

2019 State of Specialty Pharmacy Report[®]

TRACKING THE FUTURE OF
SPECIALTY PHARMACY

Manufacturers

Health Systems

Independents

Payors



ABOUT THE REPORT

Thank you for downloading the **2019 State of Specialty Pharmacy Report**. To compile these results, we surveyed all levels of specialty pharmacy professionals to uncover trends, opinions, and predictions for the future of the industry.

We've broken down this report into four sections to help you discover the analysis, insights, and findings you're most interested in:

- **Section 1: Manufacturers**
- **Section 2: Health System Specialty Pharmacies**
- **Section 3: Independent Specialty Pharmacies**
- **Section 4: Payors**

Specialty pharmacy has witnessed spectacular growth over the last decade, and that trend continued in 2019. However, expansion and opportunity have brought new and dynamic challenges for all industry players, which means that only the most adept, practical, strategic, and forward-thinking organizations will be poised for success. Keeping up with change and forecasting future change are key challenges facing industry stakeholders. Changes to affordability, payor networks, margins, 340B legislation, accreditation, and access to limited distribution drugs (LDD) continue to be top-of-the-list factors affecting professionals across the specialty spectrum.

CSI Specialty Group is proud to be offering an educational resource of this caliber. We are honored to serve as a connector in the industry by facilitating education, knowledge, and collaboration among all professionals in specialty pharmacy. We reached out to industry stakeholders, and they provided invaluable feedback that will inform constructive and informed advancement of the practice.

We believe CSI Specialty Group's unique educational resources play a key role in promoting communication among and broadening the horizons of all stakeholders in the marketplace. The 2019 State of Specialty Pharmacy Report will also serve as a guide for those contemplating entry into the realm of specialty pharmacy.

You will always be able to find this report, along with many other valuable resources, at CSIGroup.net. If you have any questions or comments about the report, please contact us. You are welcome to refer to the findings here in whatever media you wish. We merely ask that you cite our intellectual property and link to the report when doing so.

Sincerely,

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ABOUT CSI SPECIALTY GROUP

CSI Specialty Group is a globally recognized leadership consulting firm dedicated to delivering solutions that continually elevate the specialty pharmacy and pharmaceutical manufacturing industries. By providing innovative consulting to specialty pharmacies and pharmaceutical manufacturers, workforce planning, and talent acquisition solutions, we uniquely tailor our service offerings to help clients drive sustainable, accelerated growth.

A subsidiary of Intalere Group Purchasing Organization, CSI Specialty Group expands Intalere's suite of solutions to healthcare providers, hospitals, IDNs, and pharmaceutical partners. Intalere is owned by Intermountain Healthcare, a leading healthcare system based in Salt Lake City, Utah.

Having launched the industry's first podcast dedicated to specialty pharmacy, CSI Specialty Group is at the forefront of pioneering concepts to meet the changing needs of:

- **manufacturing and pharma/biotech firms (domestic and international)**
- **health systems and health system pharmacies**
- **specialty pharmacies**
- **home infusion**
- **mail order/PBM**
- **pharmacy payor network access**
- **benefit plan sponsors**

With integrity as the cornerstone of all our efforts, we continually strive to position CSI Specialty Group as an organization of impeccable service and exceptional results teamed with a strong passion and determination to optimize patient-focused outcomes.

For more information about CSI Specialty Group, please visit www.CSIgroup.net.

EXECUTIVE SUMMARY AND ANALYSIS

The reality in healthcare today is that not everyone necessarily needs to be in specialty pharmacy, but every provider and stakeholder *should* have a specialty pharmacy strategy.¹ In 2018, specialty drugs accounted for more than one-third of the pharmacy industry's total prescription-dispensing revenue.²

In 2018, the top seven dispensing pharmacies—CVS Health, Walgreens Boots Alliance, Cigna / Express Scripts, UnitedHealth Group (OptumRx), Walmart, Kroger, and Rite Aid—accounted for about 70% of US prescription-dispensing revenues, and it is estimated that specialty drugs accounted for 60% or more of revenues at those pharmacies.³

Moreover, during the next 10 to 15 years, the majority of drugs will most likely be more targeted therapies for smaller patient populations. As of now, 60% of the 508 new drugs awaiting approval from the U.S. Food and Drug Administration (FDA) between now and 2021 are specialty drugs.⁴

Specialty medicines have accelerated to the head of the pack to drive all spending growth in developed markets as non-specialty medication spending declines. Data and market trends suggest this shift will extend into 2019 and beyond, and the industry continues to prepare to embrace this evolving landscape.

The fact is, emerging disruptive forces in the market call for creative and resourceful navigation by all industry stakeholders. Health systems continued in 2018 to integrate specialty pharmacy into their outpatient offerings. Mergers and acquisitions in the PBM world, most notably among CVS Caremark and Aetna, Cigna and Express Scripts, and Avella and Optum, and including Diplomat extending their services to include PBM services, have created ripple effects felt throughout the industry. We expect this trend of large-scale mergers to continue, along with calls for increased transparency from PBMs and payors.

Some employers have sought to create their own PBM-like models to gain more control over employee healthcare costs. Cited as an attempt to curb spiraling employee medical care costs, the unprecedented Amazon-Berkshire Hathaway partnership announced this year may be a game-changer for the healthcare industry moving forward.⁵

This year, as part of the **2019 Specialty Pharmacy Report**, CSI Specialty Group set out to reveal key opinions, trends, and impacts on today's specialty pharmaceutical market to help align and enlighten this continually pivoting industry. Sharing experience and knowledge with peers offers transparency that enables a unified synergy to continually enhance what is most important: patient adherence and compliance, which ultimately lead to improved outcomes and an enhanced patient experience.

More than ever, there is hope for patients who may benefit from specialty products in the marketplace and a need for people to deliver them efficiently to ensure optimal patient outcomes. In short, that is why every provider and stakeholder *should* have a specialty pharmacy strategy.

¹ Intalere. Illuminated Path Podcast [Audio podcast]. Danis, Evan (Producer). (2018, December 11). Retrieved from <http://www.intalere.com/>

² Adam J. Fein, Ph.D., Drug Channels Institute, "The Top 15 U.S. Pharmacies of 2018: M&A Reshapes the Market." (2019, February 26). Retrieved from <http://www.drugchannels.net/>

³ Adam J. Fein, Ph.D., Drug Channels Institute, "The 2018–19 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors." (2018, October).

⁴ The Health Management Academy, "Trends in Specialty Pharmacy: 2019 Health System Executive Brief." (2019, June).

⁵ State of the Industry Speed Recap: Mergers, Alliances and Disruptors - Oh My! CSI Specialty Podcast [Audio podcast]. (201, February 21st). Retrieved from <https://csigroup.net/>

EXECUTIVE SUMMARY AND ANALYSIS

Summary of Survey Findings – 10 Key Takeaways

1. The role of specialty pharmacies within the healthcare continuum is even more critical than before, especially with an increased focus on the patient journey.
2. Health systems continue to establish specialty pharmacy strategies on their own or through partnerships, and understanding of the need for health systems to have a specialty pharmacy strategy has finally reached the C-suite.
3. The manifestation and growth of co-pay accumulators have negatively affected patients' ability to afford specialty drugs.
4. Industry advocacy organizations such as NASP (National Association of Specialty Pharmacy) have raised awareness and spawned debate about the role of PBMs. Recent government hearings in Washington have resulted in increased transparency among manufacturers and PBMs as Congress tries to lower Americans' prescription drug costs.
5. Accreditation continues to be relevant. Specialty pharmacies need to become more educated consumers in this realm and understand the role of accreditation—specifically dual accreditation—both in affording them a “seat at the table” and in harmonizing with their overall strategies and providing a path to payor network access.
6. Managing the patient's total cost of care from an outcomes perspective will become even more critical moving forward.
7. LDD challenges will persist as the pipeline is becoming increasingly rare and orphan-disease focused.
8. The 340B program has come under review and been a topic of debate. This is expected to continue.
9. Independently-owned specialty pharmacies face increasing resistance with respect to barriers to entry, access to lives and payor networks, and staying competitive.
10. The 21st Century Cures Act is creating challenges for the home infusion industry.

MANUFACTURERS SUMMARY

Overview

It is a remarkable time to be in specialty pharmacy. Just 15 years ago, few people were talking about harnessing the human genome to cure a disease. Now, science is advancing rapidly, moving from symptomatic relief to possible cures for many diseases. This offers great hope to patients but also creates challenges with respect to how these treatments will be administered and paid for.

With treatments conceivably around the corner for hemophilia, devastating blood cancers, and other types of rare diseases, manufacturer pipelines showed continued vigor and vitality across the specialty pharmacy spectrum in 2018, with oncology/hematology, neurology, respiratory, and immunology leading the way.

As competition heats up among health systems, PBMs, and independently owned specialty pharmacies all vying to improve efficiency and enhance patient care and outcomes, manufacturers (and patients) stand to benefit. Manufacturers want the right patients for their drugs, they want to demonstrate the value of that drug (as proven in clinical trials), and they aim to select high-performing partners to help manage medications specific to particular genetic markers.

Many manufacturers continue to employ limited distribution models to select their partners based on quality, patient touch, and how effectively specialty pharmacies can help patients navigate the complexities of accessing medications, many of which are home-administered. Moreover, manufacturers often look for a specialty pharmacy partner that is nimble and flexible enough to return specific data sets. As smaller cohorts of patients are treated based on biomarkers and future genetic research, obtaining access to accurate and timely patient data will become even more critical.

Navigating the current healthcare landscape and choosing the right launch strategy to distribute their specialty products will remain critical

for manufacturers moving forward. It is imperative that manufacturers have a solid foundation in specialty pharmacy, product distribution, and patient engagement to drive success in the marketplace.

As the complexity of specialty pharmacy networks increases and with more competition entering the market in most therapeutic areas, understanding one's place in the market and developing the right launch strategy and partner choice are essential for success.

Highlights among Manufacturers Surveyed

Almost 85% of manufacturers manage some or all their products through a limited-distribution model. While there were more significant levels of limited-distribution drug (LDD) focus in some specialty areas, such as oncology and neurology, there is an increasing level of limited-distribution activity across the board in all specialty areas, including respiratory, gastroenterology, and ophthalmology.

The number of pharmacies included in different LDD programs varied greatly, and two-thirds of manufacturers did not change their LDD partnerships in 2018. Those manufacturers that did expand their LDD partnerships cited innovation, data capabilities, and reliability as the primary drivers of expansion.

An emerging and notable trend observed is the willingness of manufacturers to consider health systems or IDNs for inclusion in their networks. In fact, 83% of manufacturers reported that they did consider health system-owned specialty pharmacies for inclusion in their LDD networks, and the same percentage gave health systems access to some of their LDD products in 2018.

The findings may well represent a warning that unless more health system pharmacies have the willingness and capacity to provide timely data necessary to optimize the patient experience, medication adherence, compliance, outcomes, the number of specialty pharmacies in the LDD space will likely diminish.

MANUFACTURERS SUMMARY

A pharmacy vying for inclusion in an LDD network can benefit from initiating discussions with drugmakers and expressing interest early in the process, since 75% of manufacturers begin evaluating their specialty pharmacy partners before product launch. Approaching manufacturers sooner rather than later could prove to be a difference-maker with respect to gaining access; waiting may be detrimental to a pharmacy's interests.

An enduring trend observed in previous years of this survey is manufacturers' continued appreciation of the following areas of performance among partner pharmacies:

- **capacity and readiness to provide high-quality, timely data**
- **robust access to lives**

Pharmacies that demonstrate flexibility as well as an ability to serve patients through managed care contracting, and that excel in one or both of the critical areas mentioned above, will be better positioned for access to LDD contracts.

Manufacturers identified the following areas as needing improvement by the specialty pharmacies in their LDD networks:

- **faster time to fill**
- **improved adherence**
- **data services and reporting**
- **customer service**

A third of manufacturers (33%) indicated that developing a managed care strategy and building a HUB were the primary challenges in planning to launch new products. Also cited were finding a team with the requisite experience and knowledge level in the therapeutic area and determining the appropriate channel launch strategy for new products.

Where HUBs are used, 83% of manufacturers reported there was room for improvement in their current third-party vendor HUB model.

Two-thirds of respondents would like to see improvement with respect to communication between patients and providers, and half of manufacturers seek enhancements in process/workflow, technology solutions, and FTE/resource review.

Looking forward to the year 2025, respondents plan to enrich the patient journey by improving interventions, expanding adherence integration, allowing open access, and enhancing integration between e-technology, HUBs, and specialty partners. Moreover, 80% of manufacturers are actively looking at ways to create value-based reimbursement programs for their products.

Increased competition is also a reality for manufacturers, as 40% of respondents witnessed new competition entering the market of their therapeutic specialty in 2018.

HEALTH SYSTEM SPECIALTY PHARMACIES SUMMARY

Overview

With the specialty pharmacy market continuing its positive trajectory, increasing numbers of health systems are entering the specialty marketplace. Those health systems that already have specialty pharmacies in place are expanding, and those that do not are in the build phase in response to the currently favorable market.

Health systems continue to capitalize on efficiency and interconnectivity among the patient, EMR, and prescriber in order to streamline end-to-end care and communication and control as many channels as possible. The goal is to ensure superior outcomes through having a shorter time to fill and to enhance patient care and compliance.

However, health systems have faced mounting obstacles from health plan-owned specialty pharmacies. In 2018, there was a spate of mergers between health plans, PBMs, and specialty pharmacies that created a vertically integrated system to control and restrict networks. This has stoked spirited debate among stakeholders across the healthcare continuum.

As one health system survey respondent pointed out:

“Unless significant PBM reform happens at the federal level, I think we will continue to see PBMs find new and creative ways to lock out health system SPs from servicing their patients.”

From the health system perspective, a major challenge facing health systems will be to overcome the lockouts imposed by payor/PBM-owned specialty pharmacies. Managing both pharmacy and medical benefits also continues to be a critical issue for health system pharmacies. Can health systems synchronize their data processes to provide optimal patient care while having an impact on the total cost of care, and at the same

time demonstrate to employer groups and other payors the value and cost-effectiveness of having a comprehensive management program?

The explosion of health systems into the specialty pharmacy marketplace coupled with continued PBM lockout practices has had negative repercussions for independent specialty pharmacies. As health systems purchase more physician groups or employ more doctors, independent specialty pharmacies face greater hurdles in accessing patients since those physicians now have obligations to the health systems..

Highlights among Health Systems Surveyed

The changing tide in specialty pharmacy was confirmed in the health system survey results. Almost 80% of health systems surveyed reported that their patient census had grown over the past year, and one-third of health systems reported that their census had increased between 50% and 75%, while another 40% reported growth levels between 11% and 25%. Growth areas were noted in specialty areas across the board, with hematology/oncology, gastro, infectious disease, and neurology leading the way. Moreover, 60% of health systems surveyed plan to start offering home infusion services in the next 12 to 24 months.

The survey affirmed that, like manufacturers, health systems are expanding, with almost 55% of respondents reporting an increase in full-time employees of between 5% and 20% and another 18% reporting an increase of over 20%. Based on our sample size, 30% of health system respondents said they plan to start their own PBM within five years, while 60% said they had no immediate plans beyond preliminary discussions.

Almost 65% of health systems report they have been good or outstanding at increasing the use of their specialty pharmacy, and the same number confirm they have access to LDDs. Health systems continue their efforts to position themselves for entry into limited-distribution networks.

HEALTH SYSTEM SPECIALTY PHARMACIES SUMMARY

Nearly 80% of health systems confirmed that in the past year, the percentage of their own providers prescribing to their specialty pharmacy has increased. They attribute this to the following:

- better service than third-party SPs
- marketing and operational structure with EMR
- promotion and marketing of their SP
- reputation of the organization

When it comes to accreditation, the two most prominent types of accreditation listed were Joint Commission and URAC, each at 40%, with ACHC coming in third at 30%. Dual accreditation is still regarded as important and demanded by some payors.

Currently, health system specialty pharmacy respondents receive the majority of their referrals from doctors within their own health systems, with 60% reporting that 10% or fewer of their referrals come from outside their health system. An additional 10% reported that 20% or fewer come from outside their health system. Health systems are free to expand beyond the walls of their institutions, and more of them may do so in the future. The question is, if they do, will they still be able to offer high levels of continuity of care and communication with providers?

Although health systems generally see their industry growing as they move toward 2025, many are wary of continued lockouts by PBMs and urge their health system peers to band together to make a compelling case at the federal level for the value they add to the patient journey.

If health systems can manage to circumvent continued PBM lockouts, they will be poised to fully capitalize on their capacity to provide complete care to patients and retain higher numbers of patients who might otherwise leave the health system location with specialty needs. In order to do so, health systems will need to develop new and improved ways to market to physicians in the system and increase capture rates while creating greater awareness of their services throughout their health systems as a whole.

INDEPENDENT SPECIALTY PHARMACIES SUMMARY

Overview

Specialty medicines drove \$9.8 billion of the \$12 billion net growth of new brands in 2017, and specialty drugs now account for roughly 45% of the \$450 billion pharmaceutical market.⁶ Increasingly, specialty pharmacies are an integral part of taking care of chronically ill patients. In fact, it is estimated that by 2020, more than 50% of outpatient drug spend will be in specialty medicines.⁷

Independent specialty pharmacies continue to grow and find a niche for themselves in an extremely crowded market despite threats and obstacles on many fronts, most notably from PBMs, manufacturers, and health systems.

Like health system specialty pharmacies, community-based specialty pharmacies faced significant challenges in 2018 from vertical integration among health plans, PBMs, and PBM-owned specialty pharmacies. Restricted networks and DIR fees have contributed significantly to margin compression and declining profitability in the face of an increasing number of players entering the growing specialty pharmacy market.

Another challenge for independent specialty pharmacies has been the emergence of health systems that continue to proliferate in the market, making it more difficult for independents to access patients, which in turn leads to a reduced ability to access payor contracts.

However, these challenges have also provided opportunities for independent specialty pharmacies to improve their efficiency, optimize patient outcomes, and strengthen payor relations. Independent pharmacies have heightened their efforts to develop more efficient and focused strategies to secure payor contracts and overcome PBM lockouts. In addition, some have hired and invested in specialized training of sales teams that know how to mitigate current challenges in the market.

A lack of brand awareness with regard to smaller specialty pharmacies has emerged as one of the core challenges in the marketplace. Consumers

may be reluctant to be serviced by an unknown pharmacy and turn to more well-known pharmacies. It is, therefore, critical for independent specialty pharmacies to find new and creative ways to create brand recognition, authority, and trust while fostering consumer relationships.

According to NASP Executive Director Sheila Arquette, RPh, current market realities have provided independent specialty pharmacies with a recipe for success.

“Independent specialty pharmacies need to continue to partner with the payor to drive the most clinically appropriate and cost-effective outcomes,” says Ms. Arquette. “They need to work with patients to provide optimal patient disease management, compliance adherence, and clinical or other support services that help the patient along their journey. Manufacturers are looking for nimble, flexible, and high-performing specialty pharmacy partners that can help manage complex drugs and deliver service, value, and enhanced levels of patient care.”

With increased competition, potential changes to federal legislation, greater scrutiny, and barriers to success on the horizon, the support that NASP provides to independent specialty pharmacies is more valuable than ever before.

Will federal legislation reign in and regulate PBM practices, or will the industry continue to witness increased barriers by payors? The bottom line for independent specialty pharmacies that want to drive success is to develop a long-term strategy that includes

- **knowing their identity**
- **committing to patient outcomes**
- **having the patience to withstand the challenges of the first few years in the marketplace**

⁶ IMS Health/IQVIA, “Medicine Use and Spending in the U.S. A Review of 2017 and Outlook to 2022.” (2018, April). Retrieved from <https://www.iqvia.com/>

⁷ Intalere. Illuminated Path Podcast [Audio podcast]. Danis, Evan (Producer). (2018, December 11). Retrieved from <http://www.intalere.com/>

INDEPENDENT SPECIALTY PHARMACIES SUMMARY

Highlights among Independent Specialty Pharmacies Surveyed

Survey responses from independent specialty pharmacy professionals accurately reflect the prevailing currents in the marketplace. Despite barriers to accessing certain products, the patient census of independents is undeniably growing, with 93% of the respondents reporting that they are experiencing growth. Moreover, 45% of respondents anticipate 5%–10% growth in full-time employees in 2019–2020, and 14% expect an increase of 11%–20%.

The specialty market is evolving quickly, and with it, the use of the LDD approach. The demands for data, communication, relevant expertise, and REMS programs will eventually force specialty pharmacies to enhance their levels of service to manufacturers or risk becoming obsolete in the market. The other challenge will be their capacity to earn contracts with payors.

