

Market Distortions from the 340B Drug Pricing Program

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340B Program Growing at Double-Digit Rates

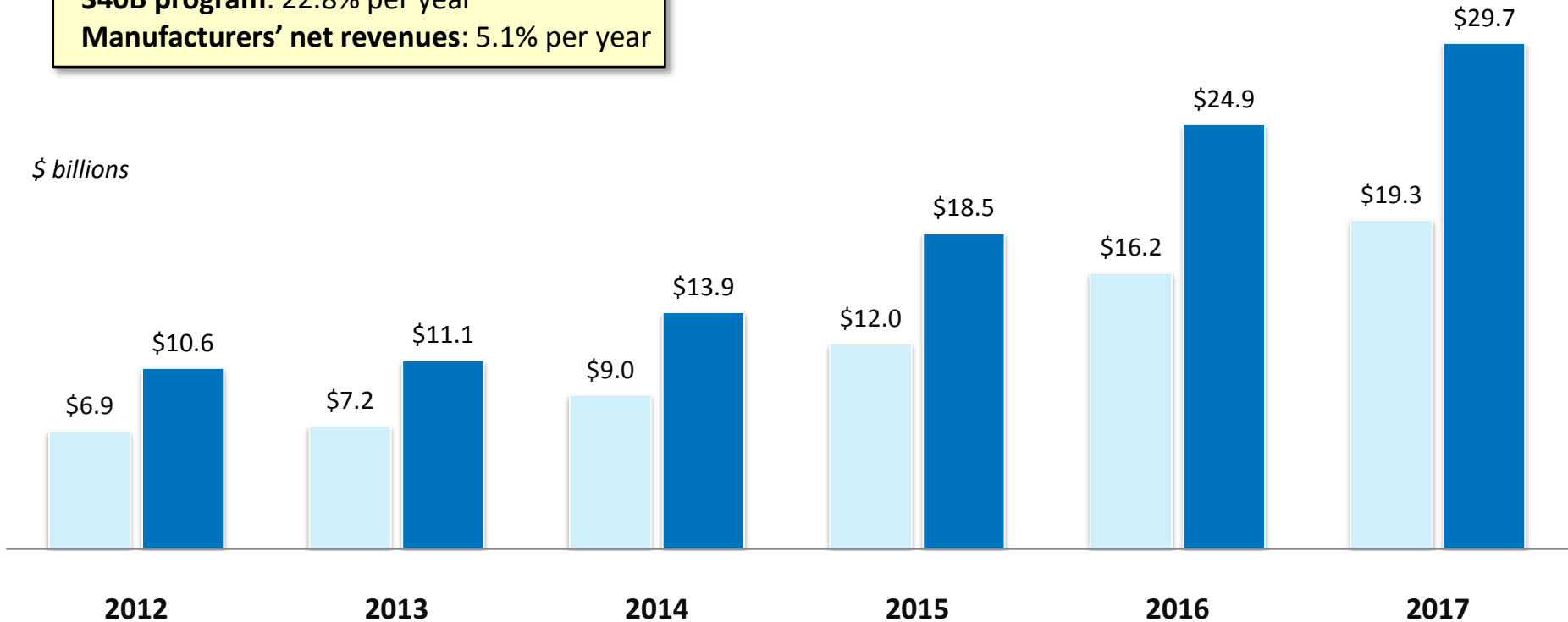
TOTAL PURCHASES MADE UNDER THE 340B DRUG PRICING PROGRAM

