HOMETOWN PHARMACY

Governor's RX Pricing Task Force Presentation

HOMETOWN PHARMACY

What does AB 114 do?

- Helps patients:
  - Gag clause; Allows pharmacists to advise patients on the most cost-effective treatments for themselves.
  - Clawbacks; Prohibits PBM from making a consumer pay a higher cost sharing than the cash price
  - Requires 30 days' notice for formulary removal or tier elevation

- Protects pharmacists;
  - pharmacies participating in a PBM's preferred network, that pharmacy accreditation standards will be consistent.
  - PBM may not retroactively deny or reduce a claim after adjudication, UNLESS there was fraud, an error, or federal law requires them to change it
  - PBM can only recoup amount paid in excess of the otherwise allowable claim amount
  - Provides for various procedures and safeguards against abusive PBM practices for routine audits

- Creates a regulatory framework for PBMs;
  - Requires PBMs to be licensed by OCI. Begins a regulatory framework and provides consumers and providers a vehicle to share business practice concerns.
  - requires PBM's to submit annual transparency reports to OCI.

What is missing?

- Disclosure of conflicts of interest?
- mid-year non-medical switching protections for patients, allowing patients the security of knowing their treatment plans would not be changed mid-year for reasons unrelated to health or safety.
- Protection from predatory audits
- ***Transparency for patients, taxpayers, employers, and citizens***

Hometown Pharmacies

Family of Independent Pharmacies (67 Wi and 3 in Upper Michigan)

- High patient care levels - we know our patients and have high levels of personal interaction and information sharing
- Built to be a high service level to patients and very cost efficient for employers and patients
- We worked hard and took the risk of filling some of the voids of the Shopko departure

Hometown Innovation:

- Vivitrol protocols to help opioid problem
- Drug neutralization pouches for safe opioid disposal
- Proactive healthcare initiatives

5 Costs to Deliver Prescription Services	Compared to Big chains	Comments
1. Cost of Drug	-$1.86	We combine with largest independents and grocery store chains (7 billion) We still don't get to big 3 chain level (oligopsony/ monopsony) but we are closer than most people anticipate
2. Cost of labor to dispense the RX	-$2.00	We spend more time with the patient - it costs us more - we do this with purpose and intent as we believe patient interaction is very important and leads to better health outcomes and lower overall costs - we actually work to help people move away from prescriptions when possible
3. Cost of local overhead	$3.84	We are more efficient as our stores are on main street versus most expensive corner in town - they have more costs to heat, cool insure
4. Cost of corporate overhead	$9.32	We run an efficient operation - we have no need for an army of attorneys and accountants to answer to Wall Street Our CEO makes the same as a pharmacist
5. Ownership expectations (Profit)	$10.00 +++	Main street dividend versus Wall Street Extrapolation
Total:	$19.32 +++	

Point of slide is to give evidence that independent pharmacies can compete in a normal unbiased free market environment.

HOME TOWN PHARMACY

Summary

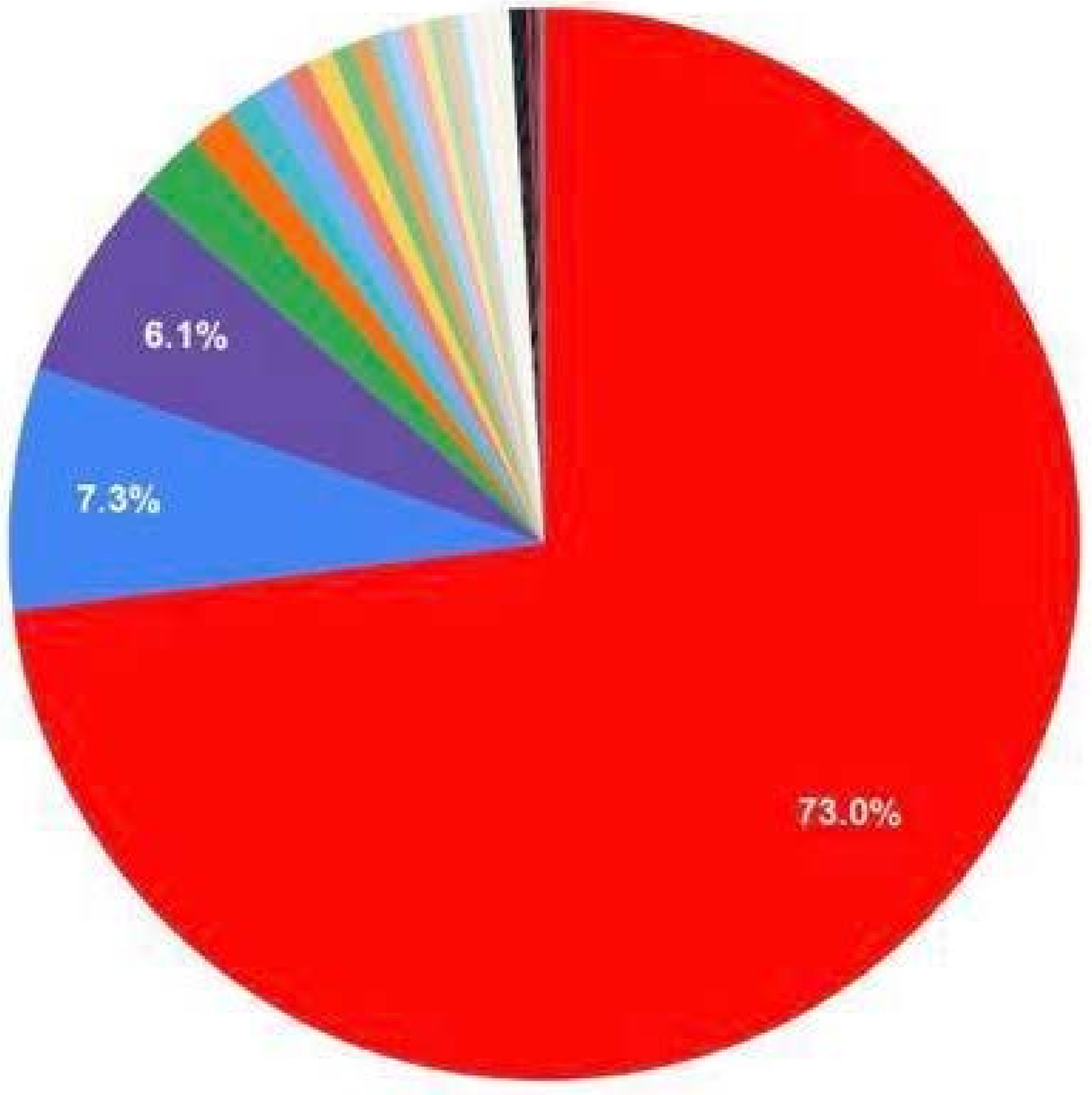
We are built to be sustainable - except we didn’t foresee the market not having checks and balances - preferred networks and exclusionary contracts effectively exclude patients and employers from the most cost effective pharmacy solution.