The most common disease states for which independent specialty pharmacies offered medications were in the areas of rheumatology, identified by 88% of respondents, and gastroenterology, cited by 86% of respondents. The next most common areas reported were infectious disease and dermatology, each with 76% of respondents working in that space. An oncology focus came in at 74%.

The specialties driving growth the most for independent specialty pharmacies are oncology/hematology, mentioned by 50% of respondents, rheumatology, identified by 45%, and gastroenterology, reported by 43%. The current low unemployment rate is having some impact on 45% of independent specialty pharmacy respondents with respect to hiring the right people, and it is having a great impact on almost 20% of respondents.

The most significant challenge cited by traditional specialty pharmacies is overwhelmingly clear: 53% of respondents are challenged in some way by PBMs/access to payor contracts. Companies are frustrated by being unable to serve patients even when the clinician and the patient have chosen them. Administratively, it is challenging to meet goals in an

environment where a company can serve only five out of ten patients they receive from a prescriber. Staffing and being able to hire the best people was cited by 10% of the respondents.

The second-most-reported challenge is product access and exclusion from LDD networks, as reported by 33% of the respondents. While access to LDD products can represent a significant challenge for traditional specialty pharmacies, this does not mean there is no access to LDD products within the survey group. Almost 72% of respondents reported having access to limited distribution products, and 62% reported gaining access to new LDD products in 2018.

Over 35% of respondents cited manufacturers as the greatest challenge to access LDDs, while another 19% reported that their volume and size were the major factors limiting access.

Respondents report that they believe that the smaller census of patients they currently serve is one of the key reasons manufacturers have not allowed them to prove themselves.

Of the specialty pharmacies surveyed, 73% report that they provide data to manufacturers. In this survey, 48% of respondents reported an average turnaround time from receipt of referral until the product is provided to a patient of two to three days (when advance authorization is required). Another 33% reported that the process takes them an average of four to seven days. Moreover, another 13% reported that this entire process is measured not in days but rather in weeks. The ultimate goal of a specialty pharmacy should be to hire, train, and implement personnel and procedures that minimize this period.

Payor challenges were identified as a primary issue for all respondents in each segment of the survey. Among traditional specialty pharmacies, over 45% reported that network exclusions and an effort to cut out independent pharmacies have been the greatest challenge to adding access to lives. Another

INDEPENDENT SPECIALTY PHARMACIES SUMMARY

42% indicated that not having someone dedicated exclusively to that role in the company was the most significant hurdle in accessing lives, and 39% felt they were too small in size.

Another typical response involved PBMs carving out their own mandated specialty pharmacies. The combination of a reduction in accessible contracts, the lack of appropriate payments by payors, and network lockouts by PBMs is making it extremely difficult for pharmacies to compete. Over 30% of respondents failed to gain access to any new payor networks in 2018, and another 38% gained access to only one or two new networks.

The role of accreditation has always been challenging and complex for independent specialty pharmacies, and many focus on completing the process early on in the hope of gaining entry to more payor contracts. However, accreditation does not necessarily guarantee entry into payor networks. Interestingly, almost 63% of respondents that do not have dual accreditation do not feel that it has negatively affected their company in any way.

It is important to note that accreditation alone is not enough for access to most plans. It will only give pharmacies a better chance to earn network approval. The bottom line is that pharmacies lacking any accreditations face significant obstacles in today's market.

In the traditional specialty pharmacy segment, the two most frequently cited accreditations were URAC (63%) and ACHC (46%).

The survey also looked at how pharmacies perceive the effectiveness of their sales teams—a critical component because an unqualified or insufficiently trained sales team can negate the best efforts of an outstanding pharmacy.

In this survey, only 18% believe they have an “outstanding” sales team; 41% stated their sales team was “good,” and 23% rated their sales team as “average.” Eighteen percent of respondents believe their sales teams are “below average,” “poor,” or “unacceptable.”

It is important to note that unless someone is

actively spending time in the field with sales representatives, observing, coaching, and holding everyone accountable, it is difficult to assess a team's capabilities and skill level.

The mediocre perceptions of so many sales teams is noteworthy: this could signal a lack of investment by companies in training and coaching to optimize their teams' performance. Moreover, the perception of mediocre sales teams is often confused with a pharmacy's lack of realistic goals and expectations. Sales leadership needs to avoid the trap of focusing solely on the quick hits. Because of a crowded and competitive landscape in specialty pharmacy, it can often take up to several months for a new sales representative in a territory to build relationships that will lead to referrals. Therefore, it is critical that sales leadership be patient and look at longer-term goals and results.

We found that 31% of respondents believe payor hurdles and their sales team's lack of understanding of payors and PBMs pose the most serious challenges to sales staff.

Over 16% cited sheer competition as a challenge in their sales representatives' ability to drive success. It is critical for salespeople to understand their competition and have a succinct message that is effective in contending with each competitor.

When asked to identify what set their pharmacy apart, it was no surprise that 70% of respondents said their personalized and efficient level of customer service was a key differentiating factor for their pharmacy and 23% reported that their communication with patients, turnaround, delivery, and data-driven outcomes set them apart.

Specialty pharmacies need to tread lightly when identifying customer service as a differentiator, especially if they have not undertaken an honest, comprehensive self-examination to determine their strengths and weaknesses and what their unique service offering is. Customer service is

INDEPENDENT SPECIALTY PHARMACIES SUMMARY

not a differentiator in and of itself, as practically all specialty pharmacies boast of exceptional capabilities in this area. It is vital for a company to identify what truly makes it unique within its market.

A significant observation is the impact payors are having on the ability to service patients numbers, as almost one-third of respondents said they could service only between 25% and 49% of the patients they receive. Not all independent specialty pharmacies were hindered in this way; 29% of respondents reported a conversion rate between 50% and 74%, and almost 30% reported a conversion rate between 75% and 99%.

Pharmacies may benefit from noting trends in conversion rates across categories. Focusing on areas with higher conversion rates, both geographically and in specialty therapeutic areas, could positively impact conversion rates.

Improving conversion rates, successfully differentiating, developing the capacity to provide more robust data, and implementing adherence and compliance programs, all while proving outcomes, will enhance a pharmacy's standing with both payors and LDDs.

Traditional specialty pharmacy survey participants showed mixed feelings about the market heading toward 2020 and beyond. More than 20% see increased growth ahead for the industry with more new drugs coming to market. However, over half of all respondents (54%) shared unfavorable expectations moving forward, including the following:

- **declining reimbursement and profitability and increasing margin compression**
- **Increasing barriers by payors and unpredictable fees**
- **more regulation, vertical integration, and mergers**

As was the case in 2017, large PBMs and health

plans were identified as continuing to drive more patients to one another and fewer in the direction of independents. Some respondents believed there would be more consolidation and fewer specialty pharmacies in the years ahead. There is also a belief that reform is needed (particularly where PBMs are concerned) for smaller pharmacies and independents to be able to compete.

There was also a sentiment expressed by respondents that with more specialty products coming to market, increased restrictions and tighter networks may accompany them. As the market continues to change, it will be imperative for these pharmacies to recognize the trends and stay ahead of them. Becoming efficient and nimble while developing the offerings that will allow them to compete will help independent specialty pharmacies in the future.

Independent specialty pharmacies can build upon their unique expertise in managing the many challenges and nuances associated with specialty medications, especially when many treatments are now administered in the patient's home. Patients will continue to need skilled, knowledgeable, and compassionate partners to help them navigate their care.

PAYORS SUMMARY

Overview

The healthcare landscape underwent some seismic shifts in 2018 due to vertical mergers and large-scale acquisitions as well as the entrance of new disruptors. The biggest deals, and perhaps the most transformative, were between payors and PBMs— notably, the CVS Health \$69 billion acquisition of health insurer Aetna and the \$67 billion acquisition of Express Scripts, a PBM, by Cigna Corporation, the fifth-largest health insurer in the United States.

Diplomat Pharmacy unveiled its own PBM, CastiaRx, after it acquired LDI Integrated Pharmacy Services and National Pharmaceutical Services, and UnitedHealth Group Inc.'s Optum business announced it had purchased Avella Specialty Pharmacy in October 2018.

As of the date of publication, Walgreens Boots Alliance and health insurer Humana were reported to be in preliminary discussions about taking equity stakes in each other and contemplating the possibility of expanding a clinic partnership.

The healthcare industry also continues to regard with great interest Amazon's push into healthcare with its acquisition of online pharmacy PillPack and its agreement with Berkshire Hathaway and JPMorgan Chase to team up to form Haven. Also of interest was that tech giant Apple launched its Health Records platform.

Currently, the PBM market is highly concentrated, with approximately 70% of all prescriptions handled by just three PBMs: CVS Caremark, UnitedHealth Group-owned OptumRx, and Express Scripts.

The result is that all eyes were on PBMs in 2018 as lawmakers, regulators, and industry players scrambled to make sense of what all the vertical integration means to the industry going forward. Moreover, the lack of transparency with which PBMs have traditionally operated has now come under the microscope.

Despite gaining a competitive advantage through vertical integration, PBM-owned specialty pharmacies still face challenges in the marketplace. Manufacturers typically hold them to the same

standards as other independent specialty pharmacies and do not necessarily always select them for network inclusion.

Increasingly, employers are expressing dissatisfaction with payor-owned PBMs and are seeking to create their own PBM-like model to have more control over the care of their employees.⁸

Ultimately, PBM-owned specialty pharmacies need to demonstrate a consistent commitment to patient care and satisfaction and provide patients with a satisfactory experience in a pharmacy that they feel is acting in their best interests. Otherwise, the shifting sands and disruptive forces in the marketplace could jeopardize their long-term sustainability.

Highlights among Payors Surveyed

Of those responding, 75% of payors surveyed said they have their own PBM, and half of them own a specialty pharmacy. Those payors that do not own a specialty pharmacy have between one and two specialty pharmacies in their network. Also, 50% of payors report having a health system specialty pharmacy in their network.

Interestingly, 50% of payors require their specialty pharmacies to have dual accreditation, and 25% of them require three or more accreditations. This data is in contrast to responses from independent specialty pharmacies indicating that almost 65% of independents that do not have dual accreditation do not feel that it has negatively impacted their company in any way.

When asked about the most significant challenge they have with specialty pharmacies within their networks, payors identified the following:

- pricing
- communication flow
- order adjudication
- limited regional coverage

8 Adam J. Fein, Ph.D., Drug Channels Institute, "If Employers Are So Unhappy with Their PBMs, Why Can't They Change the Model?," (2017, November 15), Retrieved from <http://www.drugchannels.net/>

PAYORS SUMMARY

For 50% of payor respondents, specialty pharmacy represents between 20% to 36% of their total drug spend, while for 25% of payors, it represents over 75% of total drug spend. Half of all payors are currently tracking a 13% to 25% growth in specialty pharmacy spend. Payors highlighted the challenge of predicting costs throughout the year and into the future. In some cases, 1%–2% of patients drive 50% of the cost.

Where evaluation of new applicants for specialty pharmacy enrollment is concerned, 75% of payors surveyed schedule enrollment by state based on annual or biannual open windows, and 25% have open enrollment via application. Three-quarters of payors are not satisfied with the data they receive from specialty pharmacy providers. To rectify the situation, payors recommend enhanced outcomes and intervention information, real-time data, and consistency.

About half of all payors are very pleased with their specialty pharmacy's customer service, while another 50% indicated that they are satisfied or less than satisfied. Payors responding indicated that specialty pharmacies could make the following improvements to enhance services to their members:

- **having open refill tape conversions**
- **matching retail pricing**
- **timely mail order delivery**
- **access to medications**
- **consistency**
- **better knowledge of drugs**
- **supplying more accurate data**

When asked how they see specialty pharmacy evolving into 2020 and beyond, payors saw themselves becoming increasingly owned by the largest PBMs as the industry plays a more central role on the healthcare stage. Some payors see the specialty landscape becoming more expensive and harder to manage, especially because many employers are not experienced or well-versed in the workings of the industry.

A person wearing a white protective suit, hood, and face mask is working in a laboratory. They are holding a dark, cylindrical container with their right hand. The background shows laboratory equipment and a blurred environment. The overall image has a blue tint.

SECTION 1

MANUFACTURERS SURVEY

MANUFACTURERS SURVEY

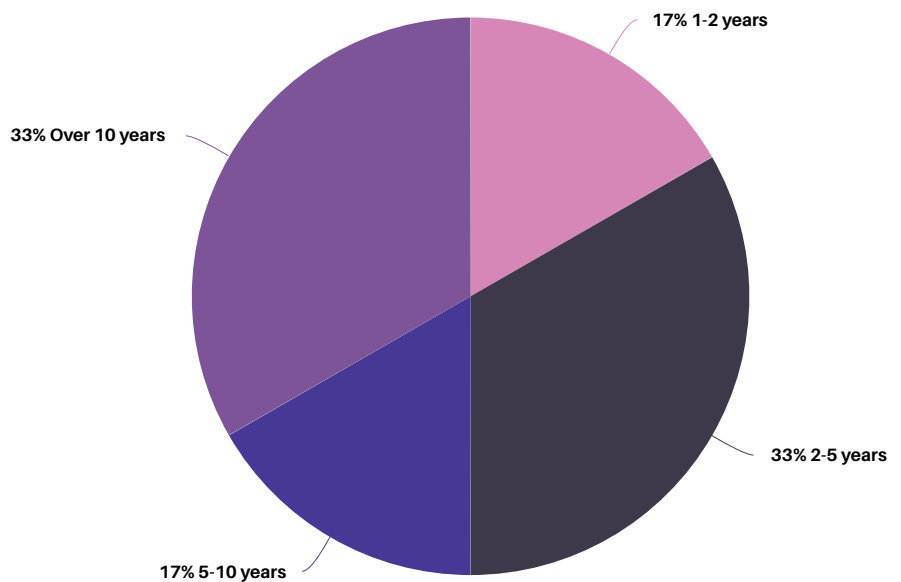
What Is Your Job Title?

Of the manufacturers that participated in the 2019 *State of Specialty Pharmacy Report*, respondents reported job titles in the following categories:

- director, market access
- director, trade relations
- regional account manager
- regional director
- executive director, trade
- hub services manager

How Long Have You Been with Your Company?

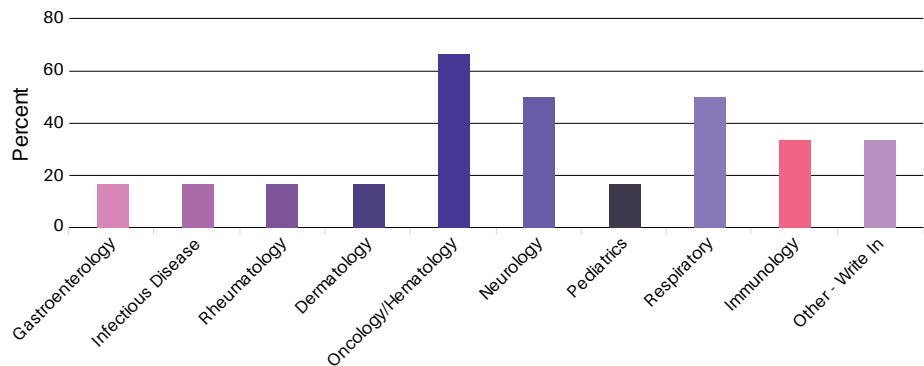
When asked how long they have been with their current company, 33% of respondents indicated that they have been with their employer for more than ten years, 17% said between five and ten years, another 33% said between two and five years, and 17% said between one to two years.



Which Specialties Use Your Products?

When asked which specialties use their products, an overwhelming majority (67%) of manufacturers said their products are used in oncology/hematology. Other specialty areas where manufacturers reported their products are employed include the following:

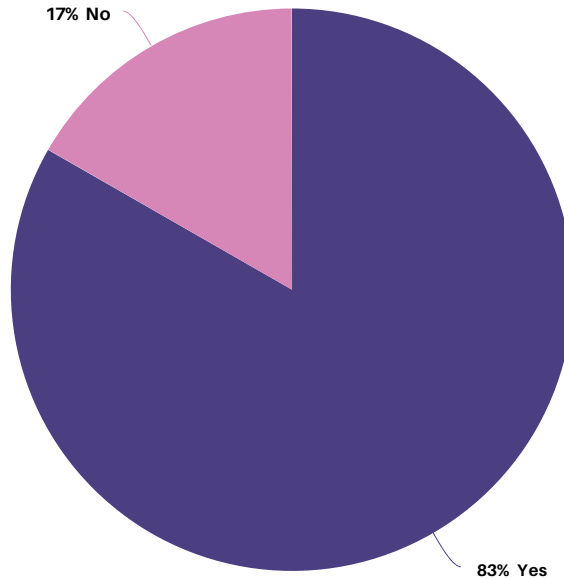
- respiratory/pulmonology (50% of manufacturers)
- neurology (50%)
- immunology (33%)
- rheumatology (17%)
- dermatology (17%)
- infectious disease (17%)
- pediatrics (17%)
- gastroenterology (17%)
- ophthalmology (17%)
- endocrinology (17%)



MANUFACTURERS SURVEY

Are Any of Your Products Managed by Limited Distribution?

When asked if any of their products were managed by limited distribution, 83% of manufacturers reported they did have products managed by limited distribution.

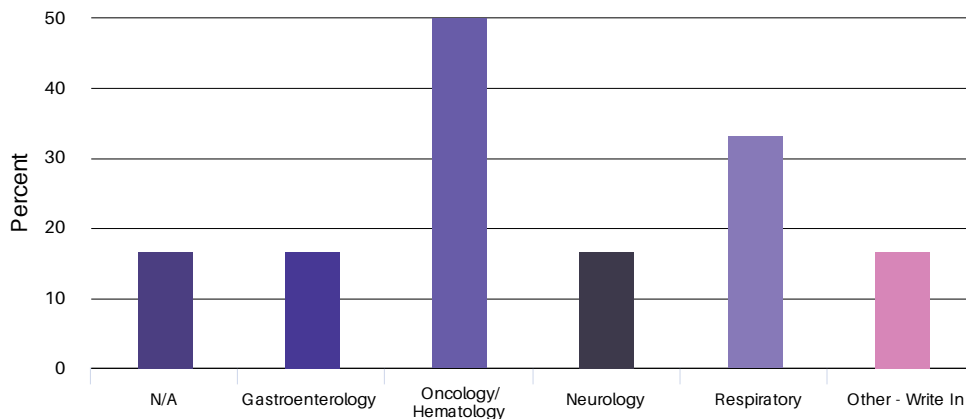


With What Specialty Areas Are Your LDDs Associated?

As for the particular specialty areas associated with those limited-distribution drugs (LDDs), oncology/hematology again topped the list, with 50% of manufacturers having LDDs in that category.

Other top categories linked to LDDs included the following:

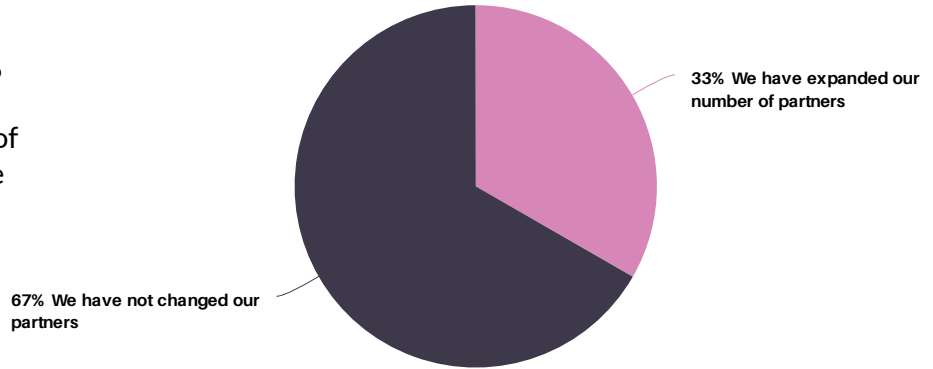
- respiratory (33%)
- neurology (17%)
- gastroenterology (17%)
- ophthalmology (17%)



MANUFACTURERS SURVEY

Have You Made Changes to Your LDD Partnerships in the Past Year?

