



INVESTOR ALERT

the future of pharmacy solutions



SECTOR TO WATCH:

Pharmacy Solutions Organizations Set to Experience Meaningful Growth over Next Decade



The year 2020 marked an incredible feat for the global life science sector, which delivered vaccines for COVID-19 with unprecedented ingenuity, agility and speed. The global impact of this achievement has created a significant opportunity for the entire sector to seize this momentum and deliver more powerful breakthrough innovations at accelerated speed to treat and cure disease, helping people around the world live healthier, longer lives.

Yet the availability of a revolutionary medication does not ensure it will be delivered to the correct patients, at the right time, in the appropriate setting and at an affordable cost. Most traditional health care payers — including health plans, self-funded employers, accountable care organizations and government entities — are not able to manage the intersection of wholesale, retail and consumer distribution of pharmaceuticals on their own. Additionally, they are not able to provide the ongoing patient touchpoints to ensure people are taking their medication safely over time, long after they have been discharged from a hospital or walked through the pharmacy doors.

At the same time, the rapid changes and intense growth that the pharmaceutical industry is poised to experience over the next decade will only intensify the challenges these payers will face. Only a handful of organizations that specialize in pharmacy solutions, traditionally known as either pharmacy benefit managers (PBMs) or health services organizations, have the integrated experience, partnerships and volume-purchasing power to drive down list prices, as well as the innovative, patient-centered resources to deliver medications safely, effectively and affordably to the people who need them. Premier organizations with these in-demand skills are set to experience accelerated growth over the next decade.



This paper explores the key impacts expected from the next decade of pharmaceuticals:

1. Payers increasingly need innovative solutions to address both the surging demand and soaring costs for prescription drugs.
2. Pharmacy solutions organizations are rising to meet the unique challenges payers face.

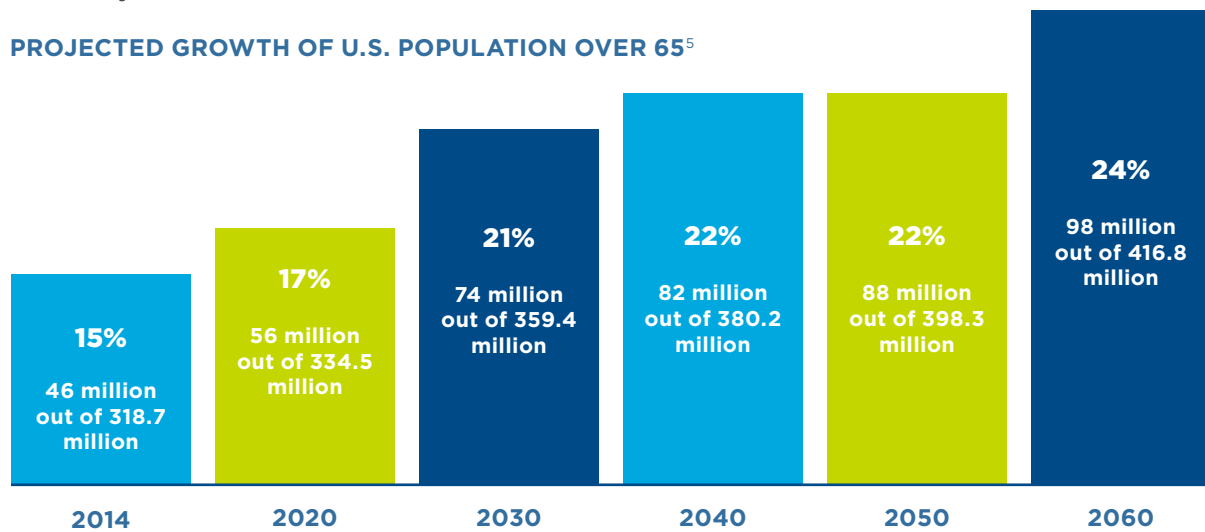
1 | PAYERS NEED INNOVATIVE SOLUTIONS TO ADDRESS SURGING DEMAND AND SOARING COSTS FOR PRESCRIPTION DRUGS

Retail prescription volume in the United States is expected to increase by 9% over five years (from 4.55 billion scripts in 2020 to 4.98 billion scripts by 2025).¹ Net prescription medicine spending in the United States is projected to increase by \$76 billion, or 22%, over five years (from \$344 billion in 2018 to \$420 billion in 2023).² Key reasons for these increases include an aging population, the growing prevalence of chronic conditions, rising list prices, and the influx of high-cost specialty therapies.

