Pharmacy Trends and Strategies to Preserve Affordability

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HORIZON Health Ventures, LLC

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### Key Takeaways

<table>
<thead>
<tr>
<th>Unsustainable Trend</th>
<th>Key Trend Drivers</th>
<th>Required</th>
<th>Pharmacy Expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>How 20% of plan cost will likely be 50% by 2020</td>
<td>Inflation &amp; new specialty products to market</td>
<td>Creative plan management solutions that meet plan sponsors needs without sacrificing patient health</td>
<td>Rx Carve Out, smart formulary management, channel optimization, clinical specialization, aggressive drug pricing &amp; contracts</td>
</tr>
</tbody>
</table>
Pharmacy Trend & Important Metrics

2016 Trend
- ESI – 3.8%
- CMX – 3.2%
- MI – 2.9%
- IMS – 14.0

Cost Drivers
- Inflation & New Rx’s Introduced

Specialty
- 18%-25% Year over Year Trend until 2025

GDP
- $597B by 2025 or 20% of Gross Domestic Product (GDP)
...In 2015 83% of prescriptions were dispensed as Generics

But...Generics account for only 17% of spending....

Source: IMS Health, National Sales Perspectives, Sept 2015, National Prescription Audit, Dec 2015
Generic Utilization Today 2017

- **Generic Fill Rate**: 84.3%
- **Generic Dollars**: 15.3%
- **Clinical Generic Maximum**: 89%

- ✓ 641 Generics approved in 2016
- ✓ New generic introductions down to 14.8 months in 2016 from 24 months in 2015; down from 50 months in 2014!
- ✓ Lots of competition from China, India and Korea.

Generic Pharmaceutical Association even changed its name to the Association for Accessible Medicines
The Generic Wave has crested...

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$26.7 Billion</strong></td>
<td><strong>$23.9 Billion</strong></td>
<td><strong>$6.6 Billion</strong></td>
<td><strong>$6.5 Billion</strong></td>
<td><strong>$9.3 Billion</strong></td>
</tr>
<tr>
<td>Abilify</td>
<td>Azilect</td>
<td>Butrans</td>
<td>Adcirca</td>
<td>Emend</td>
</tr>
<tr>
<td>Aggrenox</td>
<td>Azor</td>
<td>Fanapt</td>
<td>Cialis</td>
<td>Exelon Patch</td>
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<tr>
<td>Aloxi</td>
<td>Benicar</td>
<td>Ivanz</td>
<td>Elidel</td>
<td>Exjade</td>
</tr>
<tr>
<td>Androgel</td>
<td>Crestor</td>
<td>Relpax</td>
<td>Levitra</td>
<td>Fentora</td>
</tr>
<tr>
<td>Copaxone</td>
<td>Cubicin</td>
<td>Reyataz</td>
<td>Lexiva</td>
<td>Gilenya</td>
</tr>
<tr>
<td>Namenda</td>
<td>Epzicom</td>
<td>Strattera</td>
<td>Sensipar</td>
<td>Lyrica</td>
</tr>
<tr>
<td>Nexium</td>
<td>Nuvigil</td>
<td>Rapaflo</td>
<td>Solodyn</td>
<td>Ranexa</td>
</tr>
<tr>
<td>Ortho Tri-Cyclen Lo</td>
<td>ProAir HFA</td>
<td>Strattera</td>
<td>(addl. strengths)</td>
<td>Solodyn</td>
</tr>
<tr>
<td>Welchol</td>
<td>Seroquel XR</td>
<td>Viagra</td>
<td>(addl. strengths)</td>
<td>(addl. strengths)</td>
</tr>
<tr>
<td>Zyvox</td>
<td>Zetia</td>
<td>Viread 300mg</td>
<td>Viread</td>
<td>Symlin</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Vytotorin</td>
<td></td>
<td>Vesicare</td>
</tr>
</tbody>
</table>

(Annual Sales)
Drug Price Inflation

Generic Inflation Impact
- Specialty Brand Inflation Impact: 0.7%
- Non-Specialty Brand Inflation Impact: 7.6%

Total: 11.1%

Hyperinflation Impact: 0.7%

Hyperinflation is in the headlines but does not significantly contribute to overall trend.