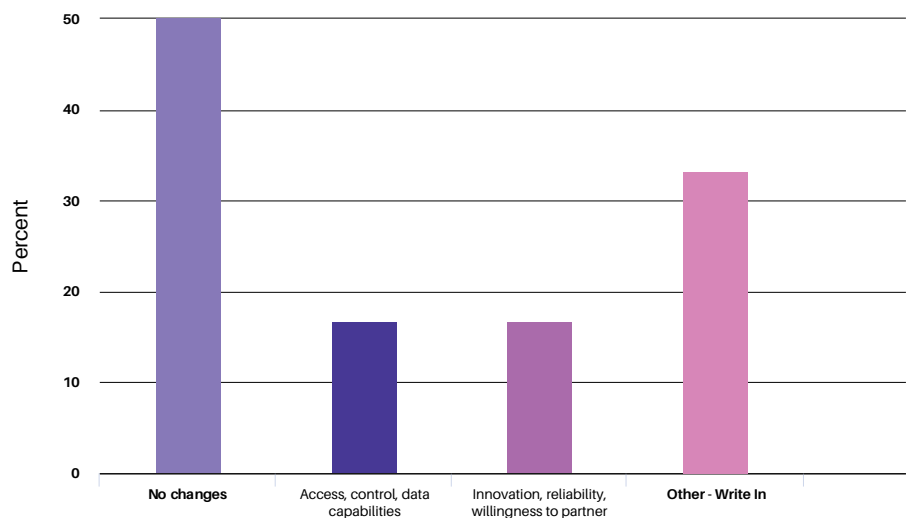
When asked if they had made any changes to their LDD partnerships in the past year, 33% of manufacturers surveyed said they had expanded their number of partners, while 67% had not made any changes.



If You Made Changes to Your LDD Partnerships, What Drove the Change?

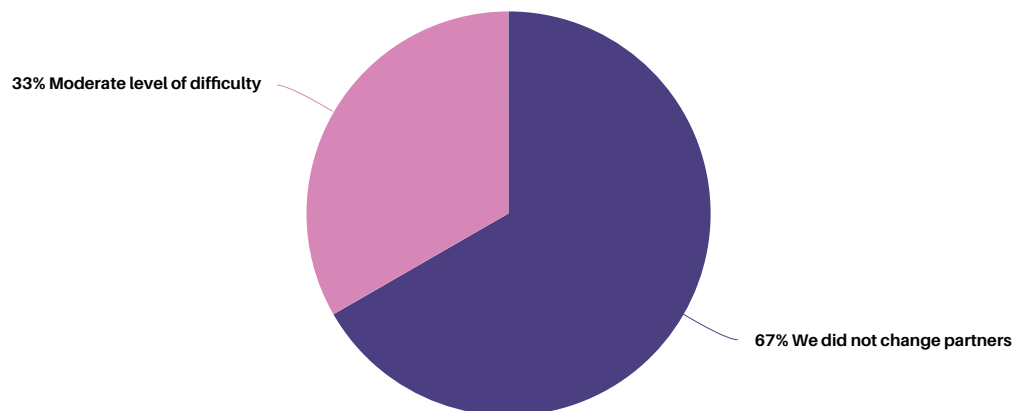
The major driving forces behind changes to LDD partnerships cited by manufacturers were the following:

- access, control, and data capabilities (17%)
- innovation, reliability, and willingness to partner (17%)
- payor-driven forces (17%)



If You Changed Your LDD Partners, How Was the Process?

Of those manufacturers that changed LDD partners, 33% reported that the process was moderately difficult.



MANUFACTURERS SURVEY

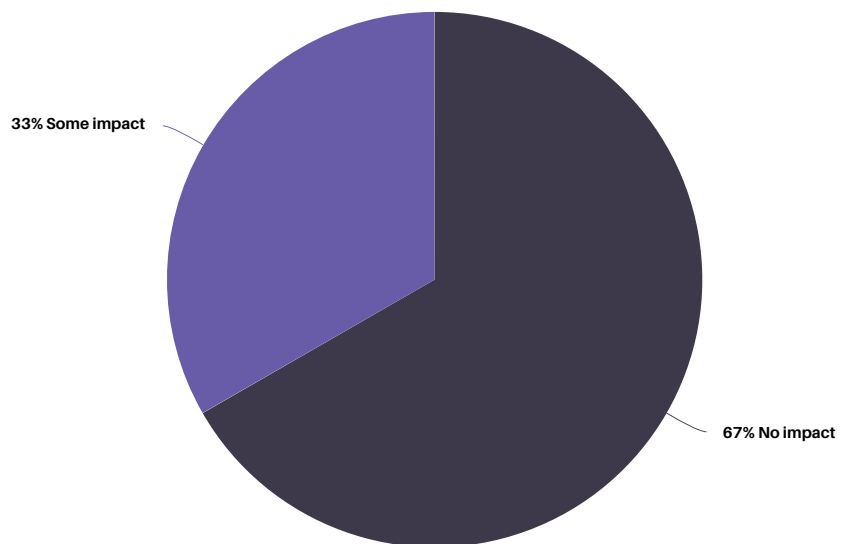
How Many Specialty Pharmacies Do You Have in Your LDD Network?

There was a wide variance in the number of specialty pharmacies manufacturers had in their LDD networks:

- 33% of manufacturers reported having 6 or fewer specialty pharmacies
- 17% of manufacturers stated they had more than 30 specialty pharmacies
- 17% of manufacturers possessed multiple pharmacy ranges for different products
- 33% of respondents were not able to provide accurate information

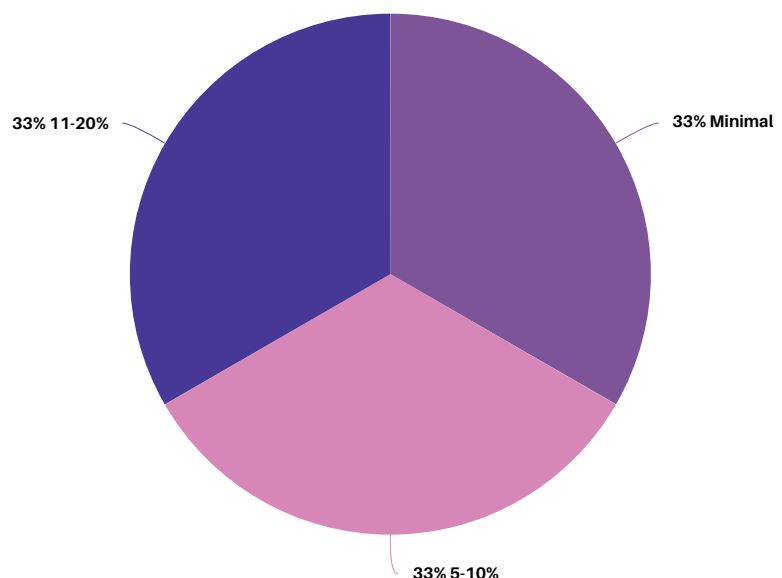
How Is the Low Unemployment Rate Impacting Your Ability to Hire the Right People?

When asked if the current employment climate is having an impact on hiring the best people, two-thirds of manufacturers stated that the low unemployment rate is having no impact, while 33% of manufacturers reported it is having some impact.



What Percent Growth in Full-Time Employees Do You Anticipate in 2019-2020?

A third of manufacturers expect 11%-20% growth of their full-time staff in 2019-2020, and another 33% anticipate an increase of between 5% and 10%. A final 33% of manufacturers expect minimal growth.



MANUFACTURERS SURVEY

How Many Full-Time Employees Do You Have?

Half of manufacturers reported having between 275 and 550 employees, while 17% of manufacturers have upward of 40,000 employees.

Another 17% have fewer than 25 employees, and 17% did not respond.

1/2 have between 275 and 550 employees

What Is Your Annual Revenue?

When asked about their annual revenue, 33% of manufacturers reported between \$5 and \$10 billion and another 33% reported between \$200 and \$240 million. Approximately one third did not respond to this question.

What Have Been the Biggest Challenges in 2018 versus 2017?

Manufacturers cited a wide range of significant challenges in 2018 versus 2017.

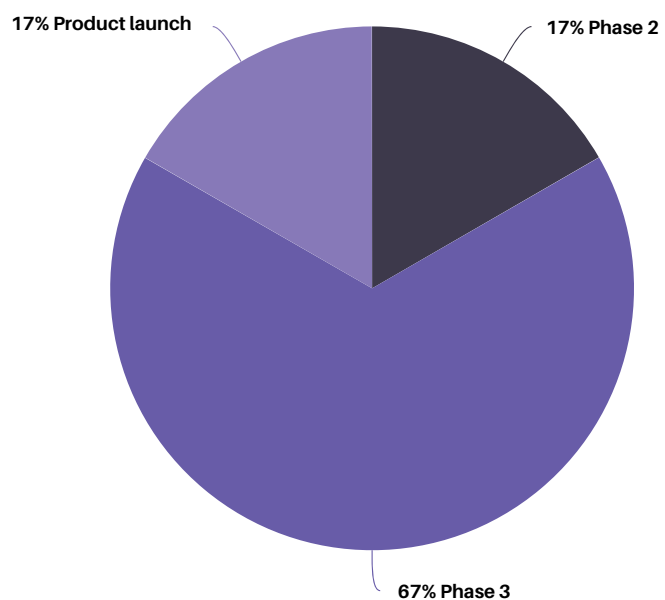
Heading the list were payor controls and payor-created access hurdles cited by 33% of manufacturers. Other challenges mentioned included the following:

- engaging with IDNs
- co-pay accumulators
- debt and site consolidation
- HCP acceptance/uptake
- managing the impacts of a loss in sales force and the associated gross and net revenue streams

At What Stage of Product Development Did You Begin Evaluating Your Specialty Pharmacy Partners?

When asked at what stage of product development they began evaluating their specialty pharmacy partners, 67% of manufacturers reported having done so at phase 3, while others reported as follows:

- at product launch (17%)
- at phase 2 (17%)



MANUFACTURERS SURVEY

What Are the Top Reasons You Chose the Specialty Pharmacy Partners in Your Network?

Choosing the right specialty pharmacy partner is a detailed and complex process that involves multiple criteria and depends on each manufacturer's unique situation. When asked what the most important reasons for choosing the specialty pharmacy partners in their network were, 33% of manufacturers indicated access to payors and payor relationships as the leading factor.

Other factors mentioned included the following:

- access, support services, and data capability
- quality and reach
- customer service
- network and services

33% indicated access to payors and payor relationships

How Can the Specialty Pharmacies in Your Current LDD Network Improve?

When asked how the specialty pharmacies in their current LDD network could improve, manufacturers provided some straightforward advice, with more than half of the respondents indicating a desire for enhancement of services across the board, including in the areas of communication, responsiveness, data services, flexibility, and reporting.

Secondly, 33% of manufacturers suggested that SPs in their current LDD network improve access to and quality of data.

Other recommendations included the following:

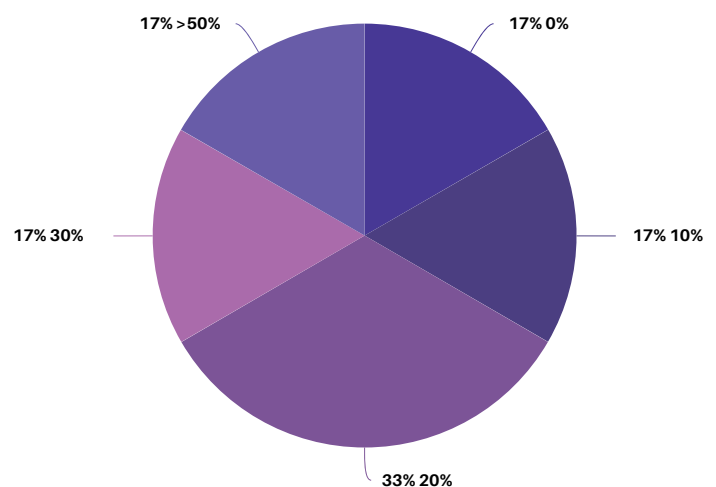
- faster time to fill
- continued improvement in services
- improvement in adherence

Seventeen percent did not respond.

What Percentage of Patients Referred to Your LDD Partners Are Not Able to Be Serviced by Those Specialty Pharmacies Due to Payor/Access Challenges?

Over 80% of manufacturers reported that their patients had some sort of issue being serviced by their LDD partner specialty pharmacies. Although the percentage of patients with problems varied among respondents, a third of manufacturers reported that 20% of their patients had difficulties with service.

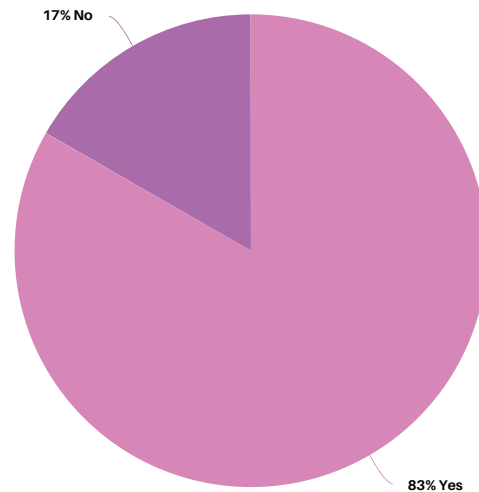
- 17% reported a 10% difficulty rate with patient service
- 17% reported a 30% difficulty rate with patient service
- 17% reported a greater-than-50% difficulty rate



MANUFACTURERS SURVEY

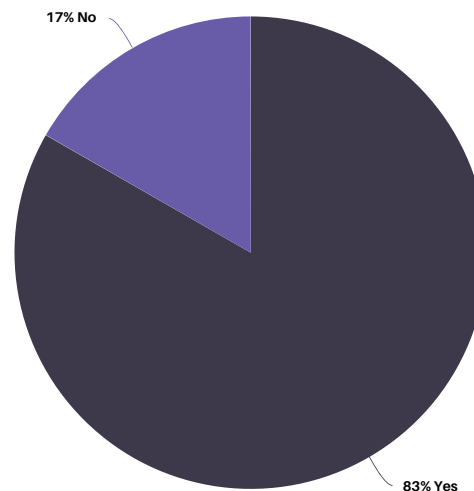
Have You Considered Health System-Owned Specialty Pharmacies for Inclusion in Your Limited Distribution Network?

An overwhelming 83% of respondents reported that they have considered health system-owned specialty pharmacies for inclusion in their limited distribution network, while 17% reported that they have not.



Have You Given Any Health Systems Access to Your LDD Product in 2018?

We found that 83% of manufacturers gave health system specialty pharmacies access to their LDD products in 2018, with 17% of manufacturers reporting that they did not do so.



If So, What Factors Drove Your Decision to Include Health System Specialty Pharmacies?

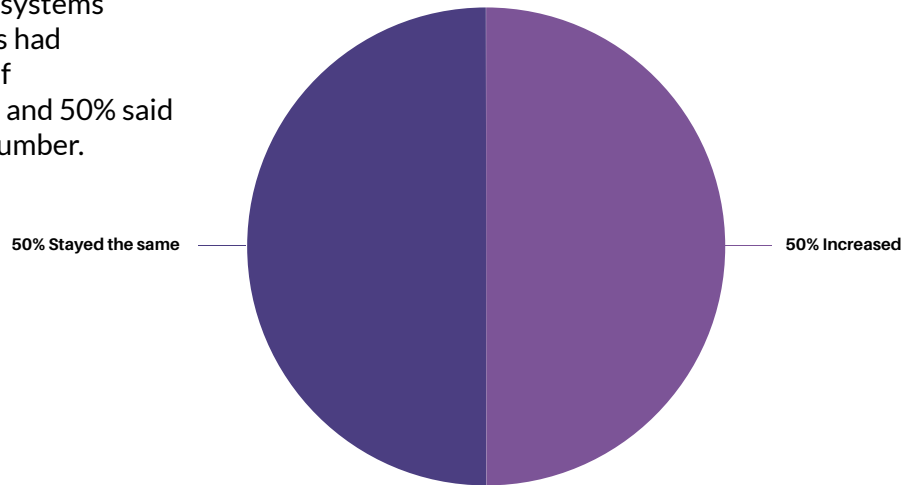
Manufacturers cited an array of factors that influenced their decision to give health systems access to their LDD products. One-third of manufacturers (33%) reported that patient and provider needs regarding the type of drug and pharmacy versus the medical benefit drove the decision. Other responses included the following:

- type of specialty and target prescriber affiliation
- continuity of care
- requests by physician groups

MANUFACTURERS SURVEY

Over the Past 12 Months, Has the Number of Health Systems Gaining Access to Your LDD Products Increased?

When asked if the number of health systems gaining access to their LDD products had increased or stayed the same, 50% of manufacturers reported an increase and 50% said they had maintained their existing number.



What, if Anything, Limits the Addition of a Health System Specialty Pharmacy to Accessing Your LDD?

When asked about the limitations involved in allowing health systems access to LDD products, manufacturers were frank in their responses, which ranged from data comprehensiveness to the risk of drug leaks to the wrong classes of trade. Other responses included the following:

- scale, number of patients
- no limits, only choice
- an inability to serve commercial patients with payor carve-outs and an inability to service

Do You Currently Provide Any HUB Model Solutions for Your Patients and Prescribers?

All (100%) of the manufacturers surveyed provide HUB model solutions for their patients and prescribers.

What Kind of HUB Service Model Do You Have?

All manufacturers surveyed indicated that they work with a third-party vendor for their HUB service model. The third-party vendors mentioned include the following:

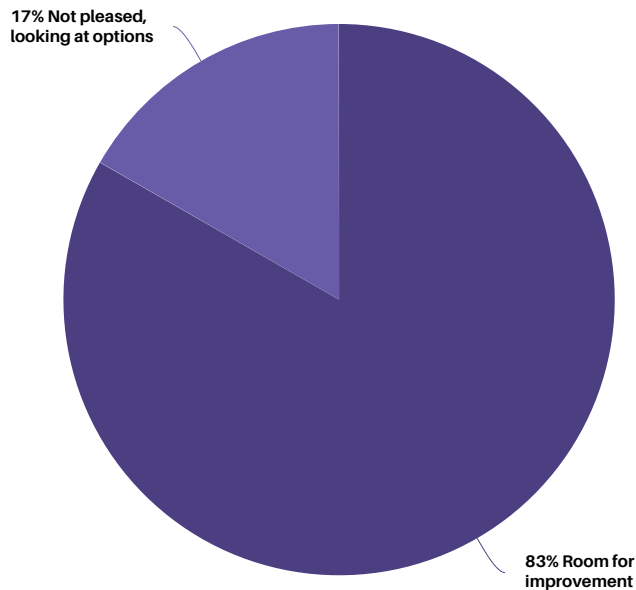
- ABSG
- Assist Rx
- CareMetx
- RxCrossroads
- Covance

All manufacturers surveyed indicated that they work with a third-party vendor for their HUB service model

MANUFACTURERS SURVEY

Overall, How Satisfied Are You with Your Current HUB Model?

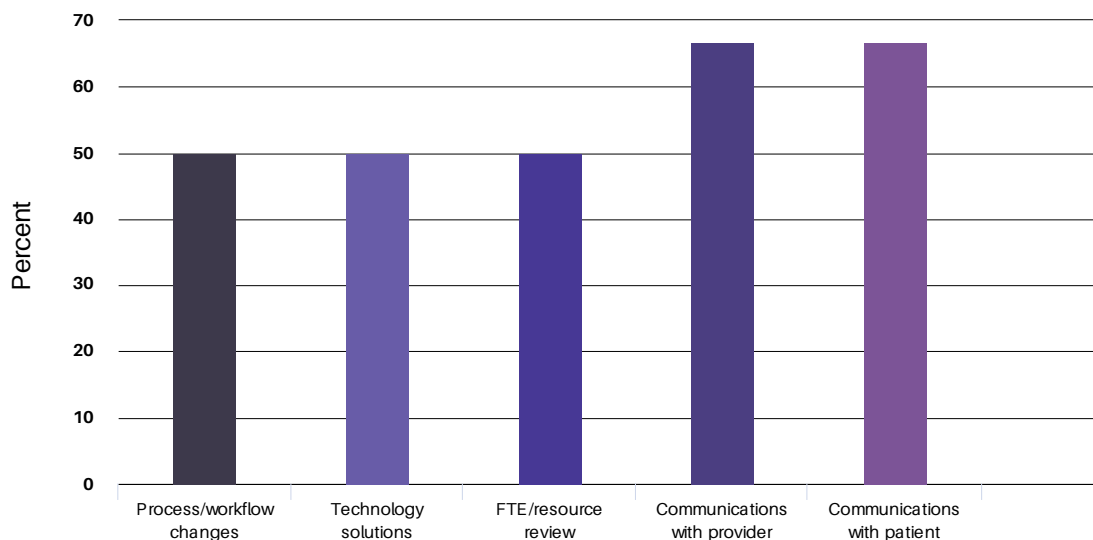
Interestingly, 83% of all manufacturers surveyed indicated that there is room for improvement in their current HUB model, and 17% indicated they are not pleased and are pursuing other options.