Population Growing Older and Sicker, Faster than Before

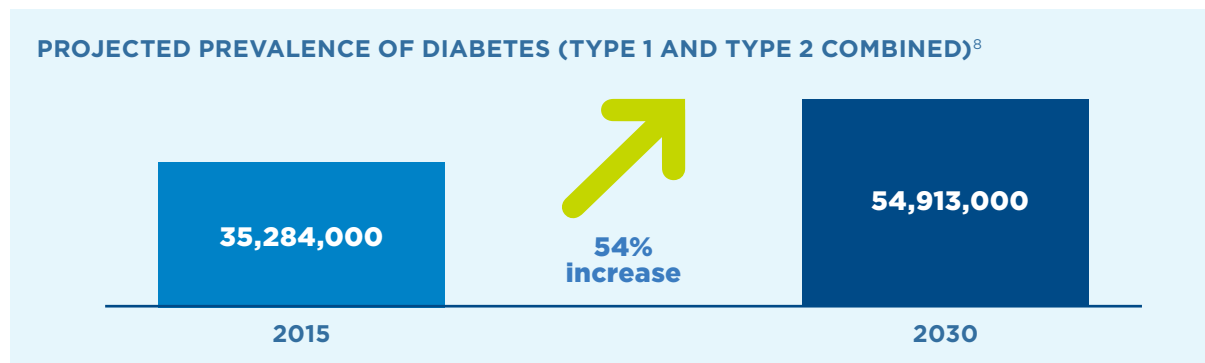
The U.S. population is aging rapidly, with more than 10,000 adults turning 65 each day.³ By 2030, one-fifth of the U.S. population will be 65 and older; by 2060, that portion will be nearly one-fourth.⁴

PROJECTED GROWTH OF U.S. POPULATION OVER 65⁵



Trends also predict an increase in chronic disease that will need to be managed with medication. For example, a *New England Journal of Medicine* study estimates that, by 2030, nearly 1 in 2 adults in the United States will be obese, with nearly 1 in 4 adults projected to have “severe obesity”⁶ — which means an increased potential for high blood pressure and diabetes in the years ahead. In addition, the Institute for Alternative Futures diabetes forecasting model projects that the total number of people with type 1 and type 2 diabetes will increase to 54.9 million people by 2030, a 54% increase from 2015.⁷

PROJECTED PREVALENCE OF DIABETES (TYPE 1 AND TYPE 2 COMBINED)⁸



For those 65 and older, co-occurring chronic conditions are becoming more common. More than 50% of elderly Americans have at least two chronic conditions,⁹ and 36% of elderly Americans reported having three or more chronic conditions.¹⁰ Multiple conditions means having to take multiple medicines to treat them. An estimated 39% of adults 65 and older take five or more prescription medications at any one time.¹¹

Prescription Drug Prices Continue to Skyrocket

Another reason for the projected increase in pharmacy spend is continuously rising list prices. This is especially true for the most costly ones. In a recent research study listing the 20 most expensive medications that can be purchased at a pharmacy and self-administered, 12 of these had a price increase in January 2021. Four of those were among the top five most expensive on the list. In fact, a majority of these high-cost medications have had annual price increases for a number of years.¹²

JANUARY JUMP:

636 medications had their prices increased by pharmacy manufacturers in the first week of January 2021¹³

- ~5%** median price hike
- 95%** are brand name drugs
- 99%** of increases were above the rate of inflation

A GROWING TREND:

Since January 2016, list prices for commonly used brand-name drugs have increased by

36.0%¹⁴



Pharmaceutical Pipelines Are Dominated with High-Cost Specialty Drugs

The majority of medications in the pharmaceutical development pipeline are specialty medicines designed to treat individual chronic and complex conditions, including previously untreatable or poorly managed maladies (e.g., rare diseases, genetic disorders and cancers) afflicting relatively few people. Given their complex and costly development, manufacturing and handling needs, combined with minimal competition and a small patient population to treat, these medicines have much higher per-patient costs than traditional medication.¹⁵ In fact, specialty medications now account for over half of total pharmacy spend.¹⁶

In addition to added costs, the rise in specialty medications is expected to add more procedural complexity to the health care system. A number of specialty medications require special handling, including using protective gear and maintaining a certain temperature during shipping and storage. Specialty medications also typically require stricter adherence and patient monitoring than traditional therapies.

