Today's Retail Pharmacy Trends

The factors impacting the business of retail pharmacy

August 2015

Health Mart PHARMACY

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Health Mart is proud to be a member of the McKesson family, sharing in the collective industry knowledge and experience residing within all of the McKesson corporate affiliates. Since 1833, McKesson has been committed to the success of independent pharmacies through the delivery of innovative programs and reliable distribution services. Learn more at www.mckesson.com.

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

Source: http://www.chaindrugreview.com/rising-health-care-costs-still-a-challenge/

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.

	Prescriptions (millions)			Share of Prescriptions		
Dispensing Format	2013	2014	% Change	2013	2014	Change
Chains	2,390	2,511	+5.1%	47.6%	49.1%	+141 bps
Independents	824	834	+1.3%	16.4%	16.3%	-12 bps
Mass Merchants	538	565	+5.1%	10.7%	11.0%	+32 bps
Supermarkets	632	636	+.06%	12.6%	12.4%	-17 bps
Mail Pharmacies[1]	633	572	-9.6%	12.6%	11.2%	-144 bps
Total	5,016	5,118	+2.0%	100.0%	100.0%	

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)

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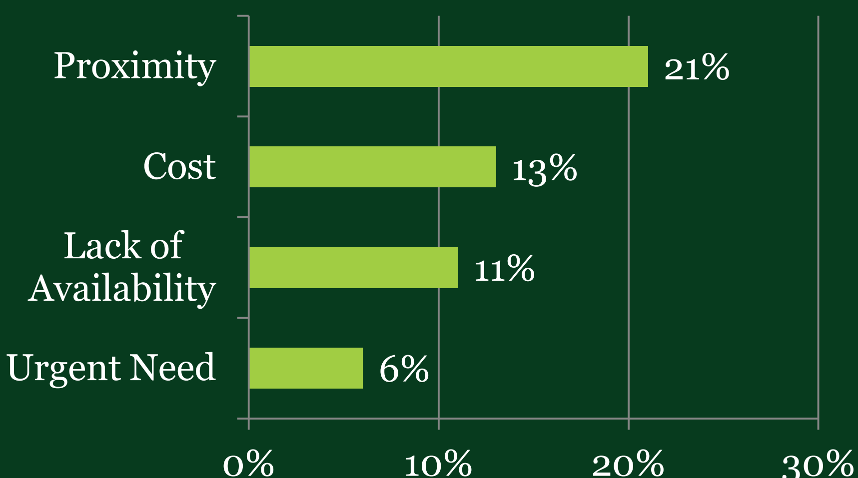
http://www.drugchannels.net/2015/06/2014s-winners-and-losers-prescription.html

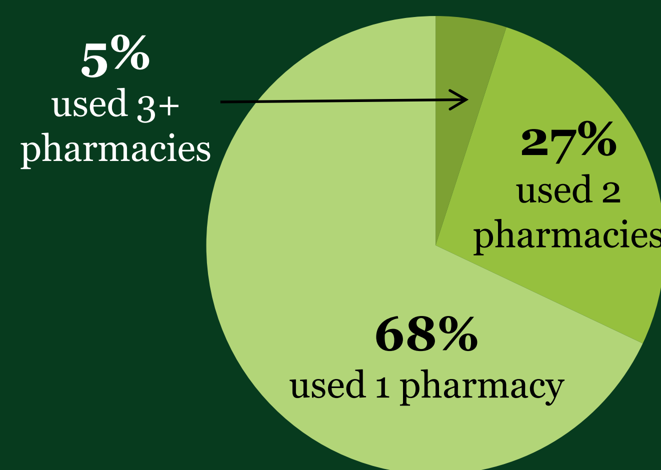
Proximity and Cost Drive Consumer Decisions