What Area(s) of Your Patient’s Journey Is Your HUB Provider Working on Today to Improve Your Program’s Effectiveness?

In our survey, 67% of all manufacturers reported that both communications with the provider and communications with the patient were the main areas their HUB provider(s) were working to improve. Other areas reported include the following:

- technology solutions (50%)
- process/workflow changes (50%)
- FTE/resource review (50%)



MANUFACTURERS SURVEY

What's Missing Today in the Current HUB Model Offerings? What Would You Like to See Changed/Updated?

Of all manufacturer respondents, 33% said they would like to see better and more reliable data flow and less duplication with specialty pharmacies when it comes to their HUB. Other answers and suggestions included the following:

- triage live Rx (17%)
- nothing (17%)
- unable to answer (22%)

33% would like to see better and more reliable data flow and less duplication with specialty pharmacies

What Do You Believe Is the Biggest Consideration in Deciding Which Health System-Owned Specialty Pharmacy to Add to Your Distribution Networks?

A majority of respondents indicated that payor access and relationships with payors are the most significant considerations when considering a health system-owned specialty pharmacy. Other factors included the following:

- business impact (20%)
- patient fill rate versus “one and done” with a payor (20%)
- specialty and number of patients (20%)

What Would Potential Drawbacks Be When Including Health System-Owned Specialty Pharmacies in Your Network?

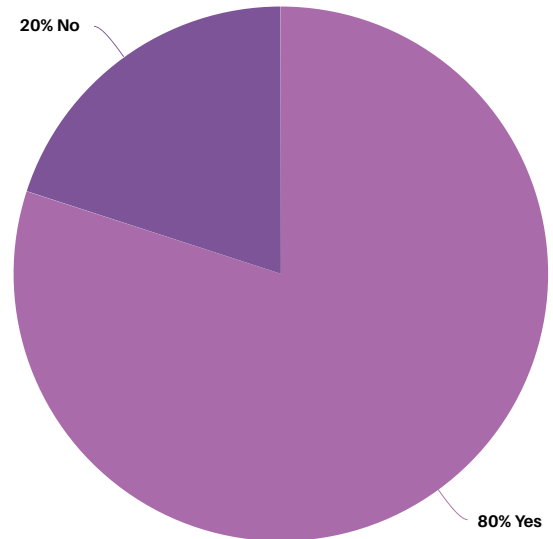
Manufacturer concerns about including health systems in their networks revolved around a myriad of factors including the following:

- payor blocks and network exclusion
- too many contracts
- lack of data insights and reporting ability
- too few patients
- the burden of managing more pharmacies

MANUFACTURERS SURVEY

Are You Actively Looking at Ways to Create Value-Based Reimbursement Programs for Your Products?

When asked if they are actively researching ways to create value-based reimbursement programs for their products, 80% of manufacturers indicated that they are while 20% stated they are not.



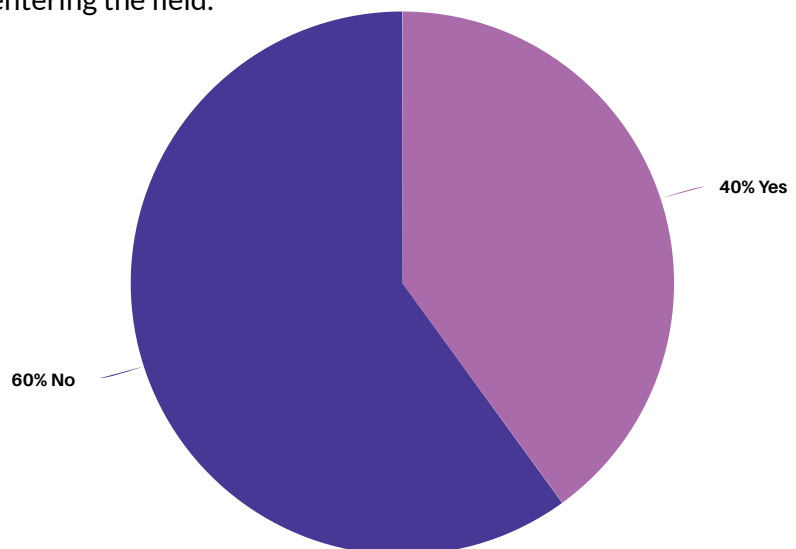
How Do You Anticipate Your Company's Needs and Expectations Will Evolve into 2020 When It Comes to Establishing Your Limited Distribution Channels and Why?

In our survey, 20% of manufacturers reported they anticipate more selective contracting to drive optimal patient support. Another 20% of manufacturers foresee more open distribution to allow any player to participate, and a further 20% anticipate enhanced data capabilities from partners.

Forty percent of respondents were undecided or unable to provide an answer.

Have You Had New Competition Enter the Market in Your Therapeutic Areas in 2018?

The majority of manufacturers (60%) did not have new competition enter their therapeutic areas in 2018, while 40% did witness new competitors entering the field.

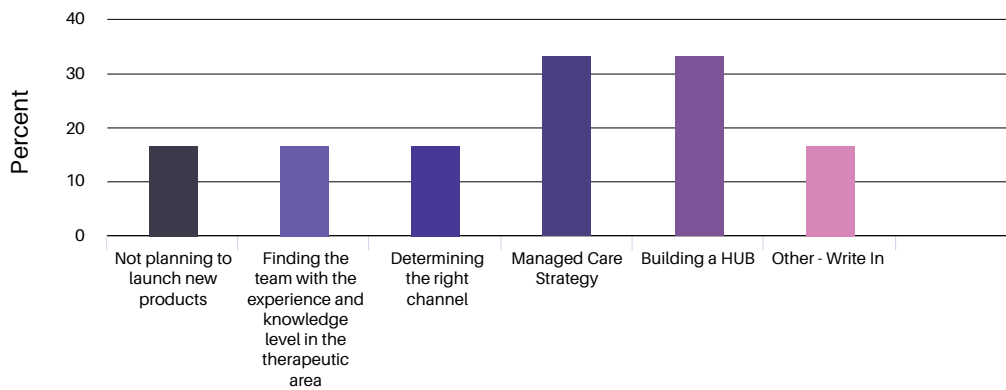


MANUFACTURERS SURVEY

If You Have Launched or Are Planning to Launch any New Products, What Has Been the Biggest Challenge You Have Faced?

A third of manufacturers (33%) indicated that a managed care strategy and building a HUB were the central challenges they faced when planning to launch new products. Other responses included the following:

- finding the team with the experience and knowledge level in the therapeutic area (17%)
- determining the right channel (17%)
- dismantling the false perception that an LDD is the best way to go (17%)
- not planning to launch new products (17%)



What Initiatives Are You Working on in 2019 to Enhance the Patient Journey?

When asked about initiatives they plan to implement to enhance the patient journey, 40% of manufacturers reported pursuing programs to improve interventions and optimize adherence. Other responses included the following:

- developing e-technology and connecting hub and specialty pharmacy data (20%)
- allowing open access so patients can fill Rx at their own pharmacies (20%)
- unable to provide an answer (20%)

A healthcare professional with short blonde hair, wearing a white lab coat, is shown in profile from the chest up. She is focused on adjusting a clear plastic IV drip chamber hanging from a stand. Her right hand is raised to the top of the drip chamber, and her left hand holds a yellow-handled tool, possibly a syringe or a small screwdriver, near the bottom of the drip chamber. The background is a blurred clinical setting with white walls and medical equipment.

SECTION 2

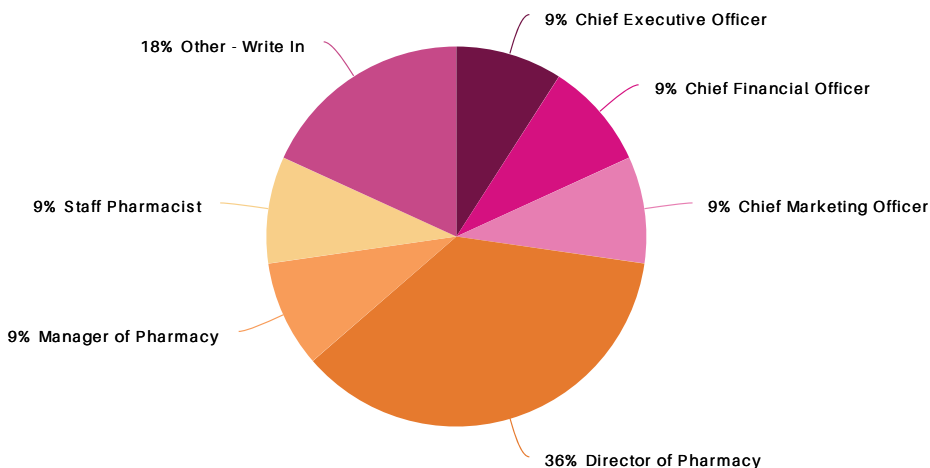
**HEALTH SYSTEM
SPECIALTY PHARMACIES
SURVEY**

HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

What Is Your Title?

Health system specialty pharmacy professionals who participated in the 2019 State of Specialty Pharmacy Report reported job titles in the following categories:

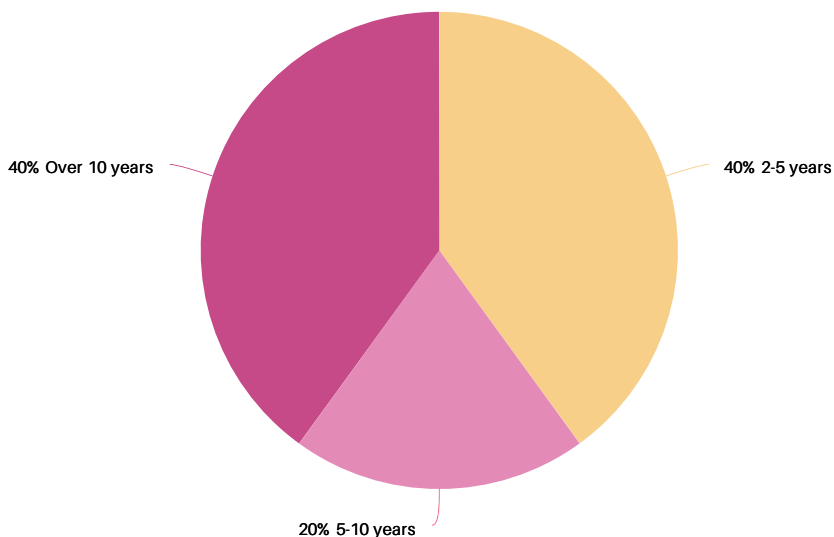
- **director of pharmacy (36%)**
- **chief executive officer (9%)**
- **chief financial officer (9%)**
- **chief marketing officer (9%)**
- **staff pharmacist (9%)**
- **manager of pharmacy (9%)**
- **other, including consultant and medical affairs pharmacist (18%)**



How Long Has Your Health System Provided Specialty Pharmacy Services to Your Employees and/or Patients?

When asked how long their health system has provided specialty pharmacy services to its employees or patients, respondents reported the following:

- **between 2 and 5 years (40%)**
- **between 5 and 10 years (20%)**
- **more than 10 years (40%)**

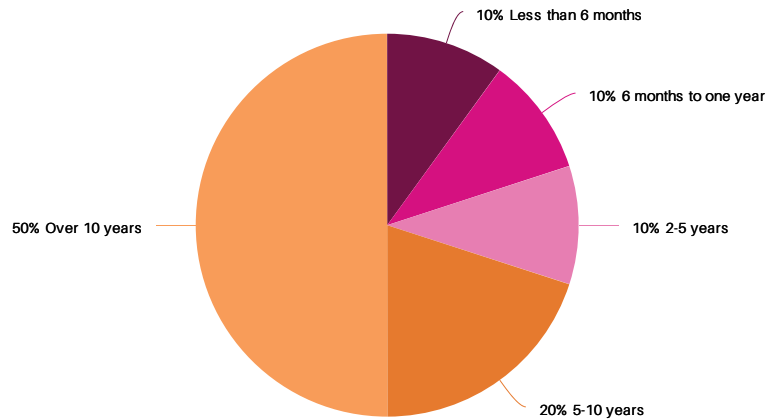


HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

If You're a Pharmacist, How Long Have You Been Working in a Health System Specialty Pharmacy?

Half of all pharmacists working in a health system specialty pharmacy (50%) have been working in that health system for over ten years.

- less than 6 months (10%)
- 6 months to one year (10%)
- 2-5 years (10%)
- 5-10 years (20%)

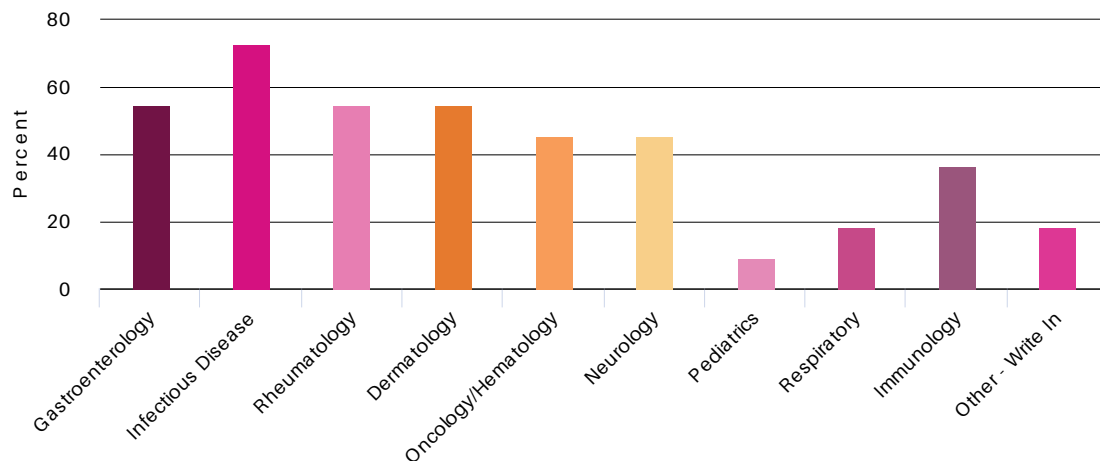


What Disease States Do You Service in Your Specialty Pharmacy?

When asked about the particular disease states that they serve in their specialty pharmacies, 73% reported diseases in the area of infectious disease, 55% said that they service gastroenterology, dermatology, or rheumatology patients, and 46% of respondents said that they service oncology/hematology or neurology patients.

Other disease states serviced by health system specialty pharmacy professionals included patients in the following fields:

- immunology (36%)
- respiratory (18%)
- pediatrics (9%)
- other, including cardiology and ophthalmology (18%)



HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

Has Your Pharmacy Patient Census Grown in the Last Year?

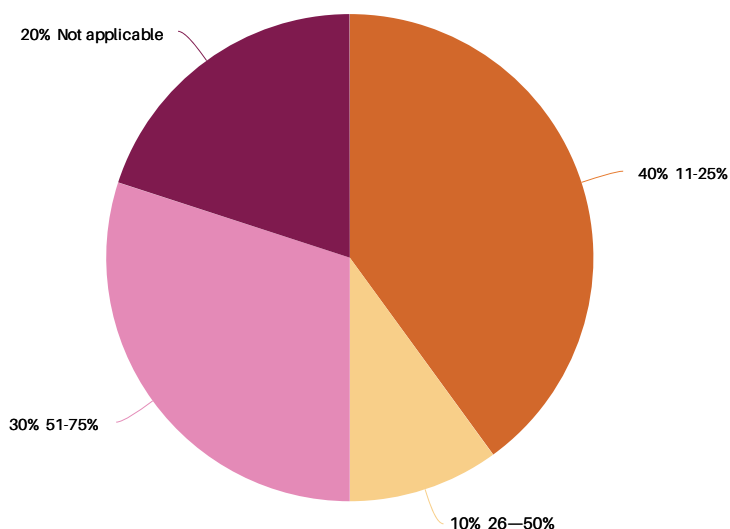
When asked if their patient census had grown in the last year, an overwhelming 80% of health system specialty pharmacies reported that yes, their pharmacy patient census had indeed grown in the past year.

80% yes, their pharmacy patient census had indeed grown in the past year.

By How Much Has Your Patient Census Grown?

As a follow-up question, respondents were asked by how much their patient census has grown. Their answers:

- 11%–25% (40%)
- 26%–50% (10%)
- 51%–75% (30%)
- not applicable (20%)

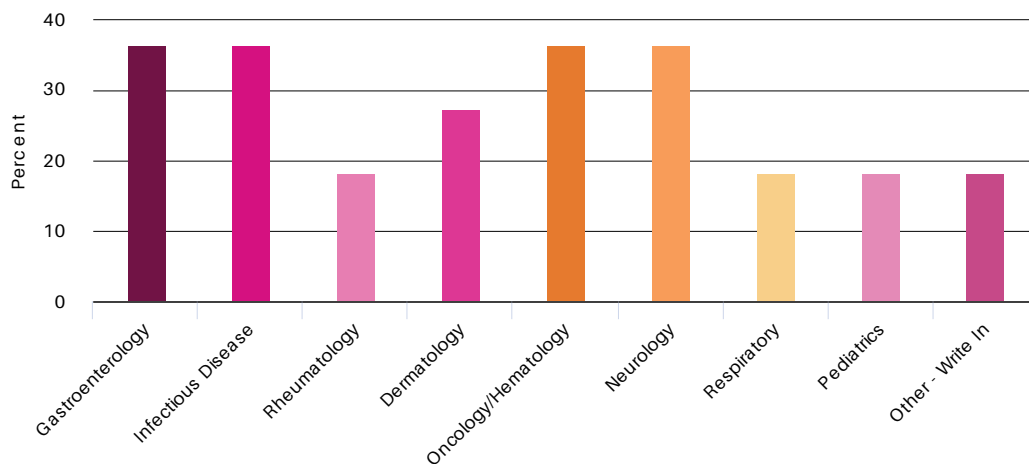


Which Specialties Are Driving Growth in Your Specialty Pharmacy?

When asked which specialties were fueling growth in their specialty pharmacies, over 36% of respondents indicated either oncology/hematology, gastroenterology, neurology, or infectious disease.

Other specialties driving growth included the following:

- dermatology (27%)
- respiratory (18%)
- pediatrics (18%)
- rheumatology (18%)
- other, including ophthalmology and HCV (18%)

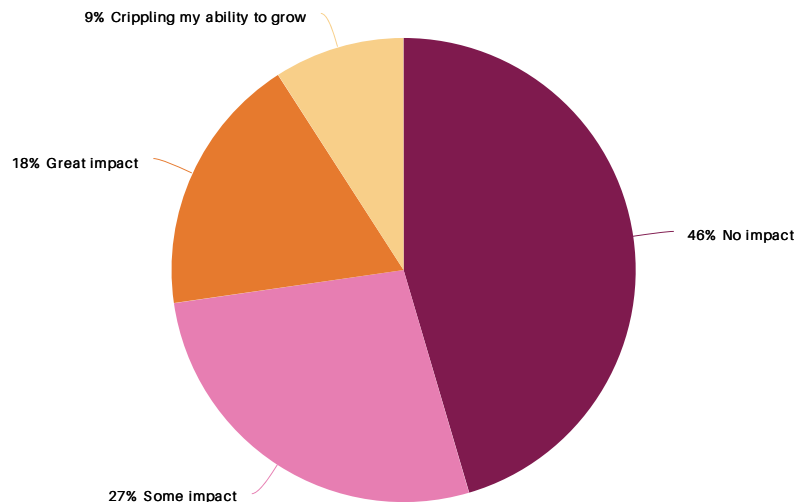


HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

How Is the Low Unemployment Rate Impacting Your Ability to Hire the Right People?

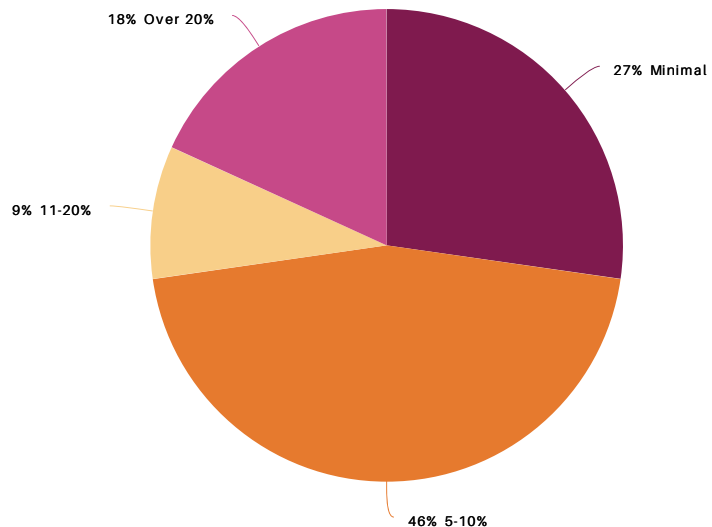
When asked if the current employment climate is having an impact on hiring the best people, 46% of health systems stated that the low unemployment rate has had no impact while 27% reported it is having some effect.