From 2013 to 2018:



241 were specialty medications¹⁷

Specialty medicines represented only 2% of total prescription volume¹⁸



However, they account for 51% of the nation's pharmacy spend¹⁹



Among the most expensive specialty medications are gene and cell therapies, which offer potential curative treatments for life-threatening and debilitating diseases such as Alzheimer’s disease and cancer. However, due to small patient populations, the high prices of the therapies — millions of dollars in some cases — threaten coverage and access for patients who may benefit. For example, chimeric antigen receptor (CAR) T-cells used in certain cancer treatments can cost patients approximately \$350,000 to \$475,000 for one dose. Currently, there are only a handful of these therapies approved by the FDA, but many more are currently in development. One analysis predicts that by 2030, there could be up to 60 marketed cell and gene therapies treating only about 50,000 patients per year.²⁰ While only two CAR T-cell therapies have been approved by the FDA for use today, approximately 150 CAR T-cell therapies are being investigated in clinical trials within the G7 countries.²¹

TODAY

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The growing trends in the demand for chronic care medications and the supply of pharmaceutical innovations are expected to drive higher health care expense not just for payers, but for everyone. Without a sustainable and effective solution, these rising costs may limit patient access to the medications needed to improve their health and well-being, which will add further financial strain on the health care system.

2| PHARMACY SOLUTIONS ORGANIZATIONS ARE RISING TO MEET THE UNIQUE CHALLENGES PAYERS FACE

With more people taking more medication for chronic and complex conditions, as well as an increase in high-cost specialty medications being brought to market, health care costs will continue to rise.

In order to ensure the most effective pharmaceutical treatments possible, they must be affordable, and patients must properly take their medications as prescribed over time. Health care providers, insurers, pharmacies and government entities have relied on pharmacy solutions organizations (PBMs and health services companies) to help them achieve those goals.

Pharmacy solutions organizations currently serve more than 266 million people in the United States²⁴ and are on track to save plan sponsors and consumers more than \$1 trillion in pharmacy costs by 2029.²⁵ This section of the paper will explore the three key ways to achieve this outcome, which include how these organizations are leveraging and expanding their capabilities to:

- › **Drive affordable solutions** to help patients access the chronic and breakthrough medications they need. This involves aggregating pharmaceutical buyers and partnering closely with all entities within the supply chain to enable volume discounts for medications, as well as encouraging competition to help drive down overall costs.
- › **Connect across a fragmented health care system**, in which the responsibility for patient follow-up and engagement, treatment management, and medication reconciliation can vary from care setting to care setting. Being able to connect the patient, all treating specialists and other care stakeholders is crucial to ensure the patient properly follows the treatment plan.
- › **Harness patient data** to ensure successful outcomes. This means having intensive access to this data, as well as the expertise to analyze it, to be able to look across a patient's prescriptions to head off potential adverse interactions and monitor for medication adherence.



Driving affordable solutions

Pharmacy solutions organizations have both extensive buying power and decades of experience in negotiating for rebates and volume discounts from pharmaceutical manufacturers. For the more expensive pharmaceutical innovations, pharmacy solutions organizations create alternative distribution channels and novel payment systems, such as pay-over-time and risk-sharing models. These efforts help drive savings for payers and lower out-of-pocket costs for patients.