CNN Money
Sticker shock: Drugs with price hikes of up to 1,200%
Understanding Specialty Pharmacy
Specialty Pharmacy

Traditional Medications
- Easily produced and duplicated
- Generics available

Average Monthly Cost
$62
3-9% trend

Specialty Medications
- Treat rare conditions
- Significant side effects
- Require therapy management
- Few generics or biosimilars

Average Monthly Cost
$3,000
20-35% trend
Medicines that treat specific, complex chronic diseases with the minimum 4 of the 7 following attributes:

• Initiated only by a specialist
• High expense: ~$600+
• Requires reimbursement assistance
• Generally not oral
• Warrants intensive patient counseling
• Require special handling
• Unique distribution

➢ Few prescribers/ centers
➢ Low inventory important
➢ Processing of pre-approval essential and competitive skill
➢ Requires patient training to administer
➢ Support to achieve adherence needed
➢ Cold chain when needed
➢ No need for supplying all pharmacies through all warehouses
Market Projection: Specialty Spend Growth in Pharmacy

2017 Actual
- Specialty Pharmacy Benefit: 34.8%
- Traditional and Specialty Medical Benefit: 65.2%

2018 Projected
- Specialty Pharmacy Benefit: 50%
- Traditional and Specialty Medical Benefit: 50%

Sources: Express Scripts Book of Business; Express Scripts analysis of Thomson Reuters MarketScan® Commercial Database.
New Specialty Drug Pipeline

Proportion of Near-term Specialty Pipeline Drugs by Indication

- Orphan conditions: 33.3%
- Inflammatory conditions: 16.7%
- Hepatitis C: 5.6%
- Multiple sclerosis: 5.6%
- Cancer: 38.9%
A biosimilar is defined as “a biological medicinal product that contains a version of the active substance of an already authorized original biological medicinal product.

A biosimilar demonstrates similarity to the referenced medicinal product in terms of quality characteristics, biological activity, safety and efficacy based on a comprehensive comparability exercise.”

IMS Health, 2014
Biosimilars
Biosimilar Opportunities on the Horizon

Overall U.S. Market Opportunity (in $ Billions)

- 2015 Neulasta®, Rituxan®, Epogen®, Procrit®, Neupogen®, Synagis®, Pulmozyme®: $14.1
- 2016 Humira®, Elitek®, ReoPro®, Berinert®: $7.4
- 2017 Lemtrada®: $0.3
- 2018 Remicade®, Xolair®, Erbitux®: $6.2
- 2019 Avastin®, Herceptin®, Orencia®, Actemra®, Advate®: $7.1
- 2020 Lucentis®, Tysabri®, Pegasys®, Vectibix®, Peg-Inton®, Kineret®: $4.0

$39.1B in patent expirations through 2020

#Exp360
Strategies for Managing Pharmacy Spend

Carve In v. Carve Out
What Keeps Plan Sponsors Awake at Night

1. 1-2% of the claims are driving >30% of total Rx spend; >10% trend year over year

2. It is predicted that specialty medications will represent 50% of total spend within 1-2 years

3. Adherence and controlling appropriate use of specialty drugs are the greatest challenges, as is the rate of discontinuation of therapy

4. Drug pipeline is full of specialty medications; how do we forecast what the budget impact will be?

#Exp360
September New Employee  
Cinryze: $800,000 per Year

Hereditary angioedema  
+2 dependents with Hereditary angioedema

3 Patients, $2.4M Annually, 55% of Total Cost
Stand Alone PBMs

Express Scripts
- ESI, Medco, NPA

CVS/Caremark
- CVS, Caremark, Pharmacare

Optum Rx
- Catamaran, Catalyst, Innoviant, Prescription Solutions. Owned by UHC

Prime Therapeutics
- Owned by 13 BCBS Plans

Envision Rx, MedImpact, MagellanRx, PerformRx, WellDyneRx, Argus...
Carve-In vs Carve-Out

**Carve-In**

- **HEALTH PLAN**
  - Medical
  - Pharmacy
  - Dental
  - Vision

  **Plan Sponsor**

  *Employer has a single bundled contract for all services*

**Carve-Out**

- **HEALTH PLAN**
  - Medical
  - Dental
  - Vision

- **PBM**
  - Pharmacy

  **Plan Sponsor**

  *Employer maintains two separate contracts/vendors each with specific and unique expertise*
Unbundling – or ‘carving out’ – the pharmacy benefits presents substantial savings opportunities for plan sponsors… It is not uncommon for a carved-out health care plan to yield savings of 12% to 15% in total annual pharmacy spend.