Over 18% of health systems said low unemployment is having a great impact on their ability to hire the right people, and 9% reported that it is crippling their ability to grow.



What Percent Growth in Full-Time Employees Do You Anticipate in 2019-2020?

Forty-six percent of health systems expect a 5%–10% growth in their full-time staff in 2019–2020, and another 18% anticipate an increase of over 20%. Over 27% of health systems expect minimal growth, and another 9% peg growth at 11%–20%.



How Many Full-Time Employees Do You Have?

Over 36% of health systems reported having between 12 and 20 full-time employees, while 27% have fewer than 10. Nine percent of health systems have over 65 full-time employees, and 27% did not provide an answer.

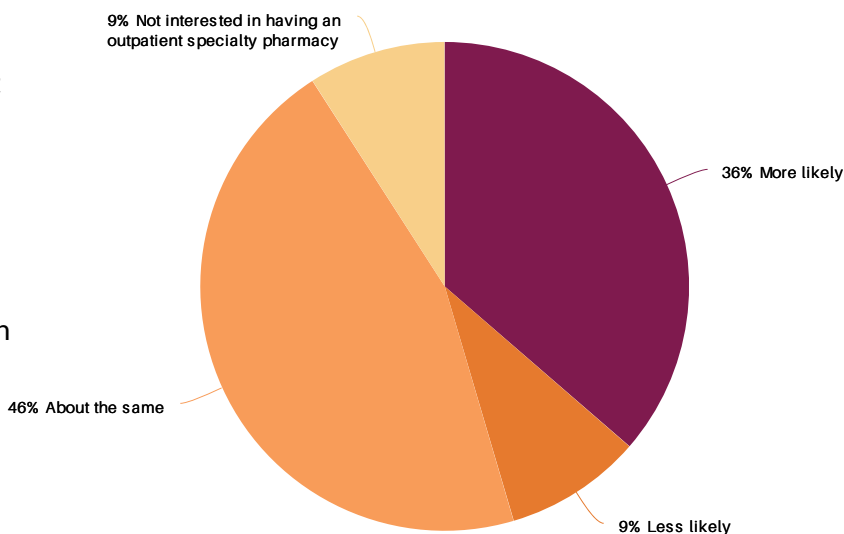
What Is Your Annual Revenue?

When asked about their annual revenue, 27% of health systems reported \$5 million or less, 18% noted revenue between \$60 million and \$80 million, and another 9% reported annual revenue of over \$80 million. Forty-six percent of health systems did not provide an answer.

HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

In Light of Recent 340B Changes, How Likely Are You to Expand Outpatient Specialty Pharmacy Services?

When asked about the likelihood of their expanding outpatient specialty pharmacy services in light of the recent 340B changes, 46% of all respondents indicated that they will maintain their current levels of service, 36% indicated that they are more likely to expand outpatient services, 9% reported that they are less likely, and 9% reported that they are not interested in having an outpatient specialty pharmacy.

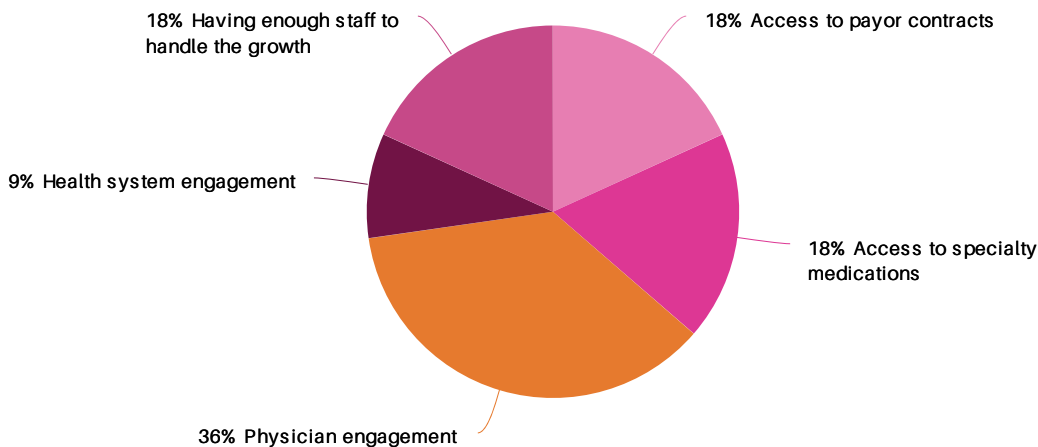


What Has Been the Biggest Challenge to Your Growth in 2018 Versus 2017?

When health system specialty pharmacy professionals were asked what their greatest challenge to growth has been this year compared to last year, 36% answered physician engagement and 18% answered access to payor contracts.

Other notable challenges included the following:

- access to specialty medications (18%)
- having enough staff to handle growth (18%)
- health system engagement (9%)



HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

What Factors Drove Your Decisions to Start Certain Disease States Prior to Other Types?

When asked about the factors that motivated the decision to start specific types of disease states, 36% of health systems stated that patient need and patient barriers in access to care were the primary factors. Another 18% reported that revenue opportunity and growing the business were the main factors. Other responses included the following:

- adherence (9%)
- 340B (9%)
- management (9%)
- unable to provide an answer (27%)

What Is the Average Level of Specialty Experience on Your Specialty Team?

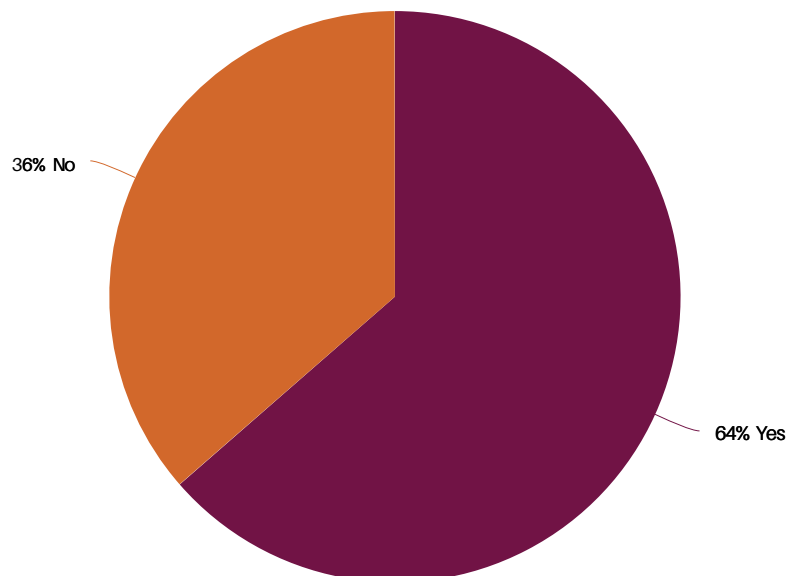
When asked about the average level of specialty experience on their specialty teams, health systems reported the following:

- between 1 and 3 years of experience (27%)
- between 10 and 15 years (18%)
- between 5 and 9 years (18%)
- rated teams' experience as "expert" or "high" (18%)
- unable to provide an answer (27%)

27% between 1 and 3 years of experience

Do You Have Access to Limited Distribution Drugs (LDDs)?

A majority of health system respondents (64%) said they do have access to LDDs, while 36% said they do not.



HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

Please List the Limited Distribution Drugs Your Pharmacy Has Access To.

Respondents were asked to list the LDDs that their health system pharmacy has access to. Results were as follows:

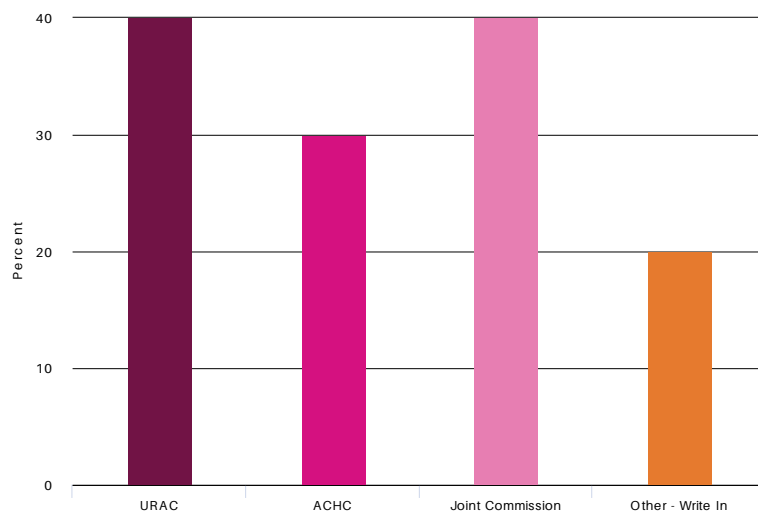
- Cayston
- Humira
- Epidiolex
- Symdeko
- Orkambi/Kalydeco
- Most oncology LDDs as well as LDDs for immune disorders

Over 60% of the respondents did not provide names of drugs; some did not have access to any LDDs while others could not disclose them or were unable to provide accurate information.

What Accreditation Do You Currently Hold?

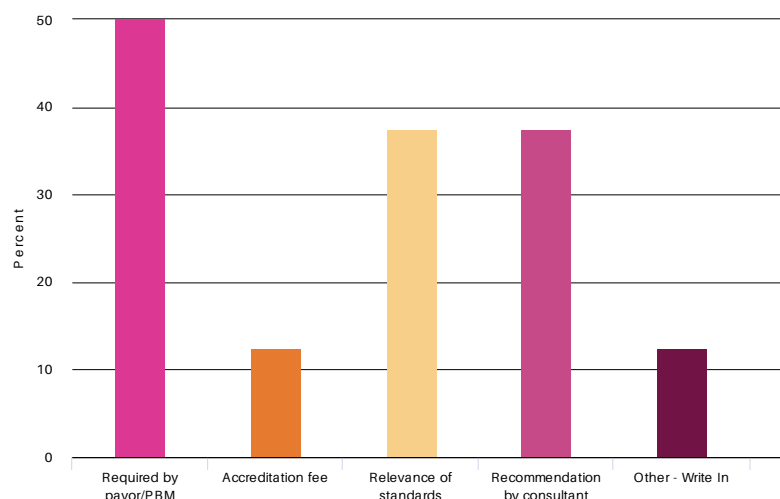
Health system specialty pharmacy professionals were asked what accreditation they currently hold. Their answers:

- Joint Commission accreditation (40%)
- URAC accreditation (40%)
- ACHC accreditation (30%)
- no accreditation yet (10%)
- in the process of URAC accreditation (10%)



Please Select the Factors Used in Selecting Your Accreditor.

The most influential factors for 50% of health systems when selecting their accreditor were requirements by the payor or PBM. The second-most-cited factors, reported by 38% of health systems, were relevance of standards and recommendations by consultants. Thirteen percent of respondents cited accreditation fees as a primary factor in their selection process.

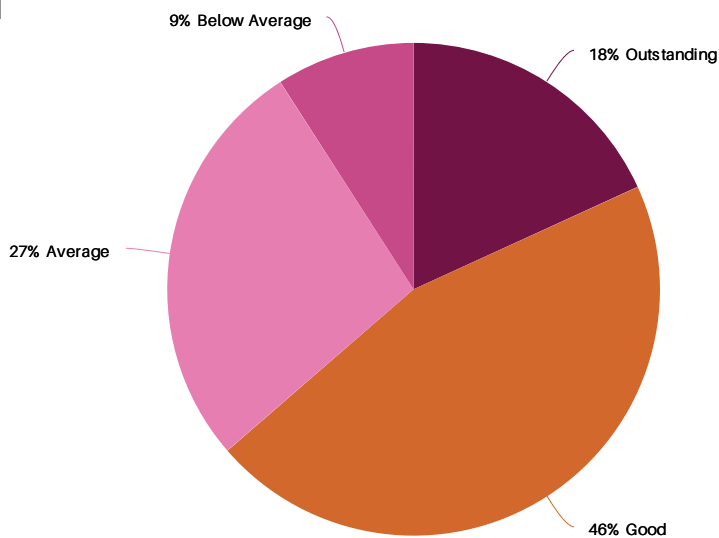


HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

How Successful Has Your Health System Been in Increasing the Use of Your Specialty Pharmacy?

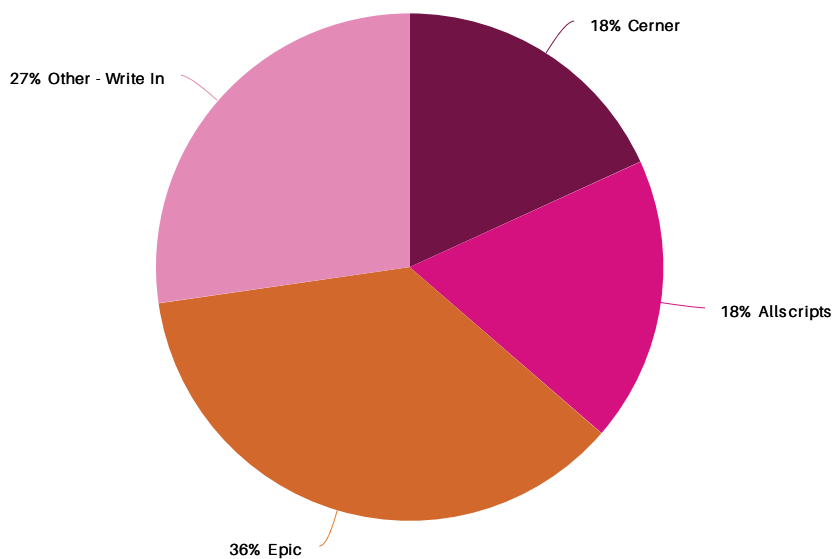
Respondents were asked how successful their health system has been in driving up the use of specialty pharmacy. Their answers:

- good (46%)
- average (27%)
- outstanding (18%)
- below average (9%)



What EMR/EHR Do You Currently Use?

Epic software was used by 36% of health systems for managing EMR/EHR, with Cerner and Allscripts coming in at 18%. Caretend came in fourth with 9% of respondents employing the software.



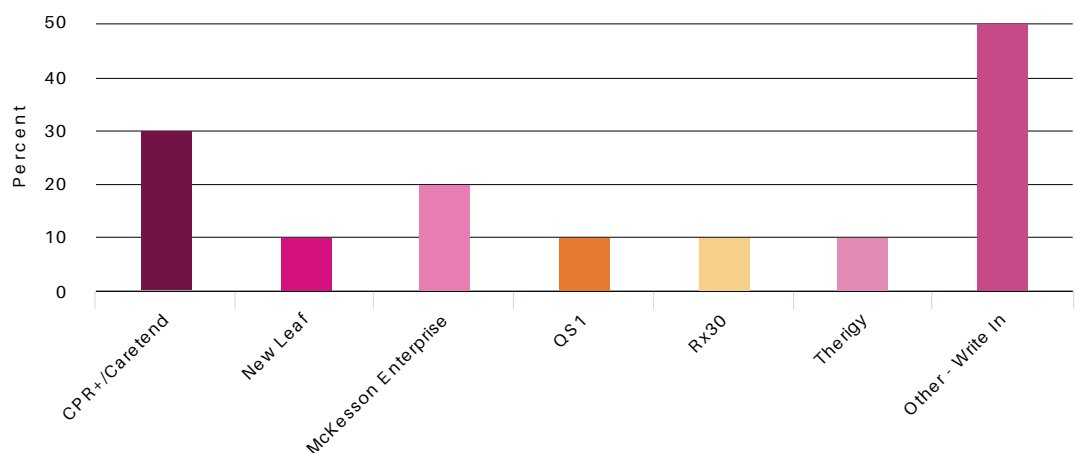
HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

What Software Does Your Health System Specialty Pharmacy Use (including Operations, Clinical Care, and Billing)?

Health system respondents employ a variety of software solutions for their day-to-day operations. The software offered by CPR+/Caretend, McKesson, and Epic (Specialty Navigator, WAM, and Willow) topped the list, with 30% of respondents using each of them.

Other software solutions mentioned included the following:

- New Leaf (10%)
- Rx30 (10%)
- QS1 (10%)
- Therigy (10%)
- Cerner (10%)



What Attributes Set Your Specialty Pharmacy Apart in the Marketplace?

Respondents were asked what attributes set their specialty pharmacy apart in the marketplace. Their answers:

- level of service, high touch, and integration of care (20%)
- electronic health record (EHR) integration and overall integration into hospitals (20%)
- location (including rural) and the ability to provide care close to home (20%)
- clinical pharmacists and liaisons embedded in specialty clinics (10%)
- did not provide an answer (30%)

What Percentage of Your Own Providers Prescribe to Your Specialty Pharmacy?

For a third of health systems (33%), half of their own providers prescribe to their specialty pharmacy. Other responses were as follows:

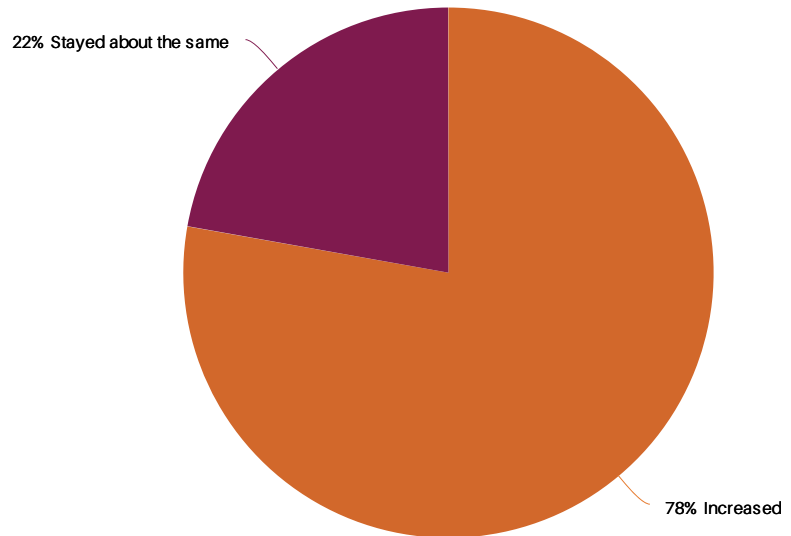
- over 90% of providers (22%)
- 40% of providers (11%)
- 15% of providers (11%)
- 5% of providers (11%)
- none (11%)

33% said half of their own providers prescribe to their specialty pharmacy.

HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

In the Past Year, the Percentage of Your Own Providers Prescribing to Your Specialty Pharmacy Has

For the vast majority of health systems (78%), the percentage of their own providers prescribing to their specialty pharmacy has increased. For 22% of health systems, the number stayed about the same.



If the Percentage of Your Providers Prescribing to Your Specialty Pharmacy has Changed, Why Do You Think It Increased/Decreased?

Health systems attributed the changes in the number of prescribing providers to an array of factors, including the following:

- marketing and promotion (29%)
- providing better service than third-party specialty pharmacies (14%)
- operational structure with EMR (14%)
- reputation of the organization (14%)
- a more aging population (14%)
- did not provide an answer (30%)

Do Your Providers Support Your Specialty Pharmacy? Please Briefly Explain.

Half of the health systems surveyed (50%) reported that their providers support their specialty pharmacy by and large, and in some instances, it was the providers that approached the health systems to partner with. The data came with a caveat, however, in that some providers are less supportive because they are less open to the changes brought about by integrated communication and enhanced investigation. Competition from outside pharmacies was mentioned as a factor that decreased provider support.

Forty percent of respondents did not provide an answer.

HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

What Is a Benefit of Using the Health System Specialty Pharmacy Compared to a Specialty Pharmacy That Is Not Part of the Health System?

When asked to compare using the health system specialty pharmacy with using a traditional specialty pharmacy outside the health system, 50% of respondents named continuity, comprehensiveness and coordination of care, and speed to therapy as the main benefits of the former. Other answers included the following:

- access to data, EHR, and health record integration (10%)
- quick turnaround and their relationships with their physicians (10%)
- unable to provide accurate information (40%)

50% of respondents named continuity, comprehensiveness and coordination of care, and speed to therapy

What Attributes Do You Credit Traditional Big-Box Specialty Pharmacies with, if Any? Do You Adopt These Aspects to Be Competitive? Please Explain.