From 2020 to 2029, pharmacy solutions organizations are estimated to save plan sponsors and consumers more than \$1 trillion²⁶

Over \$512B

in savings for commercial plan sponsors and their members

Over \$445B

in savings for Medicare Part D and its beneficiaries

Over \$46B

in savings for managed Medicaid plans

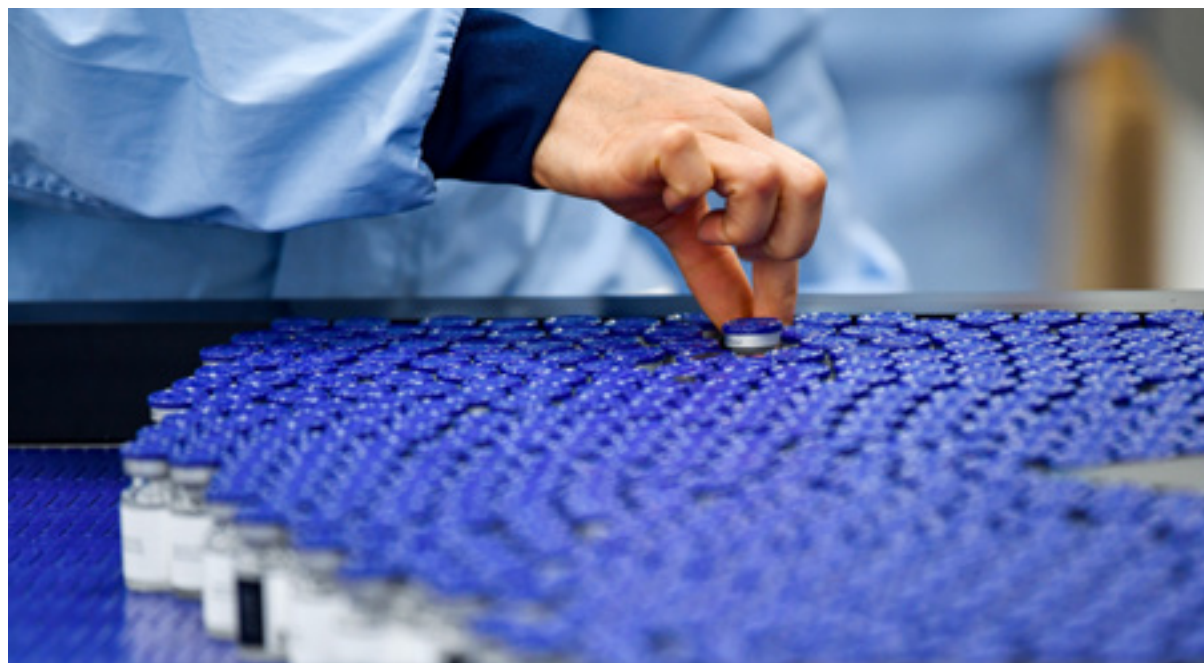
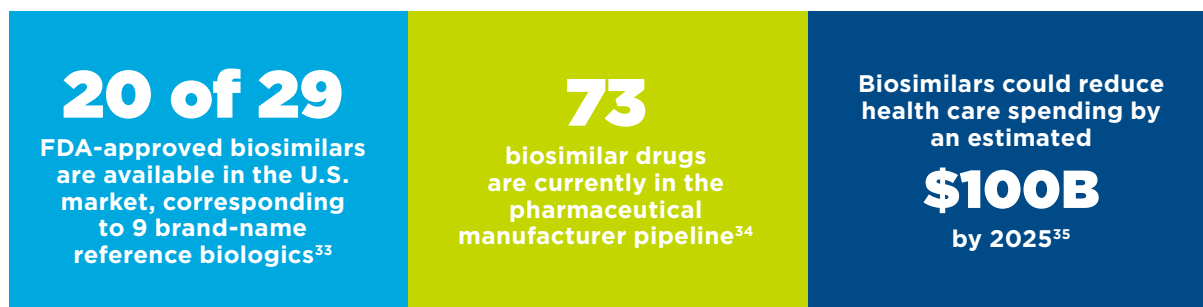
“ [Organizations like] PBMs negotiate drug benefits on behalf of insurance companies, large employers, unions, state Medicaid programs, and other large buyers of prescription drugs. **They are the only mechanism in the drug supply chain mitigating the impact of high drug prices on consumers.**”²⁷

*Ike Brannon, Senior Fellow, Jack Kemp Foundation
Tony LoSasso, Professor of Economics, DePaul University*

Competition is important for driving affordability. Through value-based contracts and formularies that include generics and biosimilars, pharmacy solutions organizations help promote competition in the pharmaceutical industry.