CFO.com, March 14, 2013
The Importance of Managing Trend

Total Cumulative Difference: $480,000 over three years (500 EEs)

- 12% Health Plan Trend
- 5% PBM Trend

17% Savings
# Prescribing Administration Options

**Carve-In**

<table>
<thead>
<tr>
<th>Off the shelf</th>
<th>Limited availability; little insight</th>
<th>Limited via generalist</th>
<th>Value of generalist</th>
<th>Is it really targeted?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan Design</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultative Trend Management</td>
<td>Expert pharmacy team</td>
<td>Data drives plan design decisions</td>
<td>Quick, expert issue resolution</td>
<td>Consultation</td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrated Plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Off the shelf**
  - Complete flexibility
- **Plan Design**
  - 140+ reports available monthly
  - Quarterly and annual reporting
  - Custom ad hoc
- **Data**
  - 140+ reports available monthly
  - Quarterly and annual reporting
- **Consultative Trend Management**
  - Expert pharmacy team
  - Data drives plan design decisions
- **Administration**
  - Quick, expert issue resolution
  - Consultation
- **Integrated Plan**
  - Connectivity already exists
  - Will build connectivity free of charge
Tightly managed Plans saved $633,000 in lower costs over three years compared to unmanaged plans.

Assumes 500 employees at $75 pmpm base plan cost pmpm.
Managing Pharmacy: Today & Tomorrow
**Key Takeaways**

<table>
<thead>
<tr>
<th>Savings</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>8-15% Savings</td>
<td>• Effective PBM contracting</td>
</tr>
<tr>
<td>% Savings</td>
<td>• 80%-100% of Rebates</td>
</tr>
<tr>
<td>10-30% Savings</td>
<td>• Evaluate the carve out potential</td>
</tr>
</tbody>
</table>
| 2-10% Savings    | • Early adopter of management programs:  
  - Mandatory generic programs  
  - PBMs exclusionary formularies  
  - Step Therapy  
  - Exclusive Specialty Pharmacy  
  - Compound management program |
| 2% Savings; w/channel Management addl 3%+ | • Exclusive Specialty Pharmacy and specialty management programs; medical channel management |

*Save money now so that you can afford the high cost drugs of tomorrow*

*Savings are estimates only*
Basics of Pharmacy Contracting

- Do you have a contract specific to your pharmacy benefit?
- Does your contract clearly list out the discounts/fees/rebates that are applied and guaranteed to your claims utilization?
- Does your contract clearly define under what circumstances those discounts/fees/rebate guarantees are applied to your claims?
- Does your contract clearly state what detailed information you will have access to relative to your claims utilization and experience?
- Does your contract contain audit rights allowing you to validate that your carrier or PBM is compliant with their financial & operational obligations under the terms of the contract?
**Key Takeaways**

- **8-15% Savings**
  - Effective PBM contracting

- **10-30% Savings**
  - Evaluate the carve out potential

- **2-10% Savings**
  - Early adopter of management programs:
    - Mandatory generic programs
    - PBM's exclusionary formularies
    - Step Therapy
    - Exclusive Specialty Pharmacy
    - Compound management program

- **2% Savings; w/channel Management addl 3%+**
  - Exclusive Specialty Pharmacy and specialty management programs; medical channel management

**Save money now so that you can afford the high cost drugs of tomorrow**

Savings are estimates only.
Rebate Value Over Time

Rebate per Brand Claim (100% of rebates)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rebate Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$23</td>
</tr>
<tr>
<td>2013</td>
<td>$25</td>
</tr>
<tr>
<td>2014</td>
<td>$35</td>
</tr>
<tr>
<td>2015</td>
<td>$50</td>
</tr>
<tr>
<td>2016</td>
<td>$70</td>
</tr>
<tr>
<td>2017</td>
<td>$100</td>
</tr>
</tbody>
</table>
## Value of 100% of Rebates