In general, health system respondents were hesitant to credit big-box specialty pharmacies with attributes they have adopted. However, 10% of health systems mentioned access to LDD and payor contracts as well as tools to impress physicians as attributes they would like to adopt.

Instead, health systems chose to focus on what they do internally that sets them apart from traditional big-box SPs, including the following

- give the patient a better option for their complex medication journey whether or not it benefits the health system financially (10%)
- the use of call center technology (10%)
- offering access to physicians and the care team 24/7, comprehensive services, and better turnaround time (10%)
- unable to provide accurate information (40%)

Health system respondents were hesitant to credit big-box specialty pharmacies with attributes they have adopted.

Do You Serve Your Own Employees and Their Dependents? If Applicable, Are You In-Network or Exclusive with Your Own Health Plan?

Half of health systems (50%) serve their employees and their dependents. Of those health systems that do, 60% are either in-network or exclusive.

Respondents reported 20% use self-insured plans and 40% were unable to provide accurate information.

What PBM Does Your Health Plan Use?

Almost a third of health systems surveyed (30%) use BCBS as their PBM, 20% use Caremark, 10% use MedImpact, and another 10% use Express Scripts.

Thirty percent were unable to provide accurate information.

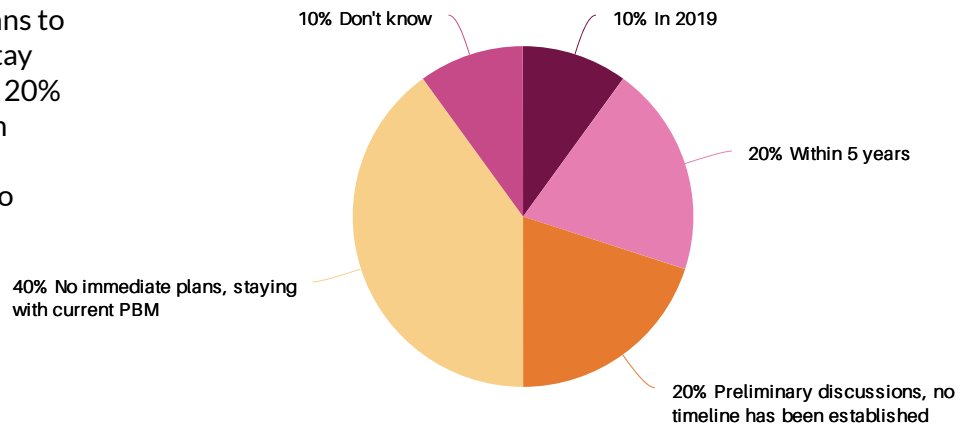
HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

Do You Have Plans to Start Your Own PBM?

Of health systems surveyed, 40% stated they have no immediate plans to start their own PBM and plan to stay with their current PBM. However, 20% plan to start their own PBM within five years, and another 20% have had preliminary discussions, but no timeline has been established.

Other responses included the following:

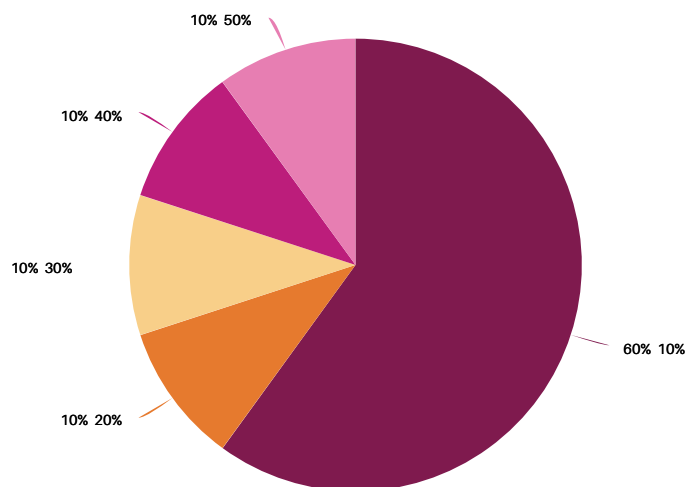
- in 2019 (10%)
- unknown (10%)



Approximately What Percentage of Referrals Come From Doctors Outside of Your Institution?

When asked what percentage of referrals come from outside their own health system, a majority of respondents (60%) reported that only 10% come from elsewhere. Interestingly, 10% of health system respondents said that they receive 50% of referrals from outside their specialty pharmacy. Other answers include:

- 10% - 20% of referrals come from outside their own health system
- 10% - 30%
- 10% - 40%



Do You Review Only 340B Prescriptions or Do You Also Check Non-340B Prescriptions to Address Financial Optimization of Your Program? Please Describe Benefits or Disadvantages.

Sixty percent of health systems review all scripts and do not discriminate between 340B and non-340B prescriptions. Of those, 30% specified that all therapies are reviewed if it would benefit patients. Only 10% of respondents reported reviewing only 340B scripts. Thirty percent of respondents were unable to provide accurate information.

HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

What Prior Authorization Software Does Your Pharmacy Use?

Fifty percent of health systems surveyed use CoverMyMeds as their prior authorization software. Only 10% use Cerner, and 40% of respondents were unable to provide accurate information.

How Many Employees Handle Your Prior Authorizations?

For 40% of health systems, 3 to 5 employees handle their prior authorizations. Other responses included the following:

- fewer than 3 employees (20%)
- more than 10 employees (10%)
- unable to provide accurate information (30%)

**40% of health systems,
3 to 5 employees**

Do You Offer Patient Assistance Programs to Help Your Patients?

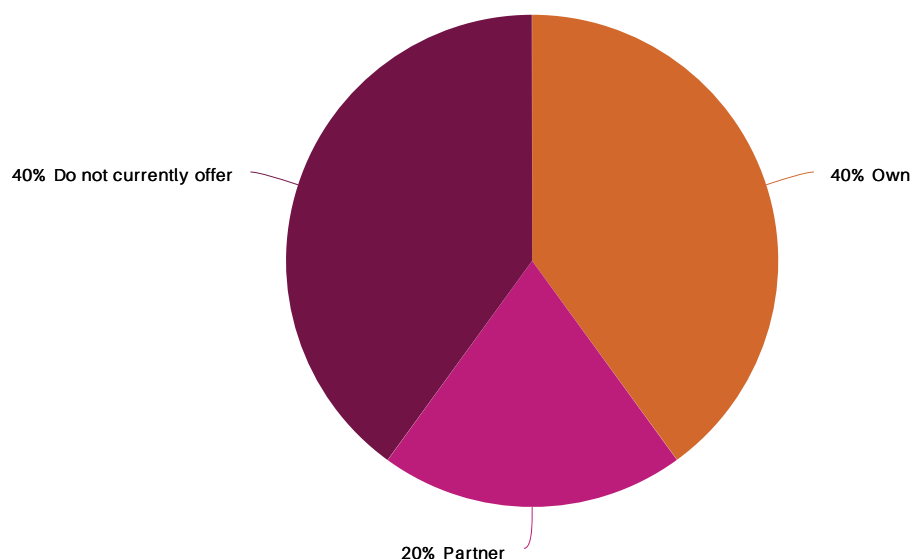
Fifty percent of health systems do offer patient assistance programs to help patients, 10% recommend Rx cards, and 40% of respondents were unable to provide accurate information.

How Have Co-pay Accumulator Rules Impacted Your Services and Your Patients?

According to 40% of health system respondents, co-pay accumulator rules have had little to no impact on patients and services, 20% indicated that they place a financial burden on patients and may impact adherence, and 30% of respondents were unable to provide accurate information.

Do You Own or Partner with an Outside Entity to Run Your Outpatient Home Infusion?

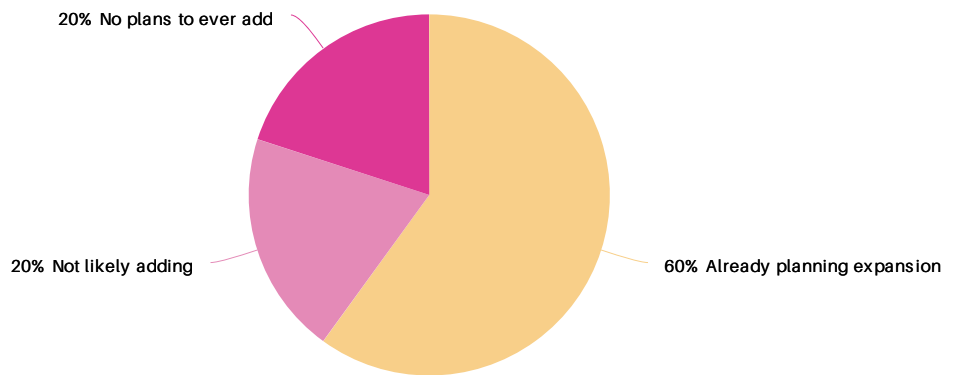
Forty percent of health system specialty pharmacies surveyed own and run their outpatient home infusion programs, while 20% partner with other institutions and 40% do not currently offer the service.



HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

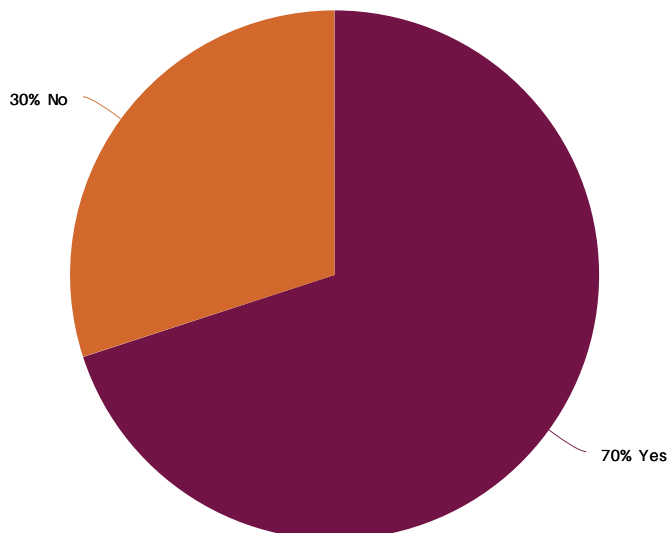
If You Do Not Currently Offer Home Infusion Services, How Likely Are You to Start Offering Them in the Next 12-24 Months?

Sixty percent of health system specialty pharmacies surveyed said that they are already planning expansion into home infusion services. Twenty percent of respondents indicated that they would probably not be adding home infusion services, and 20% of respondents said they had no plans to ever add the service.



Do You Feel Your C-Suite/Leadership Is Satisfied with Your Specialty Pharmacy's Performance So Far?

Seventy percent of health system respondents feel their C-suite/leadership is satisfied with their performance. Only 30% felt that their C-suite/leadership was not satisfied.



What Are Areas of Potential Expansion of Most Interest to Your Health System Leadership in Regards to the Specialty Pharmacy Business?

Health system specialty pharmacies surveyed reported an array of potential expansion areas for the future, with 40% seeking continued therapeutic expansion, increased capture, and enhanced patient services and efficiency; 10% interested in infusion and neurology; and 10% looking to expand more 340B clinics. Thirty percent of respondents did not answer.

HEALTH SYSTEM SPECIALTY PHARMACIES SURVEY

How Do You See Health System Specialty Pharmacy Evolving into 2020?

Forty percent of respondents see the industry growing and capturing more of the market moving toward 2020. However, their optimism is tempered by the fact that they predict more players will enter the market and that health system SPs may continue to be locked out by payors.

Twenty percent of health systems believe that unless significant PBM reform happens at the federal level, PBMs will find new and creative ways to lock out health system SPs from servicing their patients. Moreover, they indicated that health system SPs need to band together to make a compelling case for the value they add and decrease the power of PBM networks. If they succeed in doing so, then health systems may be increasingly allowed into payor networks and play a more influential role in the industry.

Other respondents think health system specialty pharmacies offer a higher level of care than PBM-owned SPs. They also believe health systems will become the preferred method of specialty pharmacy service delivery due to the increased potential for collaboration with providers and better awareness of efficacy and adherence.

Other responses included the following:

- do not see the market growing (10%)
- did not provide an answer (30%)

40% see the industry growing and capturing more of the market moving toward 2020

SECTION 3

INDEPENDENT SPECIALTY PHARMACIES SURVEY

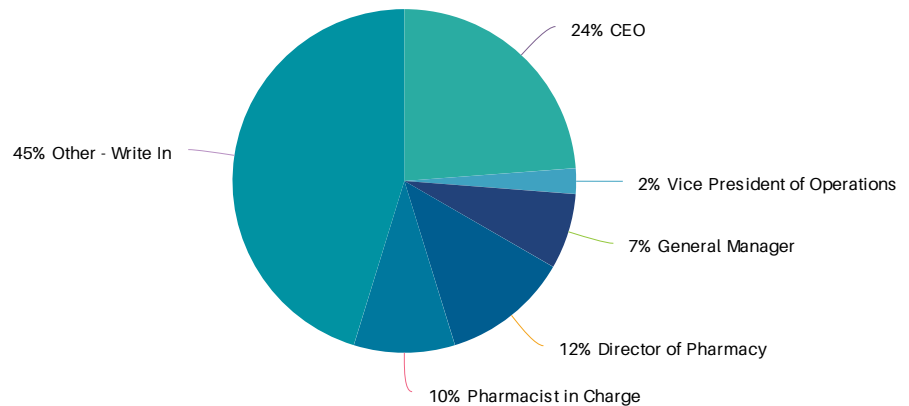


INDEPENDENT SPECIALTY PHARMACIES SURVEY

What Is Your Title?

The independent specialty pharmacy professionals who participated in the **2019 State of Specialty Pharmacy Report** reported job titles in the following categories:

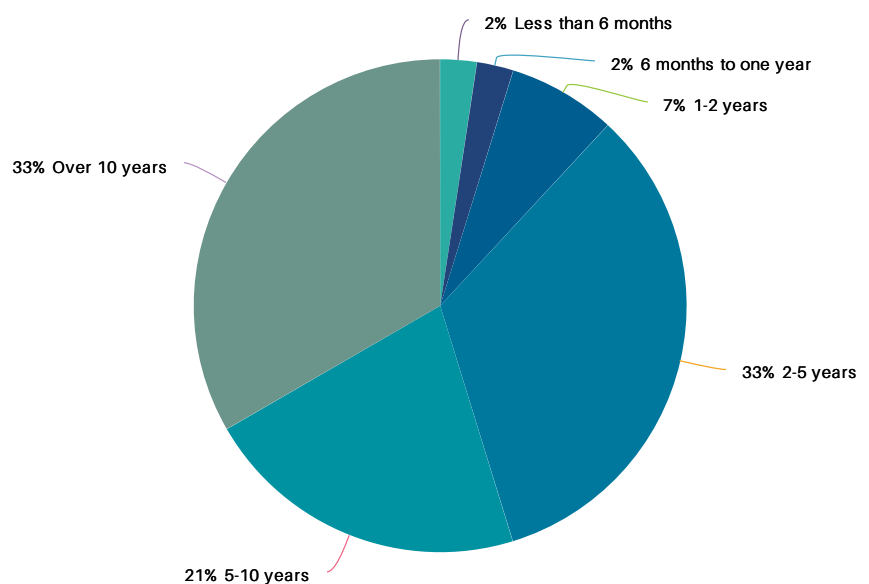
- **CEO (24%)**
- **director of pharmacy (12%)**
- **vice presidents of operations, specialty programs, pharmacy, and sales (12%)**
- **pharmacist in charge (10%)**
- **general manager (7%)**
- **director of sales & marketing (5%)**
- **compliance director (5%)**
- **other, including chief financial officer, chief operating officer, clinical pharmacist, compliance director, compliance officer, chief clinical officer, executive director, president, private equity owner, and specialty pharmacy manager (26%)**



How Long Have You Worked in Specialty Pharmacy?

Respondents were asked how long they have been in specialty pharmacy. Their answers:

- **more than 10 years (33%)**
- **between 2 and 10 years (33%)**
- **between 1 and 2 years (7%)**
- **between 6 months and 1 year (2%)**
- **less than 6 months (2%)**



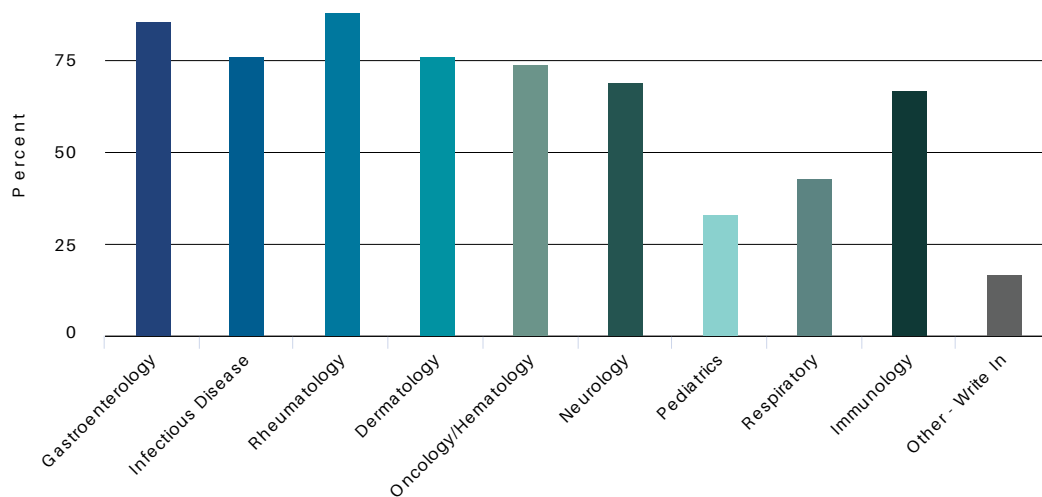
INDEPENDENT SPECIALTY PHARMACIES SURVEY

What Disease States Do You Service in Your Specialty Pharmacy Model?

Rheumatology (88%) and gastroenterology (86%) were the most frequently mentioned specialties treating disease states. Infectious disease and dermatology were the second-most-cited specialties, with 76% of respondents currently serving each. Oncology/hematology was mentioned by 74% of respondents, neurology by 69% of respondents, and immunology by 67% of respondents.

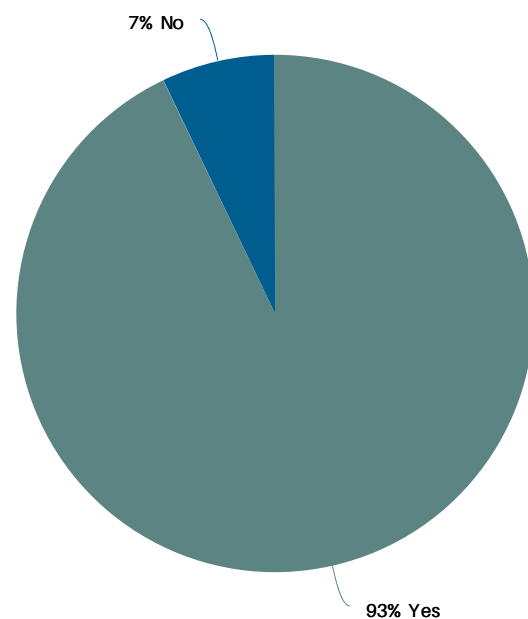
Other results included the following:

- **respiratory (43%)**
- **pediatrics (33%)**
- **other, including cardiology, epilepsy, Crohn's disease, HRT, infertility, osteoporosis, migraine, solid organ transplant, and growth hormone (17%)**



Has Your Patient Census Grown in the Past Year?

When asked if their patient census had grown in the last year, an overwhelming 93% of respondents answered affirmatively.

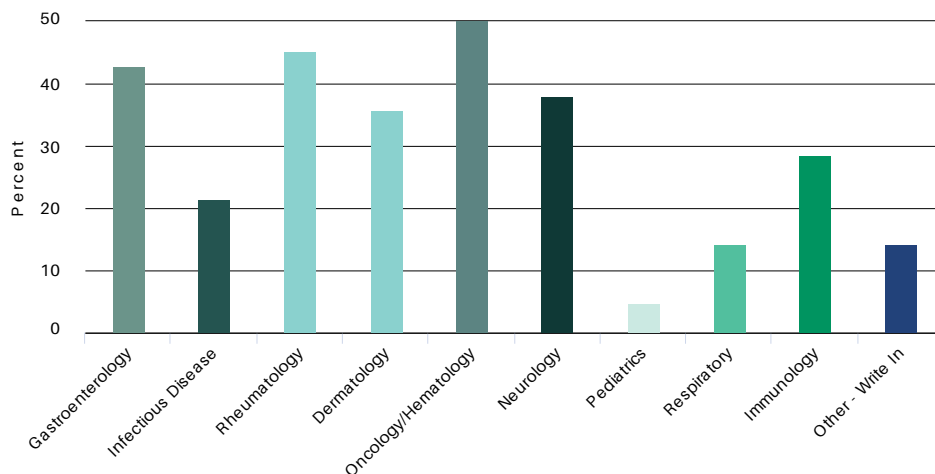


INDEPENDENT SPECIALTY PHARMACIES SURVEY

Which Specialties Are Driving Growth?