■ Purchases at discounted 340B prices

■ Estimated purchases at invoice prices

340B program: 22.8% per year
Manufacturers' net revenues: 5.1% per year

\$ billions

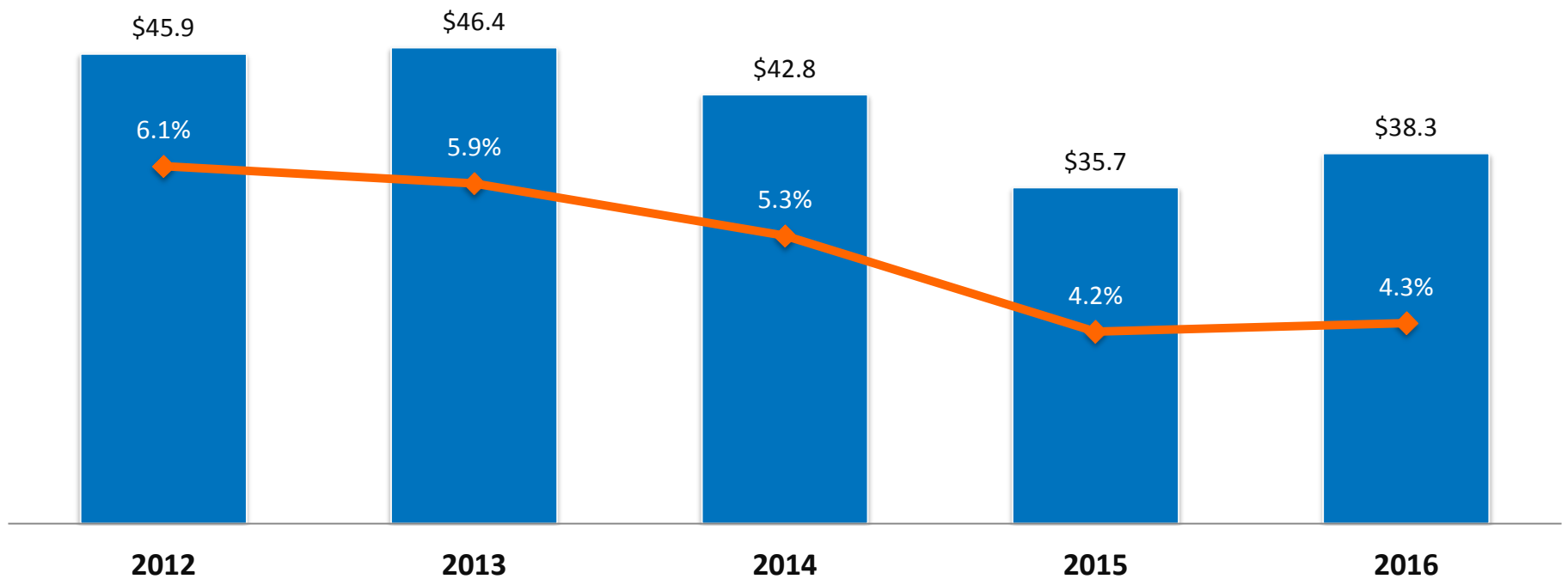


Source: Drug Channels Institute analysis of data from Health Resources and Services Administration and IQVIA. Dollar figures in billions. Excludes sales made directly to healthcare institutions by manufacturers. Data for purchases at discounted prices show value of purchases at or below the discounted 340B ceiling prices. Data at invoice prices reflect DCI estimates. Growth rates show compound average growth rate.

Hospitals' Charity Care Costs Have Dropped

U.S. HOSPITALS, UNCOMPENSATED CARE COSTS, TOTAL VALUE AND SHARE OF EXPENSES, 2012 TO 2016

■ Uncompensated care costs (\$ billions) ◆ As percentage of total expenses



Source: Drug Channels Institute analysis of American Hospital Association (AHA) data

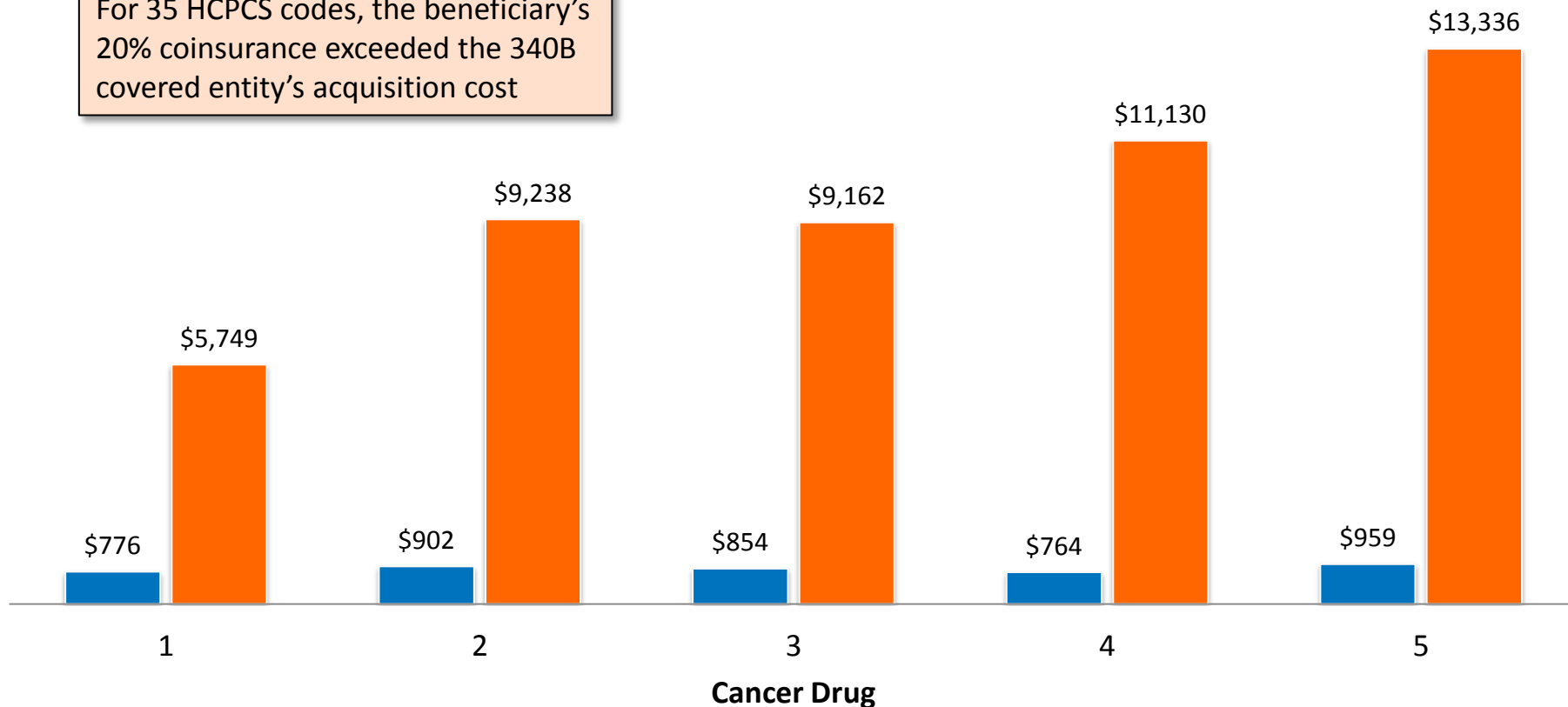
GAO: 340B Covered Entities Earn High Oncology Profits in Medicare Program