Smoke and mirror communications about chain pricing being better is refuted multiple times by reviewing available data.

Chains have a lower limit (WAC - 72) and when PBMs offer WAC -80 - they pay Independents less (Wac - 90). In essence we are their safety net.

HOME TOWN PHARMACY

2018 National Health Expenditure: $3.6 Trillion



- Non-Healthcare Providers
- Physicians
- Registered Nurses
- Home Health Aides and Personal Care Aides
- Nursing Assistants and Orderlies
- Pharmacists
- Licensed Practical Nurses
- Dentists
- Nurse Practitioners, Nurse Midwives, and Nurse Anesthetists
- Medical Assistants
- Physical Therapists
- Clinical Laboratory Technologists and Technicians
- Dental Hygienists
- Radiologic and MRI Technologists
- Pharmacy Technicians
- Dental Assistants
- Physician Assistants
- Speech-Language Pathologists
- Occupational Therapists
- EMTs and Paramedics
- Diagnostic Medical Sonographers and Cardiovascular Technologists and Technicians, Including Vascular Technologists
- Respiratory Therapists
- Physical Therapist Assistants and Aides
- Massage Therapists
- Surgical Technologists

15 more

SOURCE: Professionally active physician data found at https://www.kff.org/state-category/providers-service-use/physicians/. Aggregate median salaries for healthcare providers found at https://www.bls.gov/ooh/healthcare/. Total National Health Expenditure found at https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NHE-Fact-Sheet.

Created by Citizen Health. Help us fix this mess @ HQ.CitizenHealth.io

HOMETOWN PHARMACY

UNITED STATES PHARMACEUTICAL SYSTEM

	MANUFACTURERS		WHOLESALERS		PBMS		RETAIL	
	RISK	REWARD	RISK	REWARD	RISK	REWARD	RISK	REWARD
RESEARCH & DEVELOPMENT	✓	✓	✗	✗	✗	✓	✗	✗
MANUFACTURERS	✓	✓	✗	✓	✗	✓	✗	✗
DISTRIBUTION & LOGISTICS	✓	✓	✓	✓	✗	✓	✗	✗
PATIENT INTERACTION & RETAIL	✗	✗	✗	✗	✗	✓	✓	✓
WHO IS REGULATED	YES		YES		NO		YES	
WHO CREATES REGULATION	NO		NO		YES		NO	

HOMETOWN PHARMACY

HUMALOG

Where the Money *Really* Goes

Pharmacists United for TRUTH & TRANSPARENCY

ELI LILLY
(Manufactures the Insulin Drug)

$135* NET PRICE

+

BROKERS

PHARMACY BENEFIT MANAGERS (PBM)
(Negotiates Discounts & Rebates; Contracts with Groups & Insurers to Manage Pharmacy Benefits)

HEALTH INSURERS

$25 | $407

$432

+

WHOLESALERS
(Purchases from Drug Manufacture & Sells to Pharmacies)

$20

+

PHARMACY RETAILERS
(Sells & Dispenses Drug to Patients)

$7**

=

PATIENTS

$594 PHARMACY COUNTER PRICE

DEMAND TRANSPARENCY

**As reported by Eli Lilly 3/24/2019.*

***Conservative estimate, actual price may be closer to $1. Most pharmacies in contact with PUTT have reported losses on all insulin dispensed due to below-cost reimbursements.*

TruthRX.org

HOME TOWN PHARMACY

EPIGATE

Where the Money *Really* Goes

Pharmacists United for TRUTH & TRANSPARENCY

MYLAN
(Manufactures the Epi-Pen Drug)

BROKERS

PHARMACY BENEFIT MANAGERS (PBM)
(Negotiates Discounts & Rebates; Contracts with Groups & Insurers to Manage Pharmacy Benefits)

HEALTH INSURERS

$25

$259

WHOLESALERS
(Purchases from Drug Manufacture & Sells to Pharmacies)

PHARMACY RETAILERS
(Sells & Dispenses Drug to Patients)

