Today’s Retail Pharmacy Trends
The factors impacting the business of retail pharmacy

August 2015
Knowing Your Market Helps You Stay Ahead

About This Presentation
Understanding the latest retail pharmacy trends can help you better understand the decisions that are being made by payers and PBMs. The following slides outline industry developments and their impact on your business, as well as what you can do to level the playing field:

• The rising cost of healthcare in the U.S.
• Prescription dispensing trends by outlet
• Consumers’ choice of retail pharmacy
• The factors contributing to pharmacy network decisions
The Rising Cost of Healthcare in the U.S.
Healthcare is expected to account for 20% of the nation’s economy by 2024, and will continue to have an ongoing impact on the retail pharmacy business.

Health spending in U.S. reached $3.1 trillion in 2014 (that’s $9,695 per person).

Prescription drug spending increased 12.6% last year.

19.1 million additional people to enroll in Medicare over next 11 years.

Where Prescriptions Are Being Filled at Retail

Number of 30-Day Prescriptions by Dispensing Format, 2013 vs. 2014

Chains dominate, dispensing nearly half of all retail prescriptions. Independent pharmacies, however, continue to be a substantial channel — with the number of outlets remaining steady for about a decade (approximately 20,000 locations). At the same time, mail order pharmacies are losing share.

<table>
<thead>
<tr>
<th>Dispensing Format</th>
<th>2013</th>
<th>2014</th>
<th>% Change</th>
<th>2013</th>
<th>2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chains</td>
<td>2,390</td>
<td>2,511</td>
<td>+5.1%</td>
<td>47.6%</td>
<td>49.1%</td>
<td>+141 bps</td>
</tr>
<tr>
<td>Independents</td>
<td>824</td>
<td>834</td>
<td>+1.3%</td>
<td>16.4%</td>
<td>16.3%</td>
<td>-12 bps</td>
</tr>
<tr>
<td>Mass Merchants</td>
<td>538</td>
<td>565</td>
<td>+5.1%</td>
<td>10.7%</td>
<td>11.0%</td>
<td>+32 bps</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>632</td>
<td>636</td>
<td>+.06%</td>
<td>12.6%</td>
<td>12.4%</td>
<td>-17 bps</td>
</tr>
<tr>
<td>Mail Pharmacies¹</td>
<td>633</td>
<td>572</td>
<td>-9.6%</td>
<td>12.6%</td>
<td>11.2%</td>
<td>-144 bps</td>
</tr>
<tr>
<td>Total</td>
<td>5,016</td>
<td>5,118</td>
<td>+2.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

Prescription data for all dispensing formats show 30-day equivalent scripts. Totals may not sum due to rounding. 1. Excludes Tricare prescriptions; bps = Basis Point (one hundredth of one percent; 0.01%. Source: Pembroke Consulting estimates based on IMS Health data (May 2015, revised)

Proximity and Cost Drive Consumer Decisions

While consumers choose a pharmacy mainly based on convenience and cost, about one-third still report using a second or third retail pharmacy to fill prescriptions. This creates an opportunity for their primary pharmacy to retain these scripts with delivery services, price matching and other customer services.


### Reasons Why Consumers Choose a Retail Pharmacy

- **Proximity**: 21%
- **Cost**: 13%
- **Lack of Availability**: 11%
- **Urgent Need**: 6%

### # Pharmacies Used to Meet Consumers’ Prescription Fill Needs

- **68%** used 1 pharmacy
- **27%** used 2 pharmacies
- **5%** used 3+ pharmacies
An Abundance of Retail Pharmacies

61,036 retail pharmacies nationwide

20,000 of which are independently owned

With more than 60,000 retail pharmacies in the U.S., many payers have determined that they can provide adequate pharmacy coverage to their beneficiaries with a network made up of a fraction of these outlets.
As a Result, Preferred Networks Are on the Rise

Only 7% of Med D plans had a preferred benefit structure in 2011.

By 2015, that number jumped to 87% of all Med D plans.
While Customer Loyalty Is on the Decline

Despite high satisfaction with their current pharmacy, almost 60% of senior consumers would switch to a new pharmacy to realize a co-pay savings of $10 or less.

85% would switch pharmacies if their co-pays were to rise.

And Maintaining Your Share of Seniors Is More Important than Ever

33
The average number of prescriptions for seniors (including refills)

37.9 million
beneficiaries enrolled in Part D plans in 2015, of which

80%
are in Preferred PDPs

The Bottom Line

Narrow networks have quickly grown over the past three years and will continue to grow beyond Medicare into other segments.

There is a continued trade-off of lower reimbursement rates for access to lives.

Clinical performance is rapidly increasing in importance and Star Ratings are the focus area today for health plans and PBMs.
What Can an Independent Pharmacy Do?
1. Gain and Maintain Access to Preferred Networks
(Even with the tradeoff of lower reimbursement)

Continuing to lose patients to pharmacies that are preferred isn’t sustainable … attracting new patients is key.

Pharmacy performance, especially Part D Star Rating outcomes, will continue to grow in importance for network inclusion … and so will clinical revenue opportunities.
2. Bring More Patients to Your Store

To offset lower reimbursements, you need to increase your patient volume by promoting your unique services and quality of care:

• Increase your online and social media presence and offer online refills to expand your patient base
• Build stronger relationships with local prescribers to increase patient referrals
• Try new promotions, like health screenings and customer appreciation days
3. Focus on the Overall Value of the Patient

*Not just the prescription*

_In the past, profits were based mainly on Rx margin_  

_Going forward, patient care will drive profits_

In the past, profits were based mainly on Rx margin. Going forward, patient care will drive profits.
Have You Considered Joining a Network of Like-Minded Pharmacy Owners?
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We’re Leveling the Playing Field So You Can Grow Your Business

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