ONCOLOGY DRUG PROFITS IN MEDICARE, 340B-COVERED ENTITIES VS. NONCOVERED ENTITIES, 2013

■ Noncovered entities ■ 340B-covered entities

For 35 HCPCS codes, the beneficiary's 20% coinsurance exceeded the 340B covered entity's acquisition cost

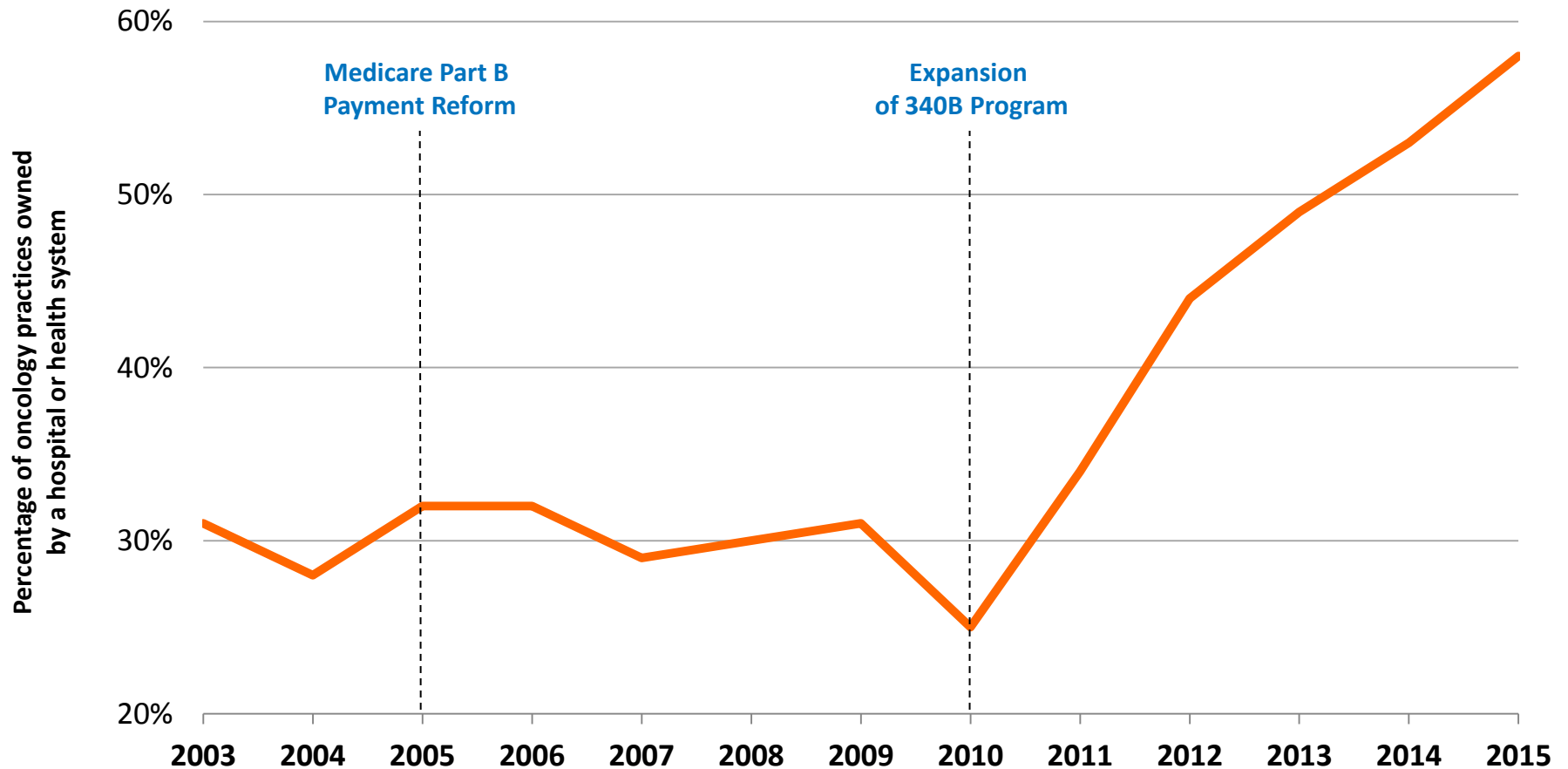
Gross Profit per Beneficiary



Sources Pembroke Consulting analysis of *Part B Payments For 340B-Purchased Drugs*, OIG, November 2015.

See [New OIG Report Shows Hospitals' Huge 340B Profits from Medicare-Paid Cancer Drugs](#), *Drug Channels*, December 2015