PATIENTS

$274 NET PRICE + $284 + $20 + $30 = $608 PHARMACY COUNTER PRICE

DEMAND TRANSPARENCY

TruthRX.org

HOME TOWN PHARMACY

5.2 Fiduciary Acknowledgements. ESI offers pharmacy benefit management services, products and programs ("PBM Products") for consideration by all clients, including Sponsor. The general parameters of the PBM Products, and the systems that support these products, have been developed by ESI as part of ESI's administration of its business as a PBM. The parties agree that they have negotiated the financial terms of this Agreement in an arm's-length fashion. Sponsor acknowledges and agrees that, except for the limited purpose set forth in Section 2.3(c), neither it nor the Plan intends for ESI to be a fiduciary (as defined under ERISA or state law) of the Plan, and, except for the limited purpose as set forth in Section 2.3(c), neither will name ESI or any of ESI's wholly-owned subsidiaries or affiliates as a "plan fiduciary." Sponsor further acknowledges and agrees that neither ESI nor any of ESI's wholly-owned subsidiaries or affiliates: (a) have any discretionary authority or control respecting management of the Plan's prescription benefit program, except as set forth in Section 2.3(c), or (b) exercise any authority or control respecting management or disposition of the assets of the Plan or Sponsor. Sponsor further acknowledges that all such discretionary authority and control with respect to the management of the Plan and plan assets is retained by Sponsor or the Plan. Upon reasonable notice, ESI will have the right to terminate PBM Services to any Plan (or, if applicable, Members) located in a state requiring a pharmacy benefit manager to be a fiduciary to Sponsor, a Plan, or a Member in any capacity.

HOMETOWN PHARMACY

PATIENT LOSES- PLAN SPONSOR LOSES-PHARMACIST LOSES
PBM WINS

PBM, <u>because of rebates</u>, disincentivizes the patient from choosing the Generic ($235 copay) for the more expensive brand name ($15 copay);

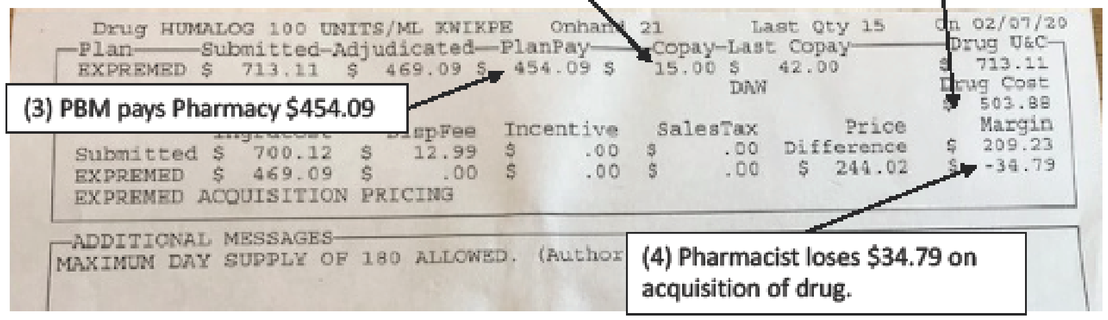
- <u>Plan sponsor loses</u> because they are paying nearly double for the more expensive drug.
- <u>Patient loses</u> because the cost will eventually show up in the premium.
- <u>Pharmacist loses</u> because they aren't being fully reimbursed for the cost of the drug in either scenario, let alone covering dispensing.

Humalog 100 UNITS/ML (Brand name Insulin)

(1) Brand name drug cost $503.88 (straight cost of the Drug to Pharmacy*)

(2) PBM sets patient copay at $15 for brand name drug

(3) PBM pays Pharmacy $454.09



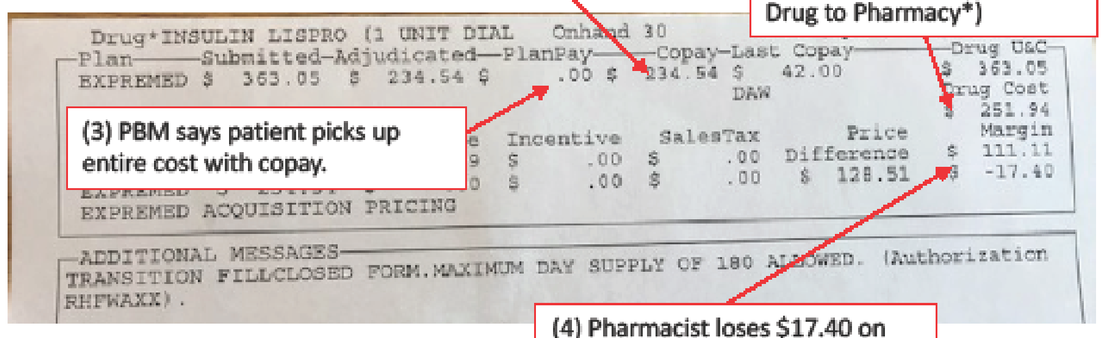
(4) Pharmacist loses $34.79 on acquisition of drug.

LISPRO (1 unit dial) (Generic Insulin)

(2) PBM says patient copay on generic is $234.54

(1) Generic drug cost $251.94 (straight cost of the Drug to Pharmacy*)

(3) PBM says patient picks up entire cost with copay.



(4) Pharmacist loses $17.40 on acquisition of drug.