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

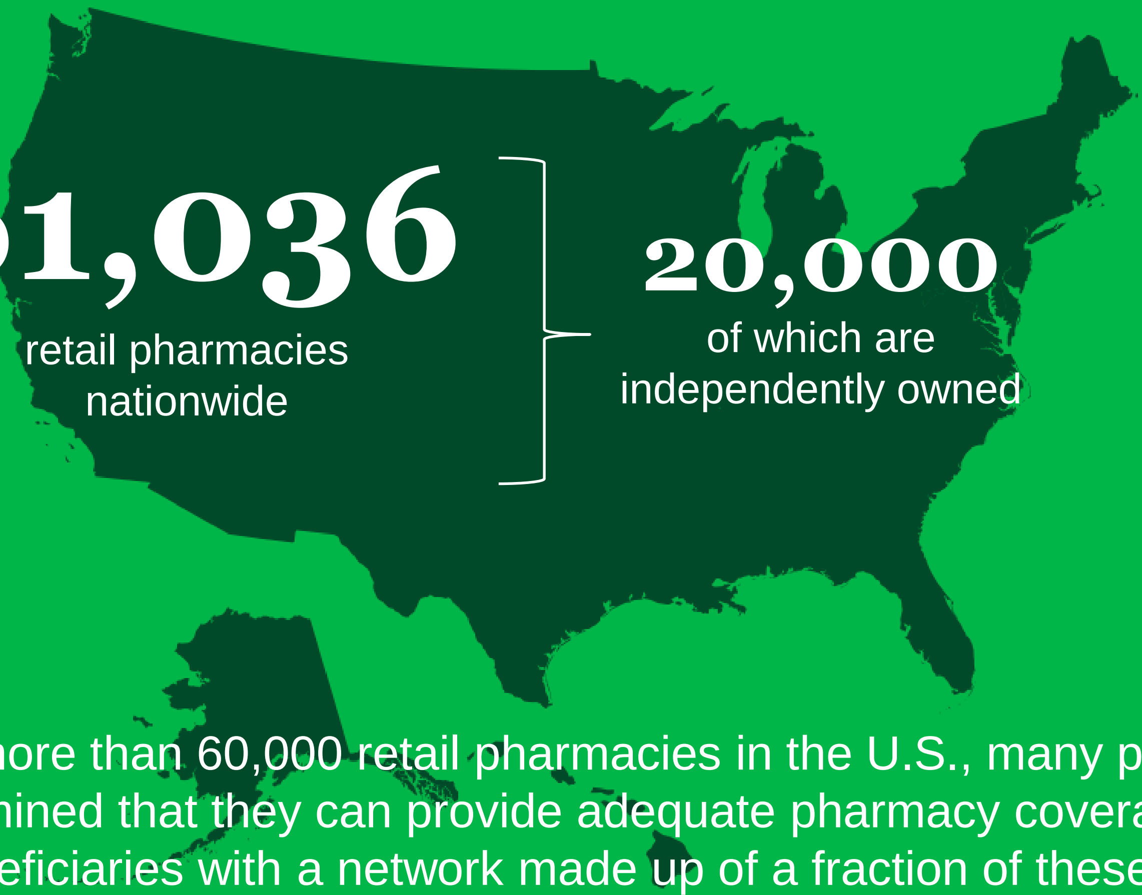


Pharmacies Used to Meet Consumers' Prescription Fill Needs



Source: *Drug Store News*. "How consumers choose a primary pharmacy." April 2012. http://drugstorenews.com/article/how-consumers-choose-primary-pharmacy?ad=consumer-insights

An Abundance of Retail Pharmacies



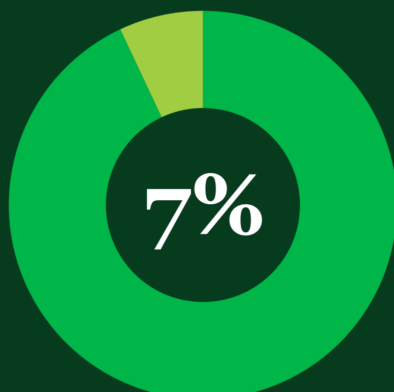
61,036
retail pharmacies nationwide

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.