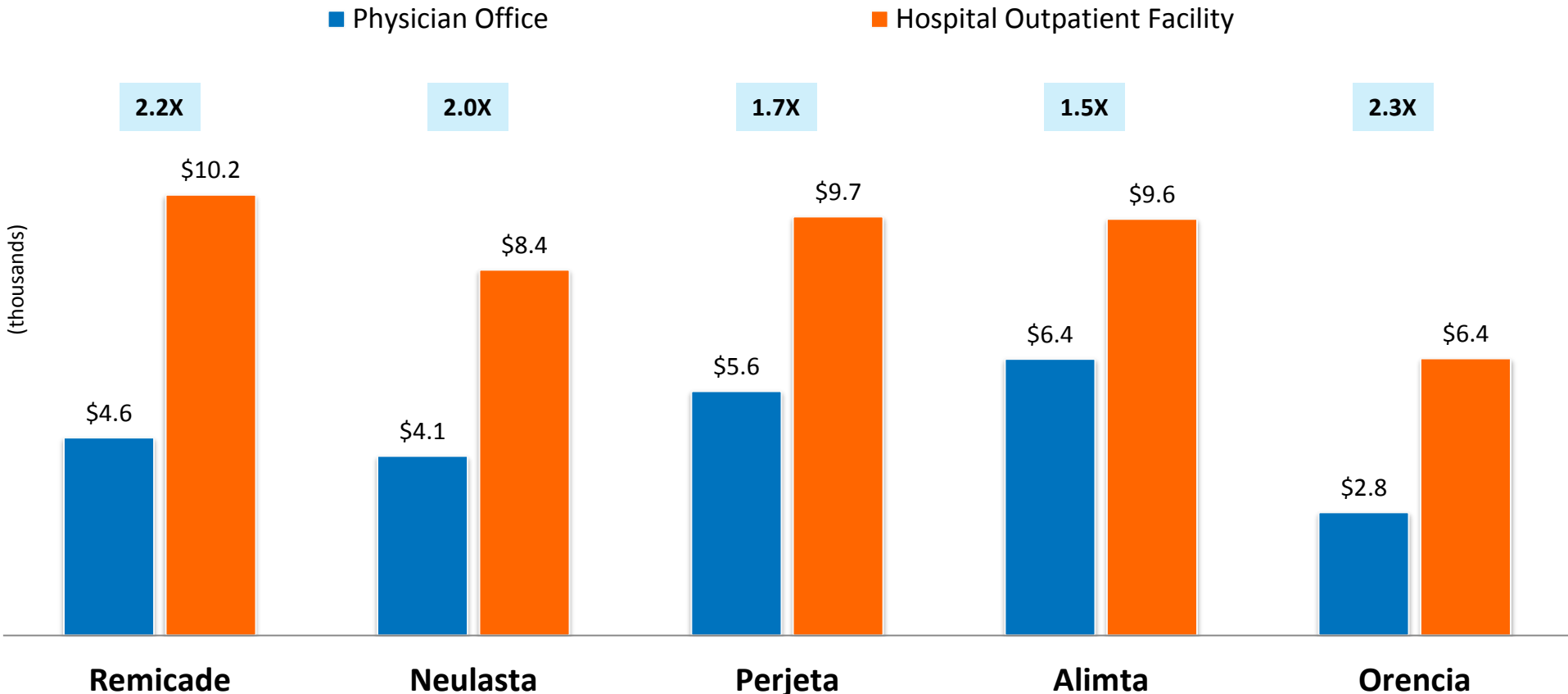
Vertical Integration of Cancer Care



Source: Pembroke Consulting analysis of [Evaluating The Role Of Payment Policy In Driving Vertical Integration In The Oncology Market](#), *Health Affairs*, April 2017

For commercial payers, hospitals charge much more for provider-administered drugs than do physician offices

MEDICAL BENEFIT SPENDING PER UNIT FOR OUTPATIENT SPECIALTY DRUGS, BY SITE OF CARE, 2015



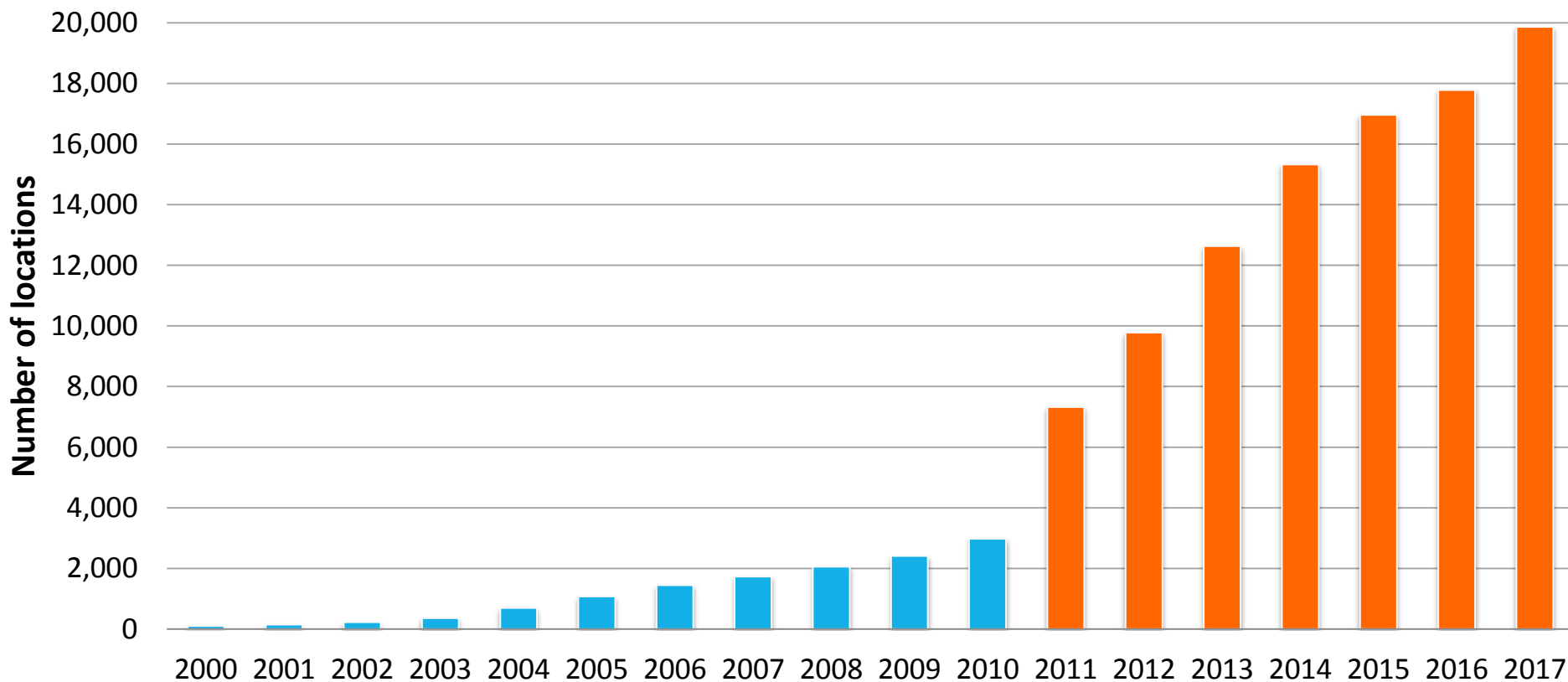
Totals may not sum due to rounding. Figures show cost per claim in thousands.