* Straight cost– what the pharmacy paid the distributor for the pharmaceutical, does not included embedded pharmacy costs

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Traditional PBMs

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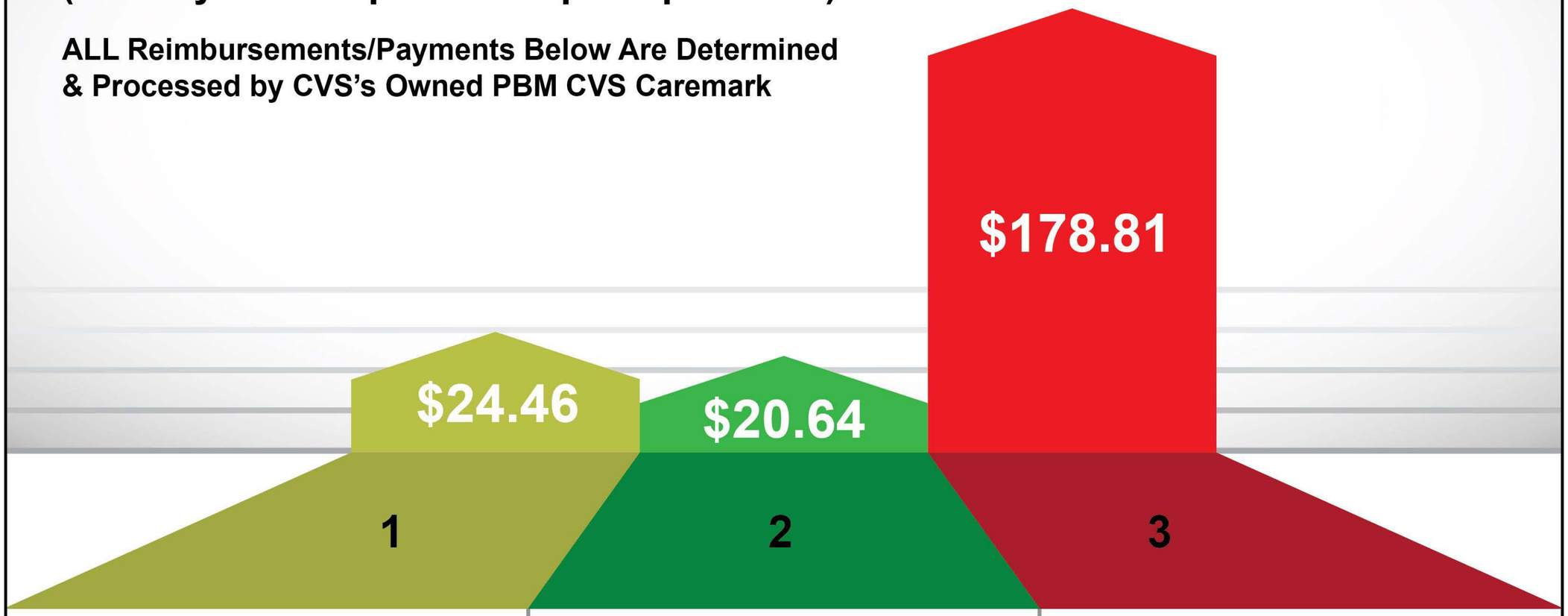
Is this why the only coverage allowed is through mail ORDER PHARMACY OWNED BY insurance's PBM?

(Usually CVS/Express Scripts/Optum RX)

ALL Reimbursements/Payments Below Are Determined & Processed by CVS's Owned PBM CVS Caremark



No Insurance Good RX Discount Card	How Much CVS Reimbursed/Paid Our Preferred Pharmacy Only After Media Involvement ($10 Copay)	How Much CVS Caremark Reimbursed/Paid Their Mail Order Pharmacy 8x More Than Our Preferred Pharmacy ($0 Copay)

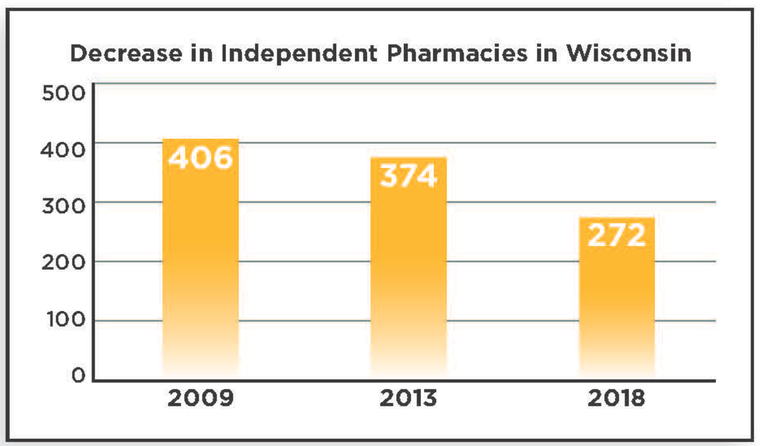
PHARMACISTS UNITED FOR TRUTH AND TRANSPARENCY **TruthRx.org**

HOMETOWN PHARMACY

NCPA NATIONAL COMMUNITY PHARMACISTS ASSOCIATION

WISCONSIN INDEPENDENT PHARMACIES AND PATIENTS AT RISK

- From 2009-2018, **33% of Wisconsin's independent pharmacies have closed.**[3]
- From 2013 to 2018, independent **pharmacy closings in Wisconsin are over 6 times higher** than the national average.[4]
- According to the United States Census Bureau, **Wisconsin's senior population has increased by 15.4%** from 2010 to 2017, increasing the demand for pharmacy services in the state.[5]



3 *NCPA 2010 Digest by Cardinal Health (2010); Cf. NCPA 2018 Digest by Cardinal Health (2018).*

4 *NCPA 2014 Digest by Cardinal Health (2014); Cf. NCPA 2018 Digest by Cardinal Health (2018).*

5 *United States Census Bureau, American Fact Finder, 2010 Wisconsin, available at https://factfinder.census.gov/faces/nav/jsf/pages/community_facts.xhtml (last visited June 10, 2019); Cf. United States Census Bureau, American Fact Finder: 2017 Wisconsin, available at https://factfinder.census.gov/faces/nav/jsf/pages/community_facts.xhtml (last visited June 10, 2019).*

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All PBMs are Not Created Equal

"...that current PBM models lack transparency and are overly complicated."

Transparency & Pass-Through are not the same.