In fact, pharmacy solutions organizations were among the first to encourage the use of generics as an affordable alternative to expensive brand-name pharmaceuticals. Right now, generic medications comprise 90% of all prescriptions in the United States,²⁸ but account for 20% of the U.S. pharmacy spend.²⁹ Regardless, generics generated \$2.2 trillion in savings over a 10-year period (2010-2019).³⁰

The rise of competitive alternatives to high-cost brand-name specialty medications will play an important role in lowering pharmaceutical costs overall. A key example is biosimilars, medications nearly identical to the FDA-approved biologic treatments used in the treatment of complex, rare, and genetic disorders such as cancer, rheumatoid arthritis, and multiple sclerosis. Biologics today can cost approximately \$10,000 per treatment regimen³¹ because some of them have patent protections that make them the only treatment available. However, 66 biologic drugs currently in the market will have patents expire by 2025,³² which will open the door for increased biosimilar competition.



Connecting Across a Fragmented Health Care System

Pharmacy solutions organizations provide care coordination and medication management across all care settings. This coordination is especially valuable with more people needing treatment for chronic conditions, because such patients often receive services from several specialists and can have multiple medications from different prescribers, and may require more high-touch oversight. Pharmacy solutions organizations can help ensure these patients are taking their medications as prescribed over time. They can also create a complete picture of all prescriptions to identify and prevent any potential adverse interactions and improve individual safety.

By working with all providers and following up with the patients themselves over the entire course of treatment, pharmacy solutions organizations help improve adherence and treatment outcomes. Clinically backed formularies enable providers to start patients on a medication treatment once they are diagnosed. Refill reminders and automatic refill programs enable timely and consistent delivery of medications and help patients stay on their medication regimen. By leveraging their connections to pharmacies and treating providers, pharmacy solutions organizations can continuously monitor patient progress to stay on top of side effects and facilitate any need to switch medications as quickly as possible.

By improving medication management and patient adherence in diabetes patients, pharmacy solutions organizations helped prevent the following in one year:³⁶



“Through specialty pharmacy services, these organizations will help extend and improve the quality of life for patients with multiple sclerosis and rheumatoid arthritis by approximately **1 million Quality Adjusted Life Years** over 10 years.”³⁷

Pharmaceutical Care Management Association

Harnessing patient data to enhance pharmacy treatment

Claims data analysis further enables pharmacy solutions organizations to monitor patient drug adherence, as well as support effective treatment management and medication reconciliation. What's more, these organizations can apply treatment and outcomes data toward predictive models that inform prescribing doctors of the medication options that would be the most cost-effective for their patients' specific conditions as well as their particular situations. By leveraging data-driven insights and facilitating a greater coordination of information with all care stakeholders, pharmacy solutions organizations can help ensure patients get the right medication treatment, in the right dose, and for the right duration.

As innovative pharmacy interventions continue to come to market, pharmacy solutions organizations have invested heavily in analytics capabilities and technology infrastructures that go beyond the pharmacy counter to support new digital therapeutic applications. These advancements aim to meet the needs of patients when and where they are – identifying appropriate interventions, support and care management needs to help improve long-term outcomes and reduce wasteful, redundant spend to the health care system.



“Pharmacy claims data serve as a powerful resource to identify multiple types of care issues. No entity is in a better position to identify medication-free gaps between prescription refills or adherence issues..”³⁸

The American Journal of Pharmacy Benefits

CONCLUSION

The next decade will see a surge of both demand and innovation in the pharmaceutical services industry. The expected explosion of chronic care prescriptions among the aging population, as well as breakthrough specialty medications and gene and cell therapies, will drive exorbitant expense for the health care system. Fortunately, pharmacy solutions organizations have decades of experience plus the bargaining power to negotiate for lower costs in order to increase patient access to these new treatments as they become available. These organizations also have the expertise, resources and data capabilities to improve outcomes by maintaining patient adherence and ongoing high-touch care management. Because of their vital role in ensuring affordable, appropriate and effective medicinal treatment, pharmacy solutions organizations are in a position to experience fervent growth alongside the pharmaceutical industry over the next 10 years.



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