Source: Pembroke Consulting analysis of 2016 Medical Pharmacy Trend Report, Magellan Rx Management, 2017.

See [Latest Data Show That Hospitals Are Still Specialty Drug Profiteers](#), Drug Channels, April 2017

The 340B Contract Pharmacy Boom

340B CONTRACT PHARMACY LOCATIONS, 2000-2017



Data show number of unique contract pharmacy locations as of July of each year.

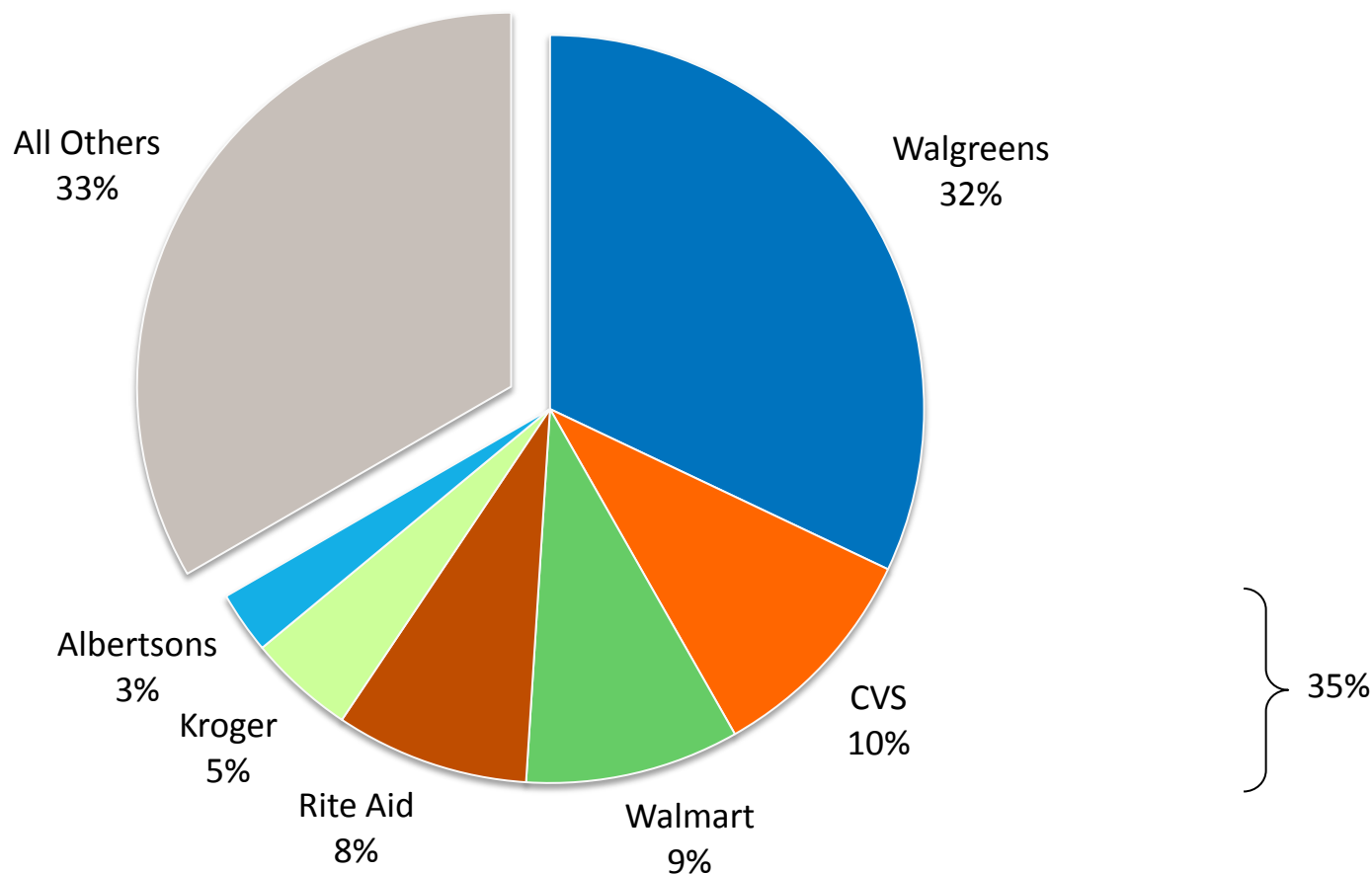
Sources: Avalere Health (2000-2012); Pembroke Consulting analysis of OPA Daily Contract Pharmacy Database (2013-2017)

See [The Booming 340B Contract Pharmacy Profits of Walgreens, CVS, Rite Aid, and Walmart](#), Drug Channels, July 2017