PBM Model	Revenue Streams	Disclosure
Traditional	No limits	None
Transparent	Some limits	Required
Pass-Through	Strict limits	Required
Hybrid	Varies	Sometimes

Traditional
PBM retains a network spread, rebates, and other revenues streams as compensation.

Pass-Through
PBM charges client the exact amount it pays pharmacies. PBM is compensated with an agreed upon fee for service.

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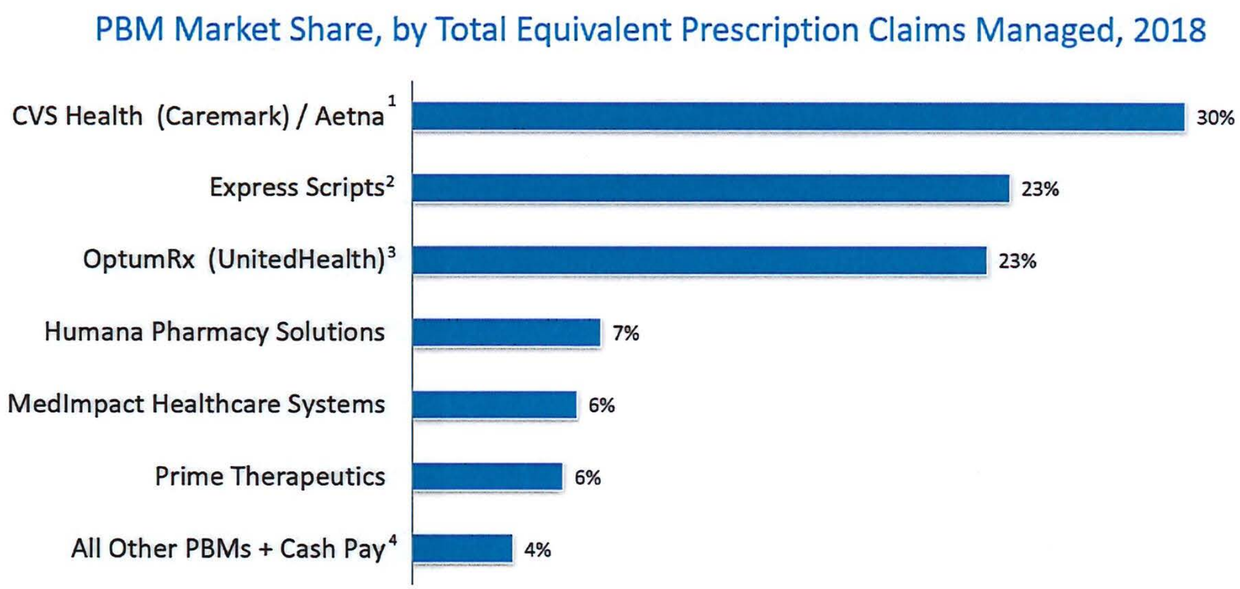
Who are PBMs?

76% of the all prescription claims are processed by the "Big 3"



1. Includes pro forma combination of claims processed by Aetna. Excludes double counting of network claims for mail choice claims filled at CVS retail pharmacies.
2. Includes Anthem. During 2019, Anthem claims will be transitioning to IngenioRx.
3. Includes Cigna. By the end of 2020, Cigna claims will transition to Express Scripts.
4. Figure includes some cash pay prescriptions that use a discount card processed by one of the 6 PBMs shown on the chart.

Source: Drug Channels Institute research and estimates. Total equivalent prescription claims includes claims at a PBM's network pharmacies plus prescriptions filled by a PBM's mail and specialty pharmacies. Includes discount card claims. Note that figures may not be comparable with those of previous reports due to changes in publicly reported figures of equivalent prescription claims. Total may not sum due to rounding.

This chart appears as Exhibit 76 in *The 2019 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers, Drug Channels Institute*. Available at http://drugch.nl/pharmacy

DRUG CHANNELS INSTITUTE

HOMETOWN PHARMACY

"Drug channel companies are MUCH bigger than Manufacturers."

Adam Fein, PhD

DRUG CHANNELS INSTITUTE

Drug Channel Companies on the 2018 *Fortune* 500 List

Company (stock symbol)	2018 *Fortune* 500 Rank	Revenues ($B)	Revenues, % vs. 2016	Market Value (as of 3/29/18)	Revenue per Employee ($M)	Profit as % of Revenues	Profit as % of Assets	Annualized Return to Investors (2007-2017)	Total Return to Investors (2017)	Employees (000s)
McKesson (MCK)	6	$198.5	3.1%	$29.1	$3.1	2.6%	8.3%	10%	11.9%	64.5
CVS Health (CVS)	7	$184.8	4.1%	$63.1	$0.9	3.6%	7.0%	8%	-5.7%	203.0
AmerisourceBergen (ABC)	11	$153.1	4.3%	$18.9	$7.9	0.2%	1.0%	17%	19.4%	19.5
Cardinal Health (CAH)	14	$130.0	6.9%	$19.7	$3.2	1.0%	3.2%	6.0%	-12.8%	40.4
Walgreens Boots Alliance (WBA)	19	$118.2	0.7%	$64.9	$0.4	3.4%	6.2%	8.8%	-10.5%	290.0
Express Scripts Holding (ESRX)	25	$100.1	-0.2%	$38.8	$3.8	4.5%	8.3%	7.4%	8.5%	26.6
Rite Aid (RAD)	94	$32.8	6.9%	$1.8	$0.5	0.0%	0.0%	-3.4%	-76.1%	70.4
Average	25	$131.1	3.7%	$33.8	$2.8	2.2%	4.9%	7.6%	-9.3%	102.1
Median	14	$130.0	4.1%	$29.1	$3.1	2.6%	6.2%	7.7%	-5.7%	64.5

Source: Drug Channels Institute analysis of 2018 *Fortune* 500 list
Published on Drug Channels (http://www.DrugChannels.net) on June 12, 2018.