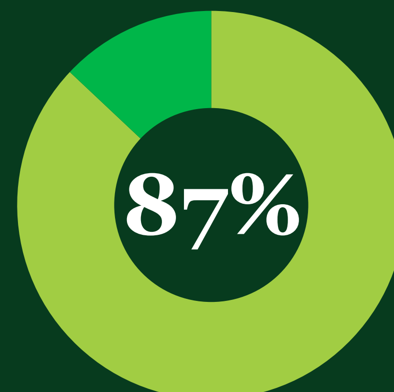
As a Result, Preferred Networks Are on the Rise

2011



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

2015



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%

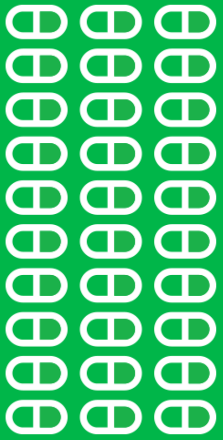
would switch pharmacies if their co-pays were to rise

Sources: http://www.drugstorenews.com/sites/drugstorenews.com/files/082712_PatientViews.pdf, DrugChannels.net and DrugStoreNews.com

And Maintaining Your Share of Seniors Is More Important than Ever

33

The average number
of prescriptions
for seniors
(including refills)

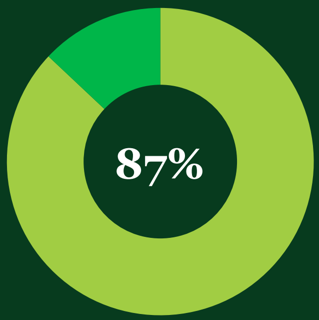


37.9 million

beneficiaries enrolled in Part D plans in 2015, of which

Sourcehttp://www.drugstorenews.com/sites/drugstorenews.com/files/082712_PatientViews.pdf, DrugChannels.net and DrugStoreNews.com

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

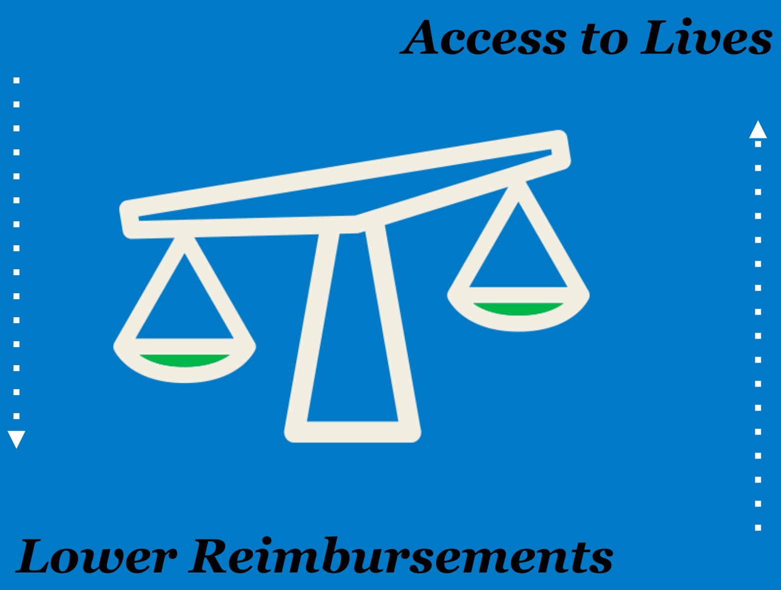
What Can an Independent Pharmacy Do?