Large Pharmacies Are Profiting from 340B Pricing

340B CONTRACT PHARMACY LOCATIONS, BY CHAIN, 2017

n = 19,868 pharmacy locations

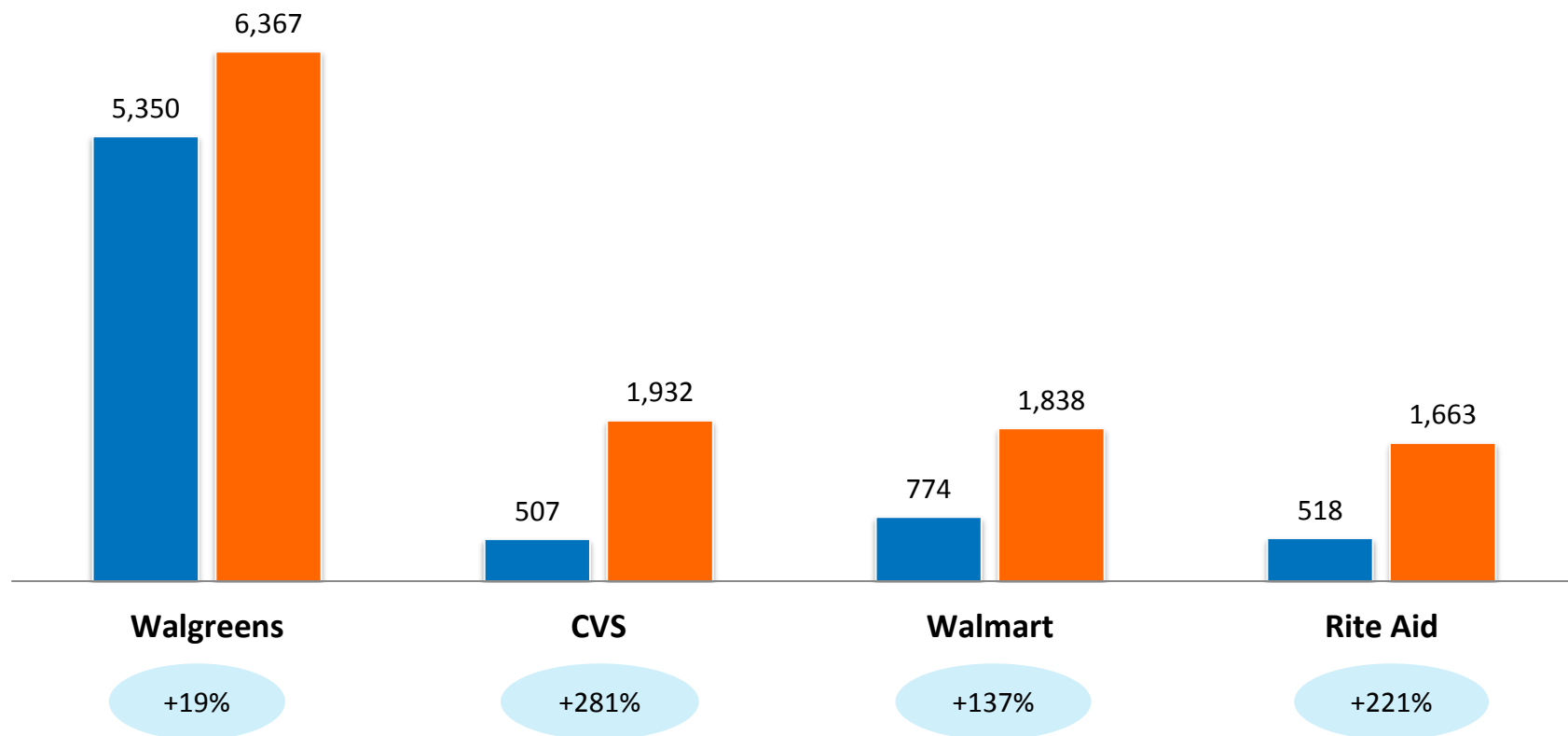


Source: Pembroke Consulting analysis of OPA Daily Contract Pharmacy Database (7/1/17). Company totals are computed from combined banners (store names) in the database.
See [The Booming 340B Contract Pharmacy Profits of Walgreens, CVS, Rite Aid, and Walmart](#), *Drug Channels*, July 2017

Retail Chains Expanding in 340B

CONTRACT PHARMACY LOCATIONS, BY CHAIN, 2013 vs. 2017

■ 2013 ■ 2017



Source: Drug Channels Institute analysis of OPA Daily Contract Pharmacy Database (6/23/13; 7/1/17). Company totals are computed from combined banners (store names) in the database.

340B Contract Pharmacy Economics: Specialty Prescription

No.	Item	Amount	Computation
Published List Prices			
[1]	Wholesale Acquisition Cost (WAC)	\$5,000.00	Set by manufacturer
[2]	Average Wholesale Price (AWP)	\$6,000.00	[1] * 1.20
Pharmacy Revenue			
[3]	Ingredient Cost Reimbursement	\$4,920.00	[2] * 82% (= AWP-18%)
[4]	Average Dispensing Fee	<u>\$1.00</u>	Payer survey data
[5]	Total Pharmacy Revenue	\$4,921.00	[3] + [4]
340B Entity Cost of Goods			
[6]	Acquisition Cost to 340B Entity	\$0.01	Product with penny price
[7]	Fee to Split-Billing Vendor	\$10.00	Negotiated rate
[8]	Fee to Contract Pharmacy	\$803.00	[3] * 15% + \$65
[9]	Total Expense to 340B Entity	\$813.01	[6] + [7] + [8]
340B Entity Profit			
[10]	Gross Profit per Prescription	\$4,107.99	[5] - [9]
[11]	Gross Margin per Prescription	83.5%	[7] / [5]

Source: Drug Channels Institute research and estimates.