DRUG CHANNELS INSTITUTE

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PBM Average Wholesale Prices: A Non-Constant

There are 40 total AWP's for Nexium 40mg ranging in price from $78 - >$10,000

Fallacy of Average Wholesale Price (AWP) Contracting

AWPs have no relevance in projecting final client costs from PBM to PBM; therefore, the intent of any employer should be to procure medications at the lowest cost per pill.

Nexium 40mg (AstraZeneca)						Quantity: 30 Pills
PBM	NDC Code	AWP	AWP for 30	Discount	Disp. Fee	Total Rx Cost
PBM A	00440786190	$10.51	$315.30	-15%	$1.50	$269.51
PBM B	54868451003	$8.60	$258.00	-16%	$1.00	$217.72
PBM C	50436312101	$13.25	$397.50	-17%	$0.75	$330.68
PBM D	68115086730	$9.52	$285.60	-24%	$0.00	$217.06
PBM E	47463054030	$14.13	$423.90	-40%	$0.00	$254.34
ASTRAZENECA	00186504225	$7.52				
Fiduciary PBM	00186504225	$7.52	$225.60	-15%	$3.00	$194.76

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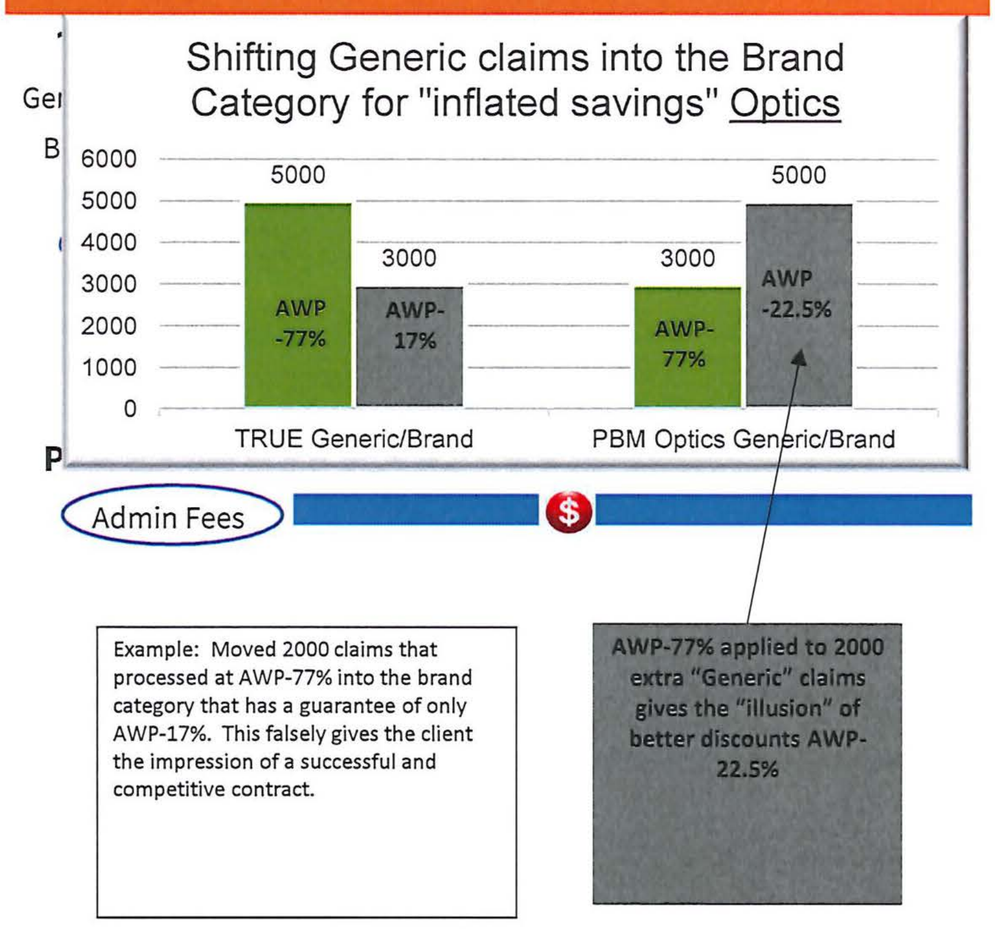
What will you pay your PBM for brand and generic drugs?

PBM Profit Levers



Example: Moved 2000 claims that processed at AWP-77% into the brand category that has a guarantee of only AWP-17%. This falsely gives the client the impression of a successful and competitive contract.

AWP-77% applied to 2000 extra "Generic" claims gives the "illusion" of better discounts AWP-22.5%

"Brand Drug" means a prescription drug identified as such in [redacted]'s master drug file using indicators from First Databank (or other source nationally recognized in the prescription drug industry used by [redacted] for all clients) on the basis of a standard Brand/Generic Algorithm utilized by [redacted] for all of its clients, a copy of which may be made available for review by Administrator, Client, or its Auditor upon request. Notwithstanding the foregoing, certain prescription drug medications that are licensed and then currently marketed as brand name drugs, where there exists at least one (1) competing prescription medication that is a generic equivalent and interchangeable with the marketed brand name drug, may process as "Generic Drugs" for Prescription Drug Claim adjudication and Member Copayment purposes.