1. Gain and Maintain Access to Preferred Networks

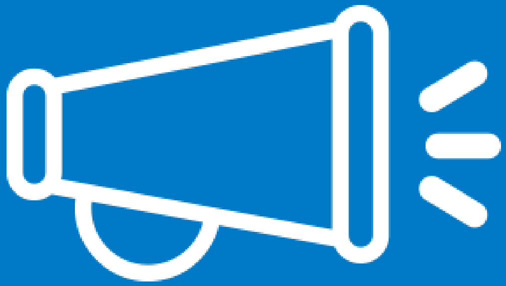
(Even with the tradeoff of lower reimbursement)

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



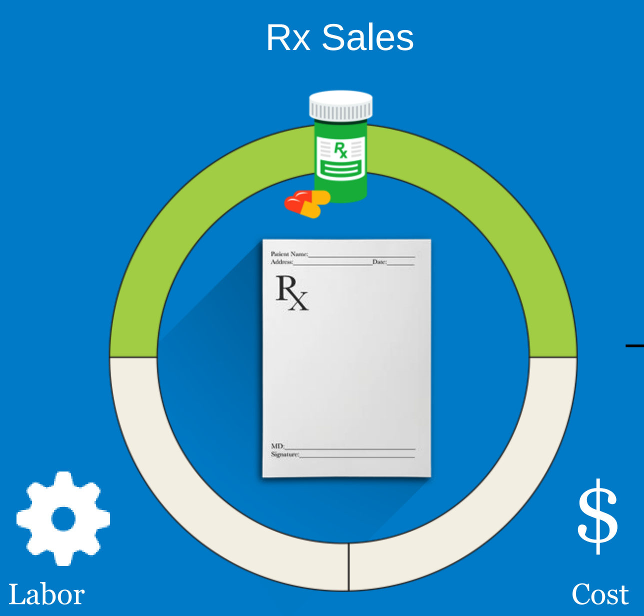
To offset lower reimbursements, you need to increase your patient volume by promoting your unique services and quality of care:

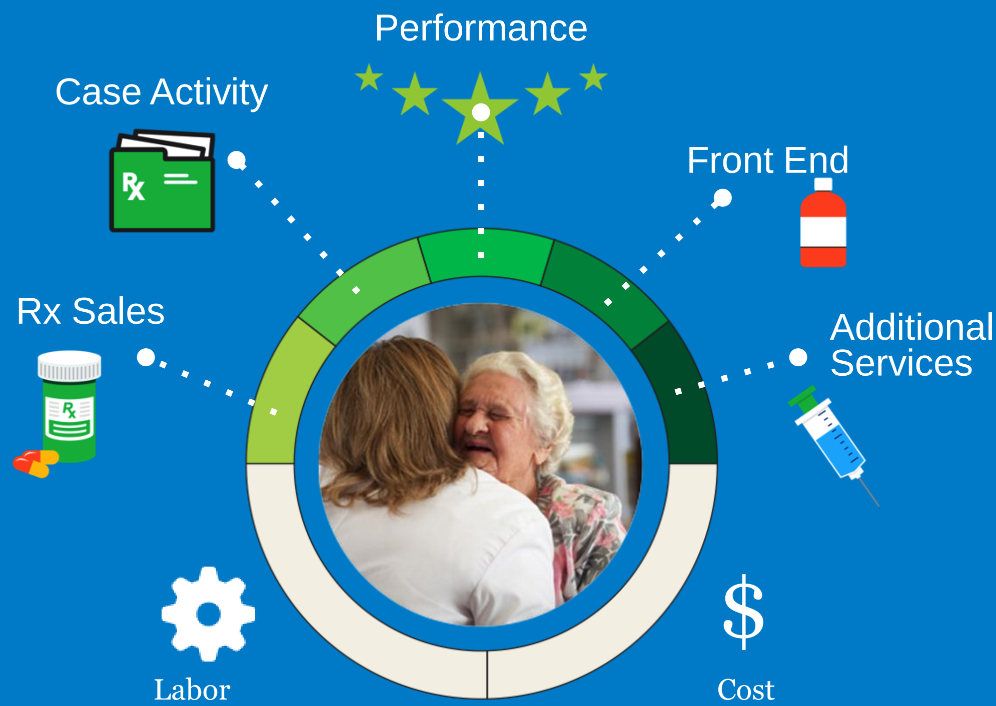
- Increase your online and social media presence and offer online refills to expand your patient base
- Build stronger relationships with local prescribers to increase patient referrals
- Try new promotions, like health screenings and customer appreciation days

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*





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