Examples of 340B Contract Pharmacy Mega-Networks

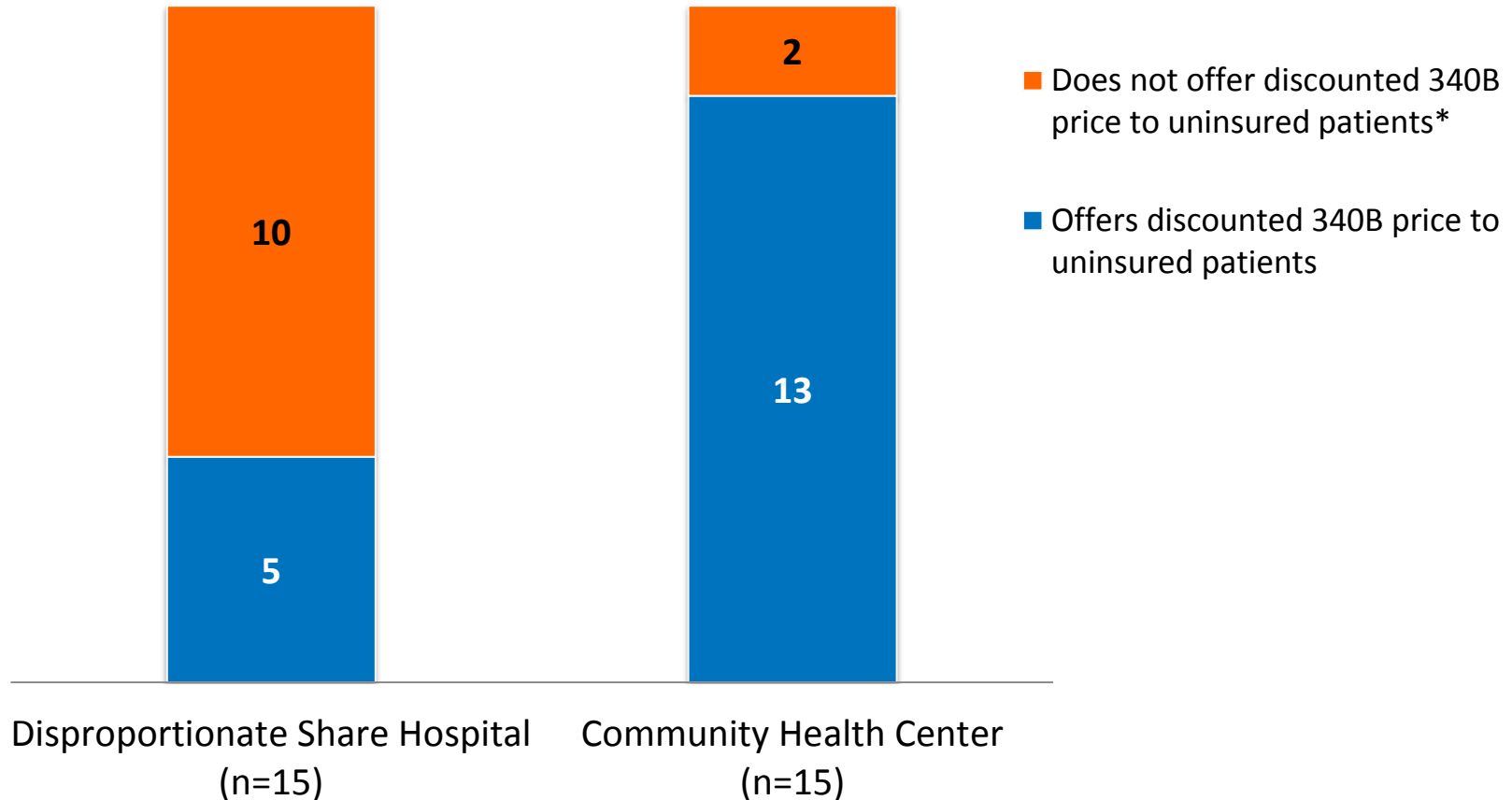
TOP TEN DISPROPORTIONATE SHARE HOSPITALS WITH THE LARGEST 340B CONTRACT PHARMACY NETWORKS, JULY 2017

Entity	Number of Contract Pharmacy Relationships									Total
	Walgreens	CVS	Rite Aid	Walmart	Kroger	Albertsons	Express Scripts	OptumRx	Other	
Henry Ford Hospital	91	171	20	8	50	0	11	6	79	436
Loyola University Medical Center	232	25	0	0	0	0	0	0	6	263
UCSF-Medical Center	113	25	9	0	0	63	8	0	18	236
Vanderbilt University Medical Center	97	33	0	39	33	0	7	0	19	228
The University Of Chicago Medical Center	206	10	0	0	0	0	0	0	0	216
Metrohealth Medical Center	66	25	12	16	0	0	6	0	70	195
University Of Miami Hospital	95	21	0	10	0	0	5	0	52	183
Froedtert Memorial Lutheran Hospital	122	18	0	0	12	0	11	5	13	181
University Of California Davis Medical Center	50	33	36	9	1	18	6	0	12	165
Rush University Medical Center	149	10	0	0	0	0	0	0	5	164
Top Ten Total	1,221	371	77	82	96	81	54	11	274	2,267

Source: Drug Channels Institute analysis of OPA Daily Contract Pharmacy Database (7/1/17).