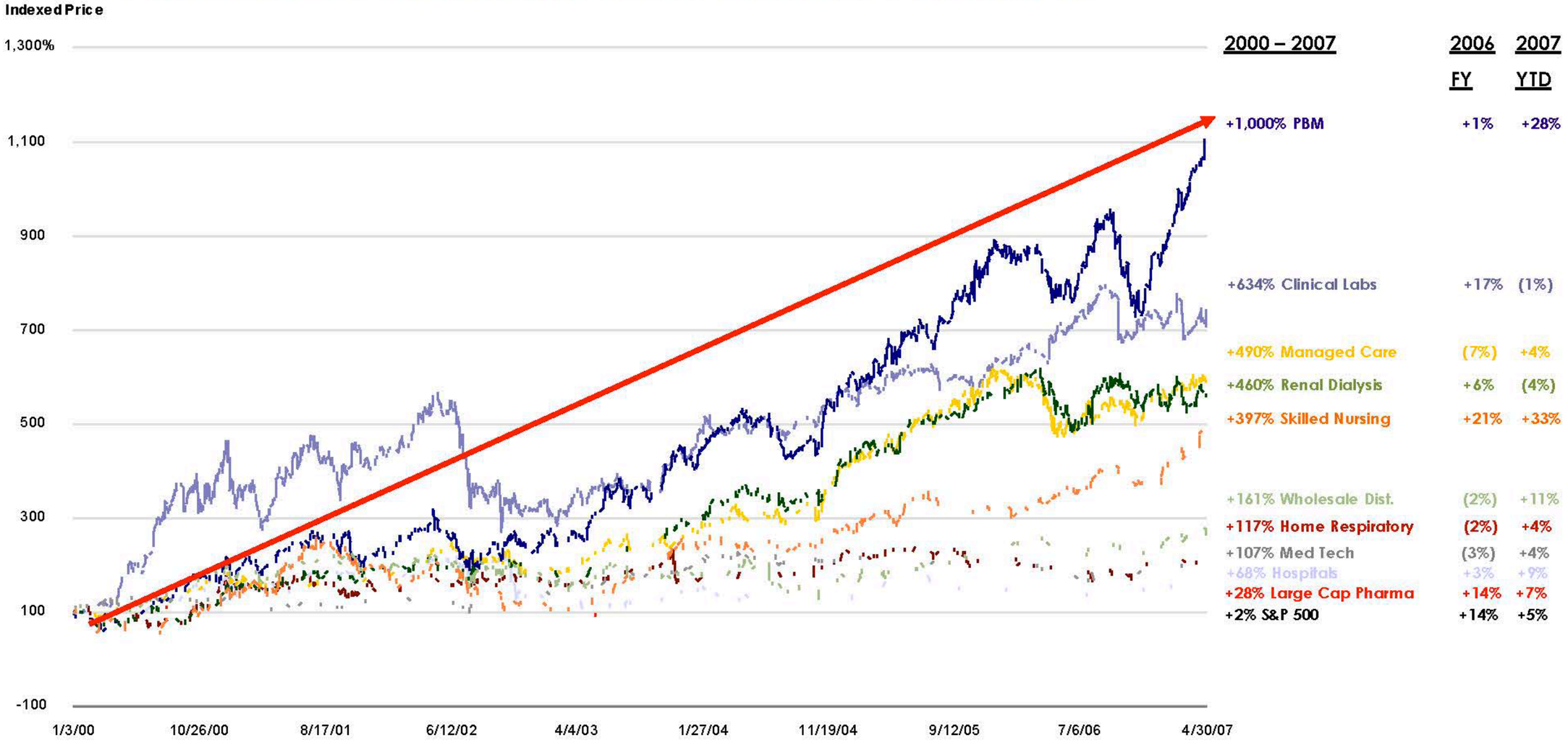
Beware of this contract language!

- First, the pricing source is very open ended and allows PBM to pick the better unit cost price between the various providers (MediSpan and FDB).
- This allows PBM to move a large number of claims of generic claims (AWP -7.50%) to be moved to the brand category (AWP- 17.00%) for guarantee purposes. This falsely "inflates" the brand category and provides the appearance that brands are achieving a higher discount when in reality PBM is moving generic claims that processed at AWP-77% to the brand category which raises the overall effective rate.
- The line that states "There exists at least one competing medication" is not in the clients' best interest. This is allowing PBM to move the majority of medication to another category for guarantee purposes, many other PBMS have language that states medication must be produced by more than 2 manufacturers.
- The last line indicates that the adjudication logic is not consistent with the guarantee logic.

HOME TOWN PHARMACY

Pharmacy Benefit Managers

Wall Street darlings with Deep Pockets



	2000 – 2007	2006 FY	2007 YTD
+1,000% PBM		+1%	+28%
+634% Clinical Labs		+17%	(1%)
+490% Managed Care		(7%)	+4%
+460% Renal Dialysis		+6%	(4%)
+397% Skilled Nursing		+21%	+33%
+161% Wholesale Dist.		(2%)	+11%
+117% Home Respiratory		(2%)	+4%
+107% Med Tech		(3%)	+4%
+68% Hospitals		+3%	+9%
+28% Large Cap Pharma		+14%	+7%
+2% S&P 500		+14%	+5%

Source: Factset, as of 4/30/2007.
PBM includes: CMX (while active), ESRX, MHS, and ADVP (while active).
CLINICAL LABS includes: BRTL, DGX, LH, SP, and LABS (while active).
MANAGED CARE includes: AET, WLP, CI, UNH, CVH, HNT, HUM, PHS, SIE, and WC.
RENAL DIALYSIS includes: RCI (While Active) and DVA.
HOME RESPIRATORY includes: LNCR and AHG.
SKILLED NURSING includes: BEV, EXE, GHCI, KND, HCR, and NHC.
WHOLESALE DISTRIBUTION includes: ABC, CAH, and MCK.
LARGE CAP PHARMA includes: ABT, AZN, BMY, LLY, GSK, Pharma, MRK, NVS, PFE, RHHBY, SNY, SGP, and WYE.
MED TECH includes: MDT, BSX, GDT, STJ, ZMH, SYK and BMET.
HOSPITALS includes: CYH, HCA, HMA, LPNT, THC, TRI, and UHS.