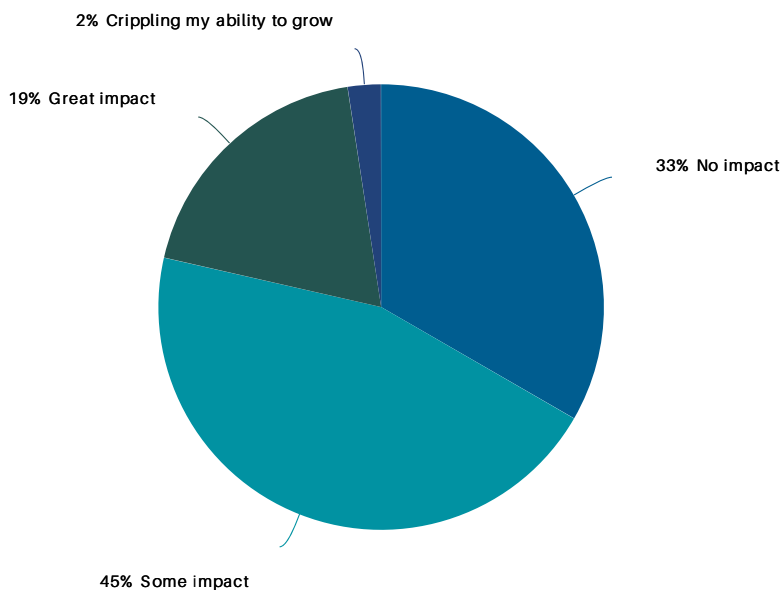
Asked which specialties were driving growth, specialty pharmacy professionals reported disease states across the board, including in the following:

- oncology/hematology (50%)
- rheumatology (45%)
- gastroenterology (43%)
- neurology (38%)
- dermatology (36%)
- immunology (29%)
- infectious disease (21%)
- respiratory (14%)
- pediatrics (5%)
- other, including cardiology, ambulatory infusion management, infertility, HRT, migraine/osteoporosis, and PCSK9 (14%)



How Is the Low Unemployment Rate Impacting Your Ability to Hire the Right People?

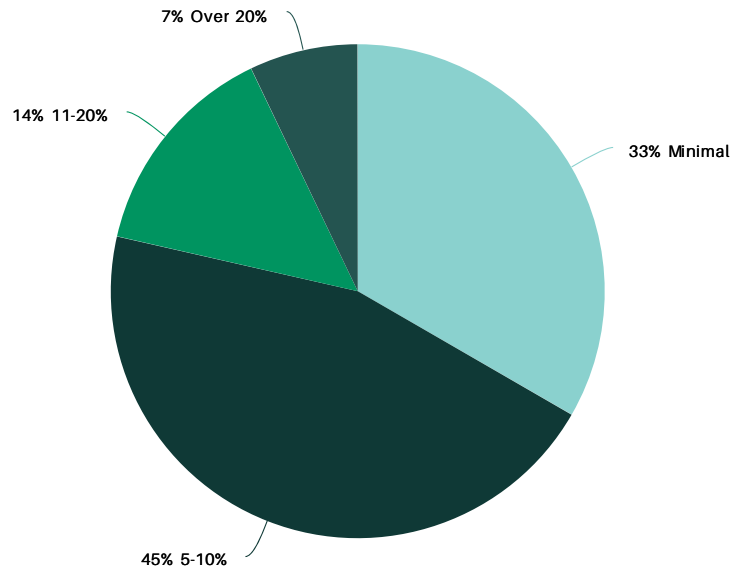
When asked if the current employment climate is having an impact on hiring the best people, 45% of independent specialty pharmacies reported some impact, 33% reported no effect, 19% indicated a great impact, and 2% stated that it was crippling their ability to grow.



INDEPENDENT SPECIALTY PHARMACIES SURVEY

What Percent Growth in Full-Time Employees Do You Anticipate in 2019-2020?

Of those specialty pharmacies surveyed, 45% expect a 5%–10% growth in full-time employees in 2019–2020, 33% foresee minimal growth, 14% expect growth of 11%–20%, and 7% anticipate more than 20% growth.



How Many Full-Time Employees Do You Have?

Twenty-nine percent of specialty pharmacies reported they have between 10 and 30 employees, and another 29% stated they have fewer than 10 full-time employees; 21% indicated they have between 50 and 100 employees, and 16% said they have over 100 employees. Five percent of respondents did not provide an answer.

29% have between 10 and 30 employees and 29% have fewer than 10 full-time employees

What Is Your Annual Revenue?

The majority of specialty pharmacies (42%) reported annual revenue of \$10–\$50 million. Other responses included the following:

- \$50–\$100 million (19%)
- over \$500 million (10%)
- less than \$10 million (10%)
- unable to provide an answer (19%)

42% reported annual revenue of \$10–\$50 million

INDEPENDENT SPECIALTY PHARMACIES SURVEY

What Has Been Your Biggest Challenge to Growth?

When asked what has been their most significant challenge to growth, over 50% of respondents named insurance companies, being excluded from insurance networks, and PBMs and PBM practices. Patient access, limited distribution drugs, and payor mandates to specific specialty pharmacies were cited by 18% of respondents as the greatest hurdles to overcome.

We found that 17% of respondents are challenged by margins, pricing controls, DIR fees, and reimbursement rates, while 10% reported staffing and their ability to hire the right people.

Other responses included the following:

- **unethical competitors**
- **lack of C-suite engagement**
- **changing physician habits**
- **did not answer (2%)**

What Has Been Your Second-Biggest Challenge to Growth?

Specialty pharmacy respondents were then asked to describe their second-most-significant challenge to growth, and 33% of them cited access to patients, limited distribution drugs, limited payor access and lockouts, and payor mandates to specific specialty pharmacies. Another 17% identified competition, resources, technology, and staffing, and 12% named DIR fees and reimbursement rates.

Other responses included the following:

- **strategy development**
- **location**
- **purchasing power**
- **nursing**
- **reporting**
- **margin management**

33% cited access to patients, limited distribution drugs, limited payor access and lockouts, and payor mandates to specific specialty pharmacies

Two percent did not answer.

What Have Been the Biggest Challenges in 2018 versus 2017?

When comparing their greatest challenges in 2018 to those in 2017, 52% of specialty pharmacy respondents reported closed networks, access to patients and medication, limited distribution drugs, limited payor access, and being excluded from insurance networks. Thirty-one percent cited the adverse effects of DIR fees, reimbursements, pricing controls, and PBM practices on margins, which are increasingly being squeezed.

Our survey found that 17% of respondents are increasingly challenged by managing and balancing growth with staffing needs and quality, technology, and other resources.

Other responses included the following:

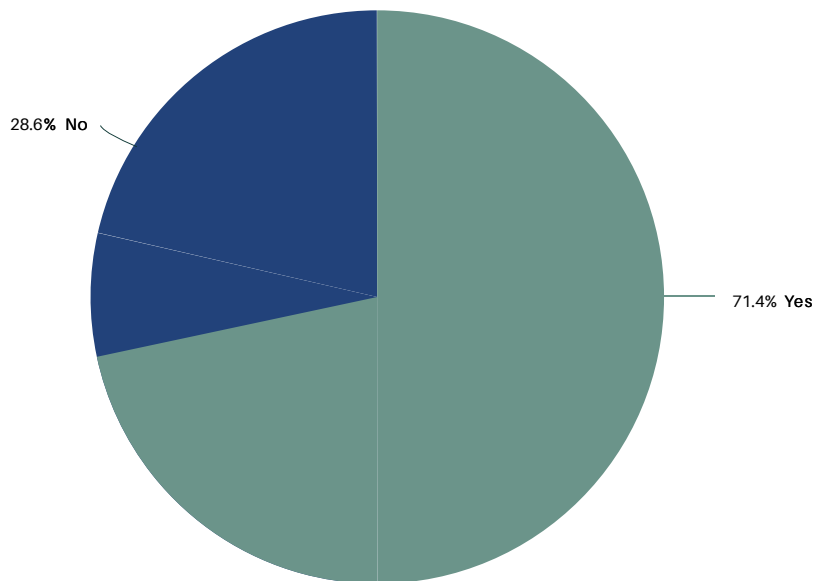
- **coverage**
- **consolidation of PBMs, insurers, and specialty pharmacies**
- **EMR**
- **unethical competition**

INDEPENDENT SPECIALTY PHARMACIES SURVEY

Do You Have Access to Limited Distribution Drugs (LDDs)?

When asked if they had access to LDDs, 71% of specialty pharmacy professionals answered affirmatively. Respondents were asked to list the LDDs to which they have access. Answers included the following:

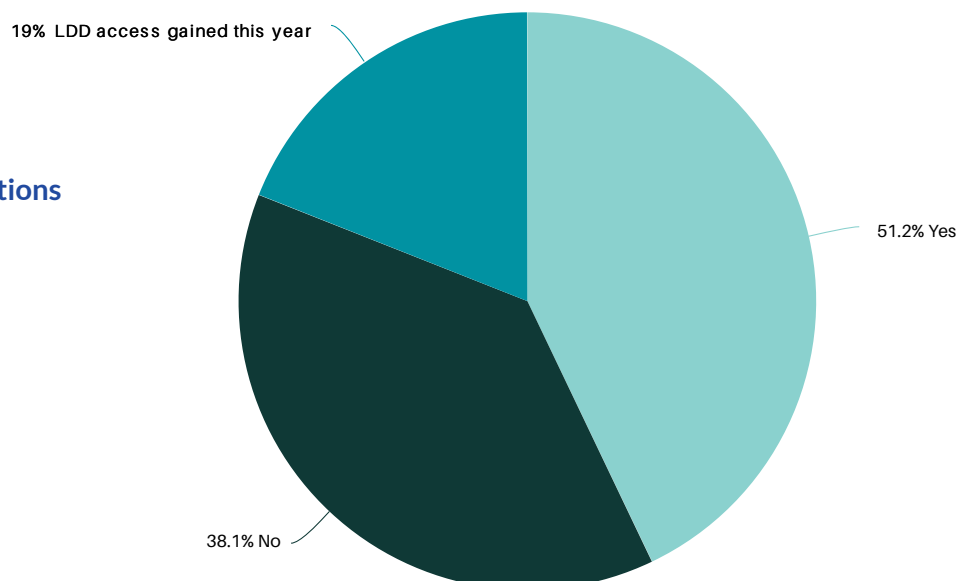
- Ingrezza, Cosentyx
- Hyqvia, Panzyga, Radicava
- Tecfidera
- Talz
- Plegridy
- Enzymes, Soliris
- Sutent, Ibrance, Imbruvica
- oncology drugs



Have You Gained Access to Any New LDD Products in 2018? If So, Which Product(s)?

Of specialty pharmacies surveyed, 62% reported that they had gained access to new LDD products in 2018. Examples included the following:

- Cosentyx
- Ingrezza
- Pfizer Oncology
- Radicava
- Various oncology medications
- Soliris
- Taltz



INDEPENDENT SPECIALTY PHARMACIES SURVEY

What Are Your Biggest Challenges in Obtaining Access to LDDs?

Thirty-three percent of respondents indicated that closed networks were a major challenge in obtaining access to LDDs. More than 35% mentioned manufacturers as key hurdles in gaining access to LDDs. They cited a range of factors such as an unwillingness by manufacturers to meet, difficulty gaining access to the decision makers within pharma companies, difficulty determining when manufacturers are reviewing their networks, and difficulty convincing the manufacturers to sell to them.

A related obstacle was revealed by 19% of respondents, who cited low volume, smaller size, coverage area, and patient populations as key factors preventing them from getting into the network. Some indicated that, depending on the manufacturer, it can be challenging to access LDDs for disease states that are new to one's specialty pharmacy, especially when there is not enough current patient volume to warrant inclusion. Also mentioned by 12% of respondents were accreditation and licensing hurdles.

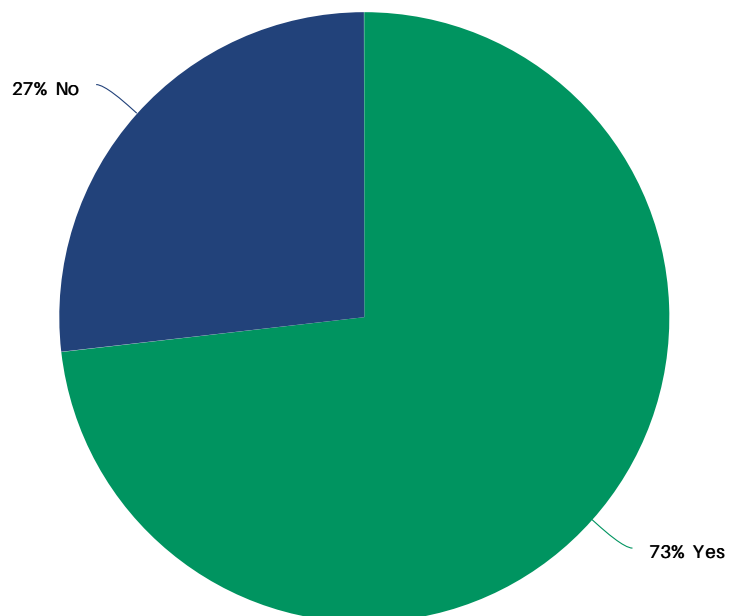
Other responses included the following:

- educating the market
- 340B access
- lack of market knowledge
- reporting metrics

Fourteen percent of respondents were unable to answer.

Do You Provide Data for Manufacturers?

When asked if they provide data for manufacturers, 73% of specialty pharmacy professionals answered affirmatively.

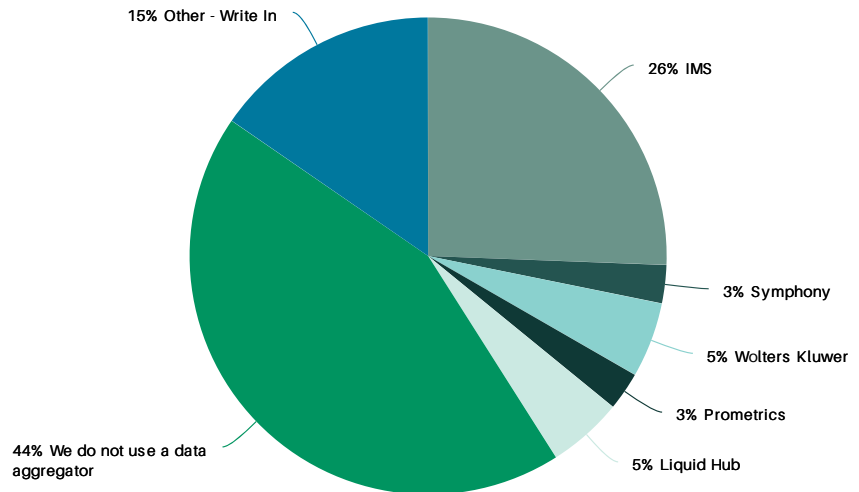


INDEPENDENT SPECIALTY PHARMACIES SURVEY

If You Answered Yes to Question above, Which Data Aggregator Do You Use?

Of those specialty pharmacies surveyed that use a data aggregator, 26% said they use IMS. The next-most-used data aggregators, each cited by 5% of respondents, were Wolters Kluwer and Liquid Hub, while 4% use Symphony, 4% used Prometrics, and 4% used Asembia.

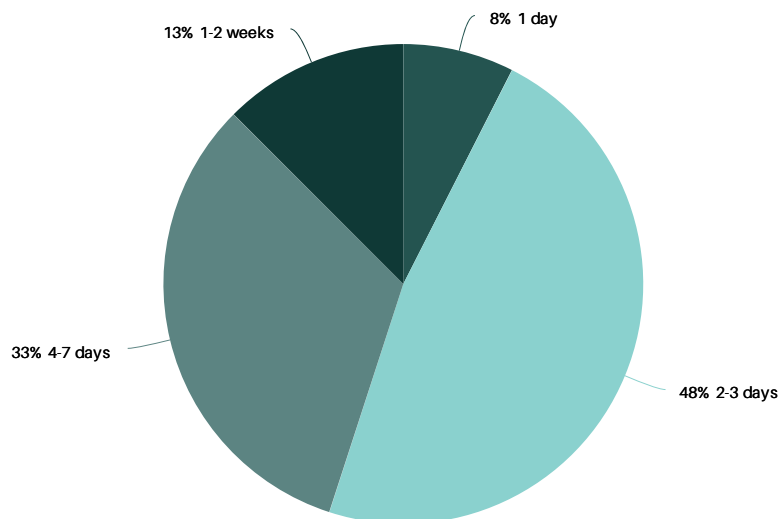
Of specialty pharmacies surveyed, 44% do not use a data aggregator, and 5% of respondents were not able to answer.



What Is the Average Time from Receipt of a Referral until the Product Is Shipped to the Patient in a Situation Where a Prior Authorization Is Required?

A majority of respondents (48%) indicated that two or three days is the average time from receipt of a referral until shipment when a prior authorization is required. Other responses included the following:

- four to seven days (33%)
- one to two weeks (13%)
- one day (8%)



What Prior Authorization Software Does Your Pharmacy Use?

The most widely used prior authorization software programs by respondents were the following:

- | | | |
|-------------------------------|-----------------------|--|
| • CoverMyMeds (40%) | • Pioneer Rx (5%) | • PA Hub (2%) |
| • CPR+/Caretend (5%) | • Wellsky (2%) | • Online CVS (2%) |
| • developed own software (5%) | • Micro Merchant (2%) | • did not use any or were unable to answer (29%) |
| • Asembia (2%) | • GoGlobal (2%) | |

INDEPENDENT SPECIALTY PHARMACIES SURVEY

How Many Employees Handle Your Prior Authorizations?

When asked how many employees handle prior authorizations, responses included the following:

- fewer than 5 employees (48%)
- between 5 and 10 employees (31%)
- 30 or more employees (7%)
- between 15 and 20 employees (5%)
- unable to answer (10%)

Do You Offer Patient Assistance Programs to Help Your Patients?

The overwhelming majority of specialty pharmacy respondents (88%) offer patient assistance programs.

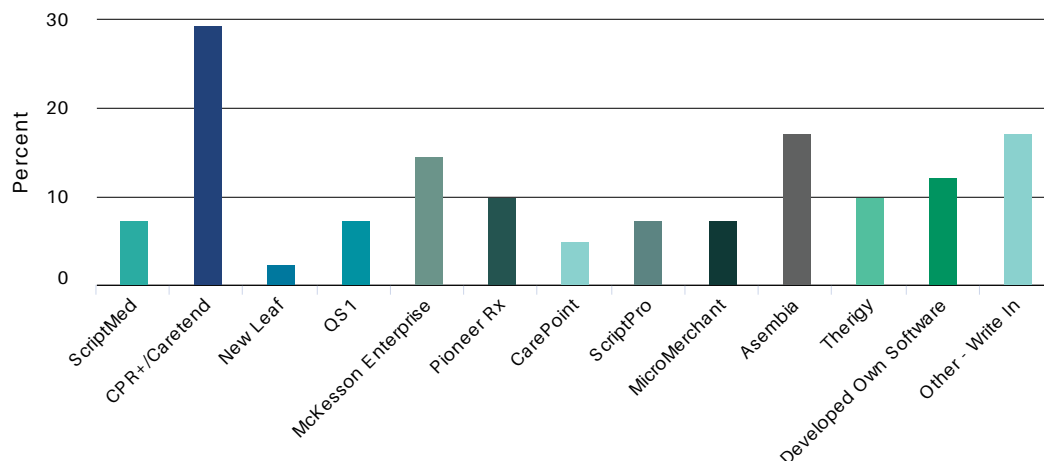
How Have Co-pay Accumulator Rules Impacted Your Business and Your Patients?

When asked if co-pay accumulator rules have impacted their business or patients, 38% of respondents reported they have had minimal to no impact, while 19% of specialty pharmacies reported that they do affect their business. Almost 43% of respondents were unsure or were unable to provide an answer.

What Software Does Your Specialty Pharmacy Use? Please Select All Software for Operations, Clinical Care, and Billing.