See [10 Hospitals With 340B Contract Pharmacy Mega-Networks](#), Drug Channels, July 2017

OIG: Hospitals do not always offer discounted 340B prices to uninsured patients at contract pharmacies



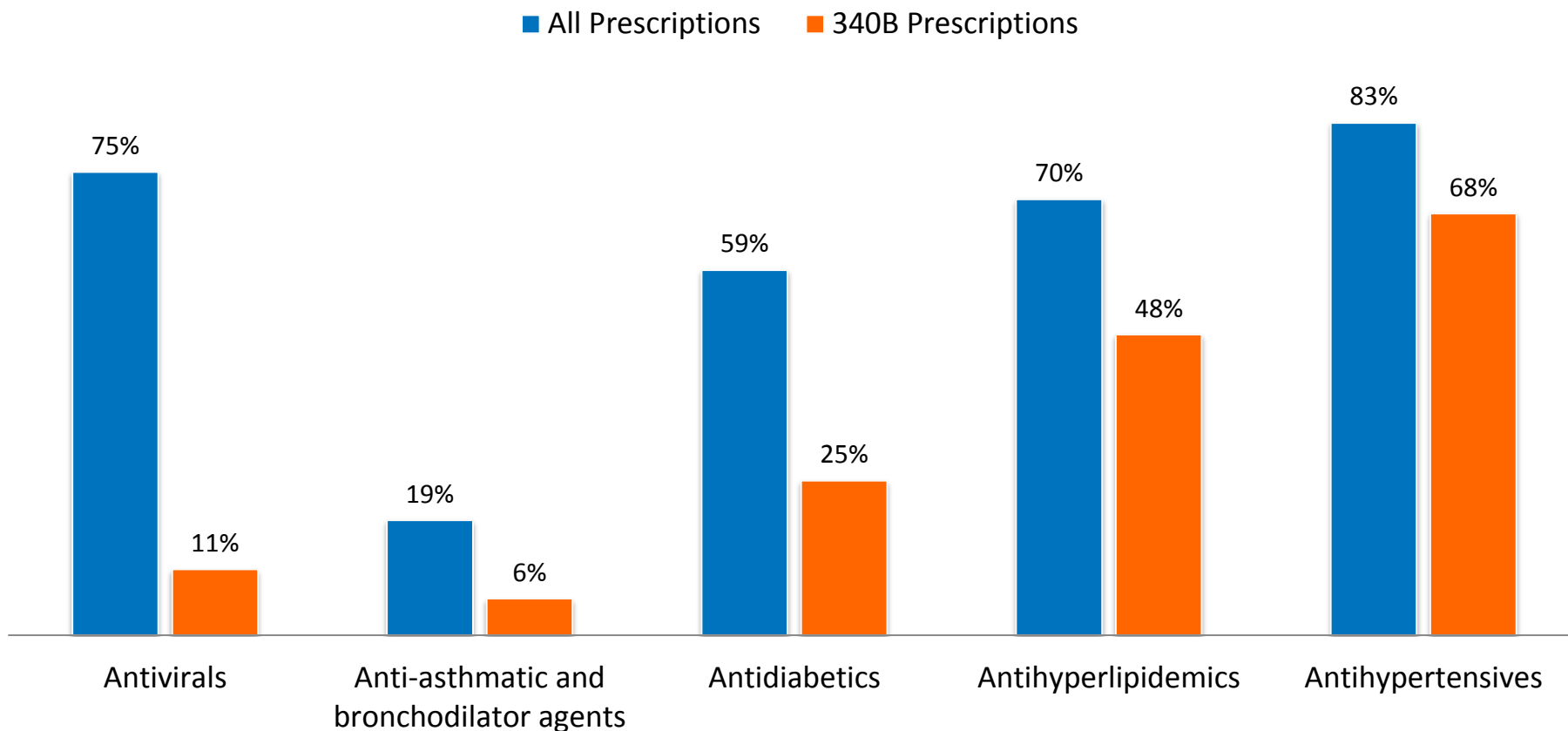
* Includes 4 entities for which it was “unclear whether their contract pharmacies offer the discounted 340B price to uninsured patients.”

Source: Pembroke Consulting analysis of *Contract Pharmacy Arrangements in the 340B Program*, Office of Inspector General, February 2014.

See [New OIG Report Confirms Our Worst Fears About 340B Contract Pharmacy Abuses](#), *Drug Channels*, February 2014.

340B Reduces Retail Generic Dispensing Rates

GENERIC DISPENSING RATE AT WALGREENS PHARMACIES, BY THERAPEUTIC CLASS, 2012



Source: Pembroke Consulting analysis of data in [The 340B Discount Program: Outpatient Prescription Dispensing Patterns Through Contract Pharmacies In 2012](#). *Health Affairs*, 2014

See [New Walgreens Data Verifies That 340B Reduces Retail Generic Dispensing Rates](#), *Drug Channels*, November 2014.

How the 340B Program Contributes to Higher Drug Costs

- Encourages a shift in site of care from lower-cost physician offices to higher-cost hospital outpatient settings
- Raises out-of-pocket costs for uninsured patients
- Lowers the generic dispensing rate
- Reduces manufacturers' rebates to Medicare Part D and commercial payers
- Permits pharmacies and PBMs to profit from 340B discounts at the expense of needy and uninsured patients

General Resources



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The 2017-18 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors

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Pembroke Consulting, Inc., and
Drug Channels Institute

October 2017



<http://drugch.nl/wholesale>

The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

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Drug Channels Institute

February 2018



<http://drugch.nl/pharmacy>