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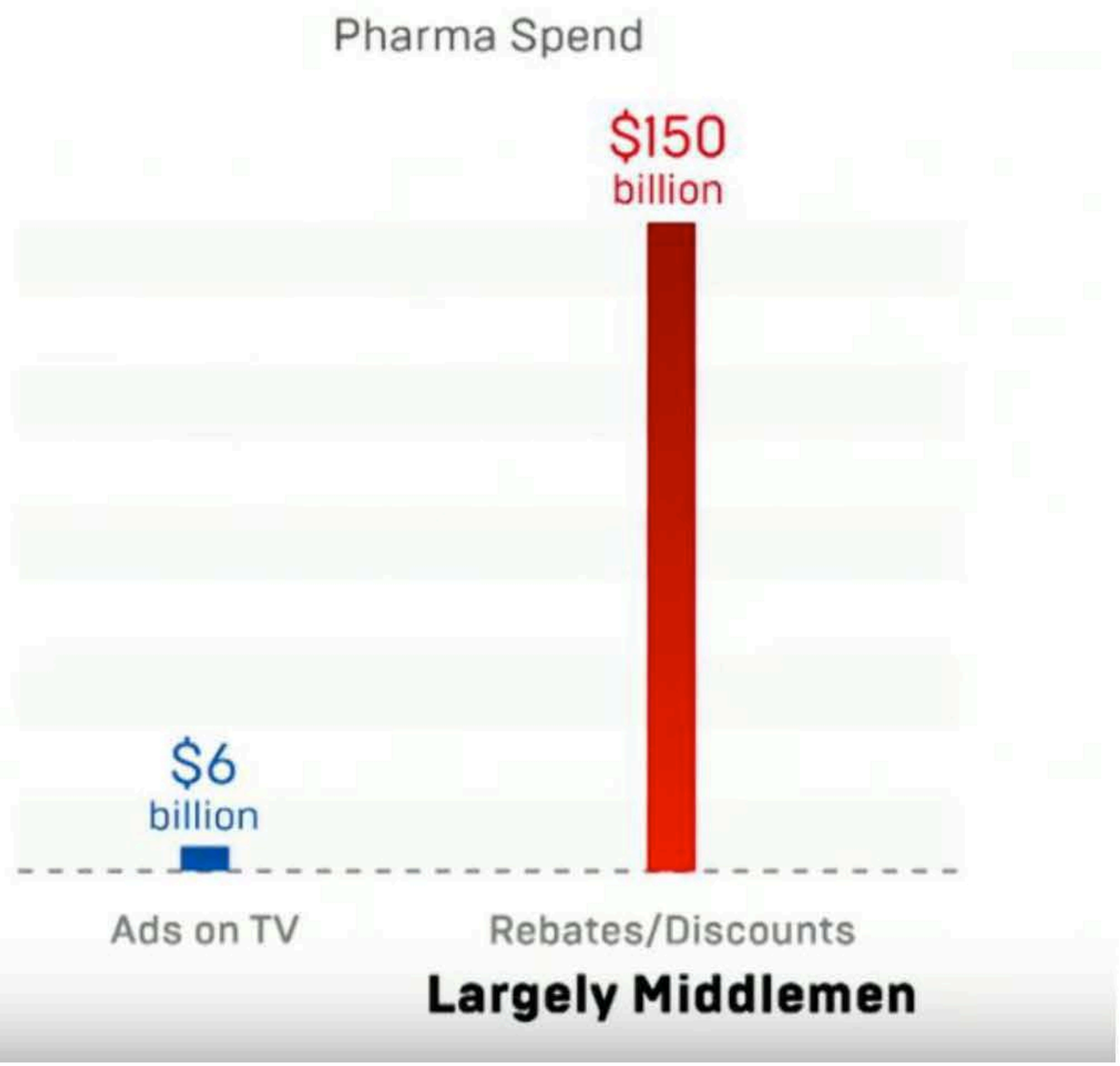
Pharmacy Benefit Managers

Who's Paying? The Hidden Business

1/3 OF WHAT WE SPEND ON DRUGS **GOES TO MIDDLEMEN**



HOMETOWN PHARMACY

Pharmacy Benefit Managers

What's Now - New Alignment

Corporations are assuming multiple roles in the pharma supply chain

	CVS Health	UnitedHealthcare	Cigna	Anthem	Walmart	McKESSON	Walgreens Boots Alliance	CardinalHealth
Payer	aetna (Pending)	UnitedHealthcare	Cigna	Anthem	Humana (Rumored)	X	CENTENE Corporation	X
Wholesaler	X	X	X	X	X	McKESSON	AmerisourceBergen	CardinalHealth
PBM	CVS caremark	OPTUM	EXPRESS SCRIPTS (Pending)	ingenio (Planned)	Humana Pharmacy Solutions. (Rumored)	RelayHealth	RAdvance	X
Pharmacy	CVS pharmacy	X	medco (Pending)	X	Walmart	X	Walgreens	CardinalHealth
Specialty Pharmacy	CVS specialty	briova	accredo (Pending)	X	X	X	allianceRx Walgreens Prime	X

HOMETOWN PHARMACY

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- mid-year non-medical switching protections for patients, allowing patients the security of knowing their treatment plans would not be changed mid-year for reasons unrelated to health or safety.
- Protection from predatory audits
- ***Transparency for patients, taxpayers, employers, and citizens***