perceived Lowest-Cost Site of Care for Specialty Dispensing, 2018	215
Exhibit 148: Share of Large Employers with Restricted Specialty Pharmacy Network, by Network Size, 2011 to 2020	216
Exhibit 149: Drug Sourcing for Infused Therapies, Oncology vs. Non-Oncology, by Practice Type and Source, 2019	218
Exhibit 150: Payer Methodologies for Computing a Pharmacy's Estimated Acquisition Cost	224
Exhibit 151: Pharmacy AWP Reimbursement and Copayments for Brand-Name Prescriptions, by Dispensing Format, 2020	227
Exhibit 152: AWP Reimbursement Difference, Retail vs. Mail Pharmacies, 2008 to 2020.....	228
Exhibit 153: Use of Financial Incentives for Mail Pharmacy Utilization for Maintenance Medications, Employer-Sponsored Plans, by Company Size, 2019	229
Exhibit 154: AWP Reimbursement and Copayments for Generic Prescriptions, by Dispensing Format, 2020	231
Exhibit 155: Pharmacy Reimbursement in Medicaid Program, Fee-for-Service vs. Managed Care	234
Exhibit 156: Pharmacy Reimbursement Methodology and Dispensing Fee, Largest Fee-for-Service State Medicaid Programs, 2020.....	236
Exhibit 157: PBM Rebate Arrangements for Traditional and Specialty Medications in Employer-Sponsored Plans, by Employer Size, 2020	238

Exhibit 158: Total PBM-Negotiated Rebates and Share Retained, Diabetes Drugs in Nevada, 2017 to 2019	240
Exhibit 159: PBM Administrative Fees As a Percentage of WAC, by Company, 2019	241
Exhibit 160: Value of Direct and Indirect Remuneration (DIR) in Medicare Part D, 2012 to 2020	242
Exhibit 161: Medicare Part D, Value of Direct and Indirect Remuneration (DIR), by Source, 2013 vs. 2020	243
Exhibit 162: Medicaid Program, Gross Prescription Spending and Prescriptions, Fee-For-Service vs. Managed Care, 2015 vs. 2019	247
Exhibit 163: Largest Managed Medicaid Organizations, by Enrollment, 2020	247
Exhibit 164: Medicaid, Gross vs. Net Spending on Outpatient Drugs, 2015 to 2019	249
Exhibit 165: Brand-Name Drugs, Change in Average List and Net Prices, 2014 to 2020	251
Exhibit 166: Change in List vs. Net Price, by Manufacturer, 2019	252
Exhibit 167: Total Value of Pharmaceutical Manufacturers’ Gross-to-Net Reductions for Brand-Name Drugs, 2016 to 2020	254
Exhibit 168: Total Value of Pharmaceutical Manufacturers’ Gross-to-Net Reductions for Brand-Name Drugs, by Source, 2020	256
Exhibit 169: CVS Health, Brand-Name Rebates Per Commercial Life and Share Retained by PBM, 2011 to 2020	257
Exhibit 170: Large Employers’ Point-of-Sale Rebate Programs, 2019 to 2021	259
Exhibit 171: Prescription Economics for a Third-Party Payer—Traditional Brand-Name Drug Example	264
Exhibit 172: Prescription Economics for a Third-Party Payer—Traditional Brand-Name Drug Example in a High-Deductible Health Plan	266
Exhibit 173: Prescription Economics for a Third-Party Payer—Traditional Brand-Name Drug Example in High-Deductible Health Plan with Point-of-Sale Rebates	267
Exhibit 174: Prescription Economics for a Third-Party Payer—Specialty Brand-Name Drug Example	268
Exhibit 175: U.S. Drug Distribution and Related Revenues at Big Three Wholesalers, 2020	270
Exhibit 176: Determination of a Pharmacy’s Brand-Name Drug Acquisition Cost from a Wholesaler	275