<table>
<thead>
<tr>
<th>Carve-In</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employees/ Members</strong></td>
<td>500/1,100</td>
</tr>
<tr>
<td><strong>Medical Admin Fee Credit:</strong></td>
<td>$9 PEPY</td>
</tr>
<tr>
<td><em>In lieu of rebates carrier offers a discount off medical admin fees</em></td>
<td></td>
</tr>
<tr>
<td><strong>Total Value to Client</strong></td>
<td>$54,000</td>
</tr>
<tr>
<td><strong>Value of 100% of rebates</strong></td>
<td>$165,000</td>
</tr>
<tr>
<td><strong>Retained Rebate Profit for Carrier</strong></td>
<td>$111,000</td>
</tr>
</tbody>
</table>
Key Takeaways

8-15% Savings
- Effective PBM contracting

% Savings
- 80%-100% of Rebates

10-30% Savings
- Evaluate the carve out potential

2-10% Savings
- Early adopter of management programs:
  - Mandatory generic programs
  - PBMs exclusionary formularies
  - Step Therapy
  - Exclusive Specialty Pharmacy
  - Compound management program

2% Savings; w/channel Management addl 3%+
- Exclusive Specialty Pharmacy and specialty management programs; medical channel management

Savings are estimates only
Understand your options & opportunity

Have you performed an analysis to understand the value of PBM carve out?

250 employees and 500 Members

<table>
<thead>
<tr>
<th>Incumbent:</th>
<th>Financial Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ingredient Cost</td>
<td>$997,640</td>
</tr>
<tr>
<td>Dispensing Fees</td>
<td>$7,245</td>
</tr>
<tr>
<td>Member Contribution</td>
<td>-$144,871</td>
</tr>
<tr>
<td>Administration Fees</td>
<td>$0</td>
</tr>
<tr>
<td>Rebates</td>
<td>-$62,560</td>
</tr>
<tr>
<td>Net Plan Cost</td>
<td>$797,454</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Proposed: PBM Option 1</th>
<th>Financial Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ingredient Cost</td>
<td>$941,304</td>
</tr>
<tr>
<td>Dispensing Fees</td>
<td>$4,561</td>
</tr>
<tr>
<td>Member Contribution</td>
<td>-$144,871</td>
</tr>
<tr>
<td>Administration Fees</td>
<td>$21,930</td>
</tr>
<tr>
<td>Rebates</td>
<td>-$85,921</td>
</tr>
<tr>
<td>Net Plan Cost</td>
<td>$737,003</td>
</tr>
</tbody>
</table>

Savings

- **Proposed: PBM Option 1**
  - **Savings**: $60,451
  - **7.6%**

- **Proposed: PBM Option 2**
  - **Savings**: $114,191
  - **14.3%**
Key Takeaways

8-15% Savings
- Effective PBM contracting

% Savings
- 80%-100% of Rebates

10-30% Savings
- Evaluate the carve out potential

2-10% Savings
- Early adopter of management programs:
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2% Savings; w/channel Management addl 3%+
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Savings are estimates only
<table>
<thead>
<tr>
<th>Specialty Pharmacy Benefit Management</th>
<th>Spectrum of solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NETWORK MANAGEMENT</strong></td>
<td>Savings on unit cost discounts through Exclusive Specialty program</td>
</tr>
<tr>
<td><strong>UTILIZATION MANAGEMENT</strong></td>
<td>Significant savings through programs like Prior Authorization, Drug Quantity Management, and Preferred Specialty Management</td>
</tr>
<tr>
<td><strong>MEDICAL BENEFIT MANAGEMENT</strong></td>
<td>Savings through management of medical-billed specialty drug spend</td>
</tr>
<tr>
<td><strong>BENEFIT PLAN DESIGN</strong></td>
<td>Reduce waste and encourage adherence through formulary strategy, days’ supply design, and member cost share recommendations</td>
</tr>
</tbody>
</table>

Full spectrum of specialty drug management programs to reduce waste for plan sponsors
“The reasonable man adapts himself to the world: the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man.”

-George Bernard Shaw
Thank You
Performance Pharmacy Solutions is a product of HORIZON Health Ventures

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