Exhibit 177: Pharmacy Buying Groups and Primary/Preferred Wholesaler Relationships, by Number of Pharmacies, 2020	277
Exhibit 178: Share of U.S. Generic Purchasing Volume, by Organization, 2020	279
Exhibit 179: Overall Gross Margins for Chain and Independent Drugstores, 2006 to 2019	283
Exhibit 180: Total Gross Profits for Chain and Independent Drugstores, 2015 to 2019	283
Exhibit 181: Overall Gross Margins for Chain and Independent Drugstores, by Company, 2020	284
Exhibit 182: Prescriptions As a Percentage of Revenues, by Company, 2013 to 2020	285
Exhibit 183: Components of Overall Average Pharmacy Cost of Dispensing, 2019	286
Exhibit 184: Example of Brand-Name Prescription Economics for a Retail Pharmacy	287
Exhibit 185: Independent Pharmacies, Average Per-Prescription Gross Profits and Margins, 2015 to 2019	288
Exhibit 186: Diplomat Pharmacy, Per-Prescription Gross Profits and Margins, 2014 to 2019	289
Exhibit 187: Top Three PBMs, Sources of Gross Profit, 2015 vs. 2020	290
Exhibit 188: Effect of Brand-Name List Price Increases on a Prescription’s Gross Profit	291
Exhibit 189: Median Generic Price Relative to Brand Price Before Generic Entry, by Number of Manufacturers	294
Exhibit 190: Imatinib Mesylate, Pharmacy Acquisition Cost, Brand vs. Generic, 2016 to 2021	295

Exhibit 191: Lifecycle of Per-Prescription Gross Profits, Brand vs. Multisource Generic	296
Exhibit 192: Median AWP Discount for Generic Drugs Sold to Retail Pharmacies, by Number of Manufacturers, 2020.....	298
Exhibit 193: Net Value of Pharmacy DIR Fees in Medicare Part D, 2013 to 2020	300
Exhibit 194: 340B Drug Pricing Program, Purchases by Covered Entities, 2014 to 2020	304
Exhibit 195: 340B Contract Pharmacy Locations, 2010 to 2020.....	305
Exhibit 196: 340B Covered Entities, by Number of Contract Pharmacies, 2020	306
Exhibit 197: 340B Contract Pharmacy Locations, by Company, 2020	306
Exhibit 198: 340B Contract Pharmacy Locations, by Chain, 2013 vs. 2020	307
Exhibit 199: Largest Specialty Pharmacies, 340B Contract Pharmacy Locations and Relationships, 2020	308
Exhibit 200: Flow of Funds and Product for a 340B Contract Pharmacy Network	309
Exhibit 201: 340B Prescription Economics for a Covered Entity, a Contract Pharmacy, and a Patient—Specialty Brand-Name Drug Example	312
Exhibit 202: Total Gross Profits from 340B Contract Pharmacy, by Company, 2020	314
Exhibit 203: Actual and Projected Growth Rates in National Health and Outpatient Prescription Drug Expenditures, 2015 to 2025.....	315
Exhibit 204: Weekly Change in Outpatient Visits, 2020	316
Exhibit 205: Total Brand Revenues Lost to Generic Launches, by Product Type, 2016 to 2025	317
Exhibit 206: Pharmacy Industry Prescription Revenues, Traditional vs. Specialty Drugs, 2015 to 2025.....	318
Exhibit 207: Average Year-Over-Year Change in Pricing of Mature Generic Drugs, Oral vs. Injectable, 2015 to 2021	321
Exhibit 208: Generic Drug Approvals, FDA, 2014 to 2020	322
Exhibit 209: Number of U.S. Biosimilar Approvals, 2015 to 2020	323
Exhibit 210: Vertical Business Relationships Among Insurers, PBMs, Specialty Pharmacies, and Providers, 2021 ..	327
Exhibit 211: Venture Capital-Backed Digital Pharmacies and Total Funding, 2021.....	343