The most widely used software programs by respondents were the following:

- CPR+/Caretend (29%)
- Asembia (17%)
- McKesson Enterprise (15%)
- developed own software (15%)
- Pioneer Rx (10%)
- Therigy (10%)
- ScriptMed (7%)
- ScriptPro (7%)
- Micro Merchant (7%)
- QS1 (7%)
- Others:
 - New Leaf
 - CarePoint
 - CareTend
 - Compass
 - EPIC
 - OPUS
 - WellSky



INDEPENDENT SPECIALTY PHARMACIES SURVEY

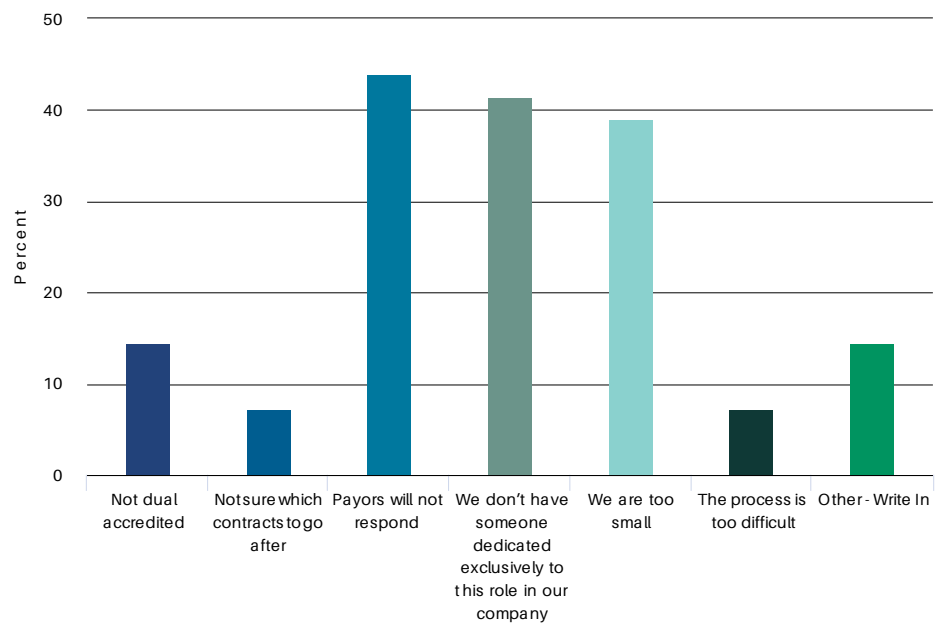
What Have Been the Two Biggest Challenges to Adding Access to Lives in 2018?

When asked about the two greatest hurdles to adding access to lives in 2018, more than 45% of specialty pharmacy respondents mentioned that payors will not respond, and 42% said they do not have someone dedicated exclusively to the role in their company. Thirty-nine percent indicated that they are too small, and 15% said they are not dual-accredited.

Another 7% of those surveyed are not sure which contracts to go after, 7% think the process is too complicated, and 10% noted reimbursement fees and practices.

Other challenges include the following:

- access, but negative reimbursements
- process and lack of C-suite engagement
- ability to grow
- no challenges (7%)



What Are the Top Two Challenges You Have Encountered with Contracting Payors (Both PBMs and Medical)?

Specialty pharmacy health professionals were asked about the top two challenges they have faced with regard to contracting payors (both PBM and Medical).

Thirty-eight percent of respondents cited network access and exclusion, cutting independent pharmacies out of networks without substantiation, inability to get into the network, preferred networks already in place, and network requirements.

Reported by 14% of respondents were underpayment, fees, pricing, and reimbursement rates and requirements, including some reimbursement plans that fall below cost. Also, 17% of respondents mentioned size, proper staffing, and accreditation as the top hurdles to overcome.

Other challenges mentioned by respondents included the following:

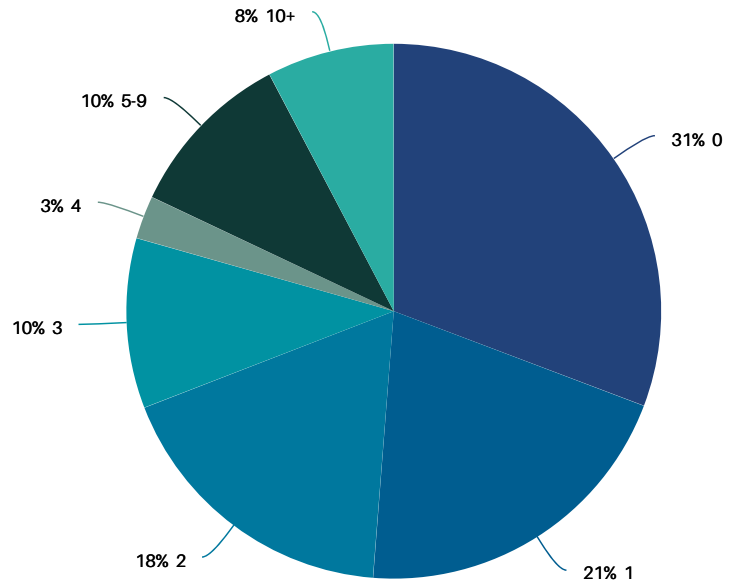
- coverage area too small
- limited distribution
- fees imposed after the point of sale not explained
- more audits as the business has grown
- turnaround time, slow to establish criteria for new drug launches
- getting in front of decision makers

Seventeen percent of respondents did not answer.

INDEPENDENT SPECIALTY PHARMACIES SURVEY

How Many New Payor Networks Did You Gain Access to or Contract with in 2018?

Of specialty pharmacies surveyed, 38% gained access or contracted with 1–2 new payor networks in 2018, while 31% did not gain any new payor networks; 13% added 3–4 new networks, 10% reported adding 5–9 payor networks, and 8% added more than 10 payor networks. The data reveal some disparity in the marketplace.

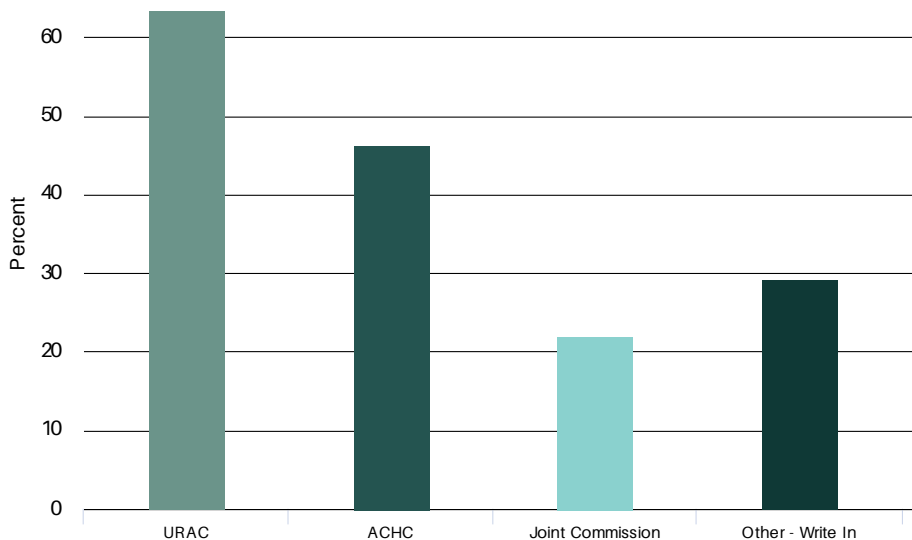


What Accreditation Do You Currently Hold?

Specialty pharmacy professionals were asked what accreditation they currently hold. Their answers:

- **URAC (63%)**
- **ACHC (46%)** (a drop of almost 20 percentage points from 2017)
- **Joint Commission (22%)**
- **Others, including VIPPS, UCAP, and HQAA (10%)**

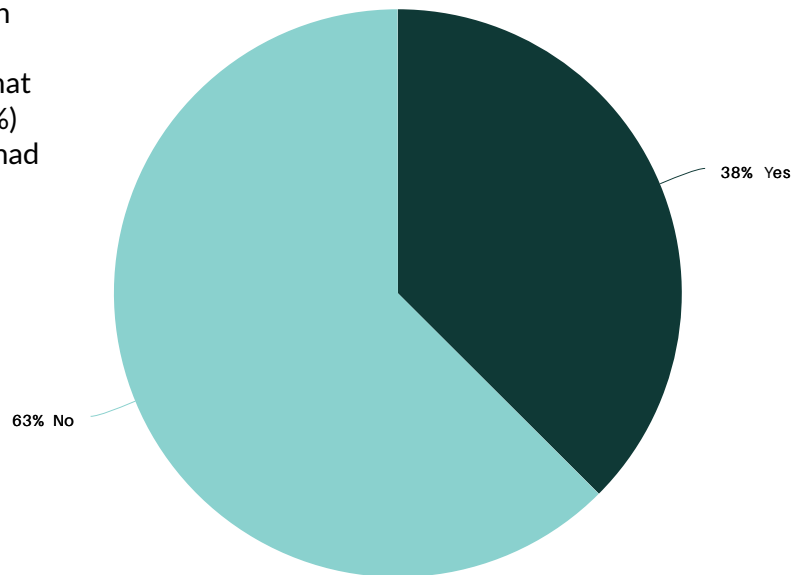
Our survey found that 7% of respondents have no accreditations and another 10% of respondents are currently in the process of applying for URAC accreditation.



INDEPENDENT SPECIALTY PHARMACIES SURVEY

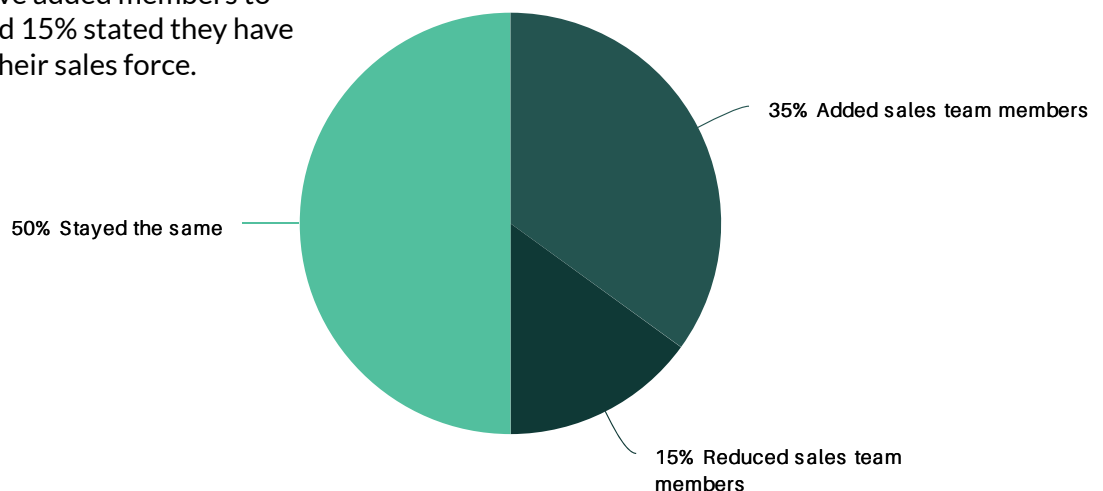
If You Do Not Have Dual Accreditation, Would You Say That Has Negatively Impacted Your Company in Any Way?

When asked if the lack of dual accreditation has negatively impacted their specialty pharmacy, 63% of respondents indicated that it has not. Over a third of respondents (38%) feel that the lack of dual accreditation has had a detrimental effect on their company.



Have You Changed the Size of Your Sales Team in 2018?

When specialty pharmacy officers were asked if they had changed the size of their sales team in 2018, 50% reported that their sales teams have stayed the same. Thirty-five percent said they have added members to their sales teams, and 15% stated they have reduced the size of their sales force.



INDEPENDENT SPECIALTY PHARMACIES SURVEY

If the Size of Your Sales Team Changed, Why Did the Shift Occur?

There were diverse reasons specialty pharmacy respondents gave for changes in the size of their sales teams: 46% of respondents indicated that company growth, added responsibilities, diversification, and geographic expansion drove sales team growth and 17% stated that restructuring and budgetary planning drove the change. Another 17% of respondents do not have sales teams in the field.

Other responses included the following:

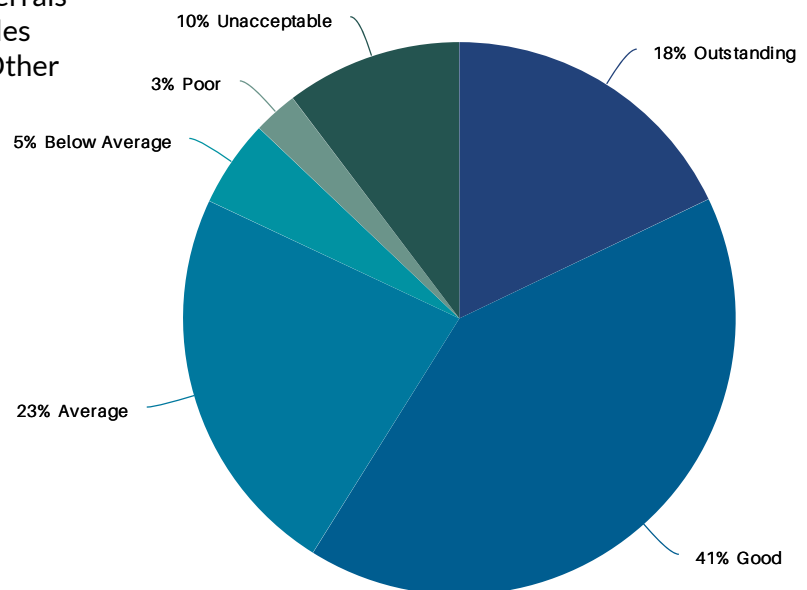
- change in strategy
- added new disease states and state licenses
- not enough money to pay sales staff
- competition

Finally, 8% of respondents did not answer.

How Successful Would You Say Your Sales Team Has Been at Winning Referrals?

Of respondents surveyed, 41% said their sales team has been good at winning referrals while 23% of respondents rated their sales team referral performance as average. Other responses included the following:

- outstanding (18%)
- below average (5%)
- poor (3%)
- unacceptable (10%)



INDEPENDENT SPECIALTY PHARMACIES SURVEY

What Are the Biggest Challenges to Your Sales Team's Ability to Win Referrals?

Challenges in accessing networks, patients, and payor contracts were mentioned by 31% of respondents; 28% mentioned competition from other regional specialty pharmacies, hospital SPs and larger pharmacies, preferred vendors, and lack of physician awareness and MDs sending patients to their own pharmacy. Another 13% mentioned a lack of experience, small size, and staff quality and turnover.

Other challenges mentioned include the following:

- **changing doctors' habits**
- **competitive inequities**
- **access to drugs**
- **knowledge of marketplace**
- **keeping patients after the first fill**
- **expanding beyond one product discussion**
- **turnaround time**

Finally, 8% of respondents were unable to answer.

Challenges in accessing networks, patients, and payor contracts were mentioned by 31% of respondents

What Attribute Sets Your Pharmacy Apart in Your Marketplace?

Seventy percent of specialty pharmacies said their personalized and efficient level of customer service and coordination of care were key differentiating factors for their pharmacy. Next, 23% of respondents felt their communication with patients, turnaround time, and delivery set them apart in the marketplace. Following that, 10% felt their local and independent attributes set them apart.

Many specialty pharmacies feel that they are able to provide a high level of continuity of care, local access, faster and more flexible service, quality communication that only a smaller team can afford, and quick access to MD records. Another 13% cited their clinical knowledge and expertise and creative adherence programs.

Other responses included the following:

- **independently owned**
- **honest and trustworthy**
- **tied to a health system**
- **caring nurses**
- **payor access**
- **financial assistance**

A small number (3%) of respondents did not answer.

70% of specialty pharmacies said their personalized and efficient level of customer service and coordination of care were key differentiating factors for their pharmacy.

INDEPENDENT SPECIALTY PHARMACIES SURVEY

In Your Opinion, What Are the Top Three Reasons an Office Chooses a Particular Specialty Pharmacy?

Fifty-five percent of specialty pharmacies cited customer service, consistency, and flexibility; 38% named trust, communication, and relationships, including habit and familiarity; and 23% of respondents reported that ease of referral and prior authorization and access to medication are the most frequently cited reasons that an office chooses a particular specialty pharmacy. Fifteen percent of respondents mentioned payor access, insurance mandates, and preferential treatment to some pharmacies.

Other responses included the following:

- local or independently owned
- clinical capabilities
- follow-through and consistency
- existing relationships
- dictated by PBMs and insurance companies
- knowledgeable staff and patient education

Five percent of respondents did not answer.

What Percent of Referrals Are You Able to Convert to Prescriptions You Can Service?

When it comes to servicing referrals with prescriptions, respondents reported varying levels of success. However, 32% of respondents reported being able to service between 50% and 75% of converted referrals, and another 32% of respondents stated they could service between 76% and 99% of converted referrals. A further 32% of respondents reported being able to service between 25% and 49% of converted referrals, and 5% reported servicing less than 25% of converted referrals.

32% of respondents reported being able to service between 50% and 75% of converted referrals.

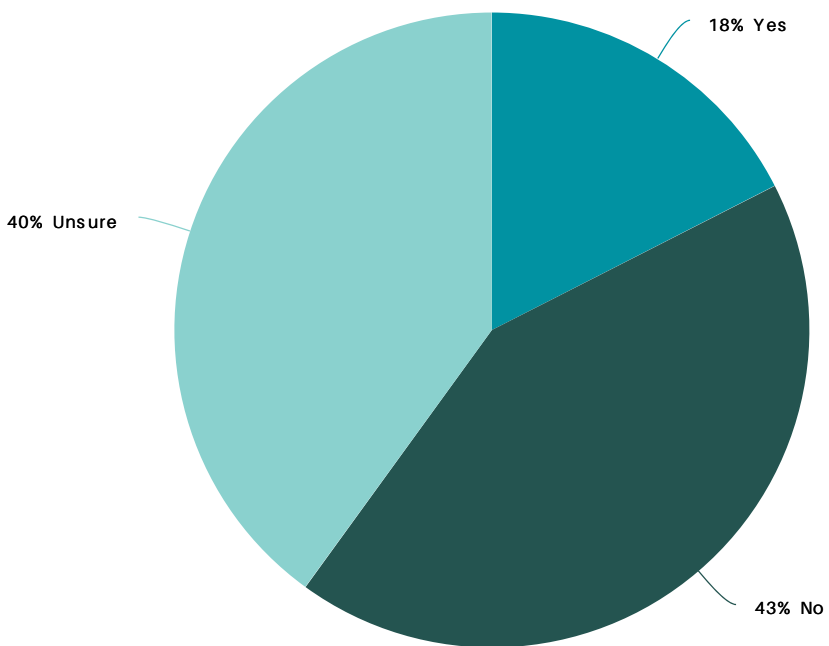
Please Indicate if You Have Experienced Any of the Following Practices in Your Interactions with PBMs That Also Own a Specialty Pharmacy; Please Provide Specific Examples:

- 71% of specialty pharmacy respondents report being subject to patient plan design restrictions
- 63% report concerns with Any Willing Pharmacy (AWP) process and requirement
- 58% have undergone detailed audits performed by the PBM1-SP as a condition of network participation
- 50% report being required by PBM1-SP, as a condition for network participation, to have a brick-and-mortar facility within a specified radius of the geographical location being serviced, whereas the PBM1-SP's own SP does not have to meet the same requirement
- 42% report patient subject to formulary requirement
- 29% have been subjected to specific staffing, drug inventory, and adjudication times that are not practical in the potential service area

INDEPENDENT SPECIALTY PHARMACIES SURVEY

Do Your Current PBM Contracts Allow You to Discuss Options to Make a Patient's Drug Therapies More Affordable?

We found that only 18% of special pharmacy respondents have current PBM contracts that allow them to discuss ways to make a patient's drug therapies more affordable; 43% have current contracts that do not permit them to do so, and 40% of respondents were unsure.



In Response to DIR Fees, What Programs Have Been Reduced/Eliminated by the SP that Were Established to Improve Patient Care?

An overwhelming majority (68%) of specialty pharmacies reported no programs had been eliminated or reduced in response to DIR fees. Of the 21% of respondents that answered affirmatively, responses included the following:

- specific follow-up calls were eliminated
- all services have been impacted
- reduction to patient services across the board
- appeal process
- not growing the pharmacy as fast as they would like
- reduction in clinical assessments

Eleven percent were unsure or did not answer.

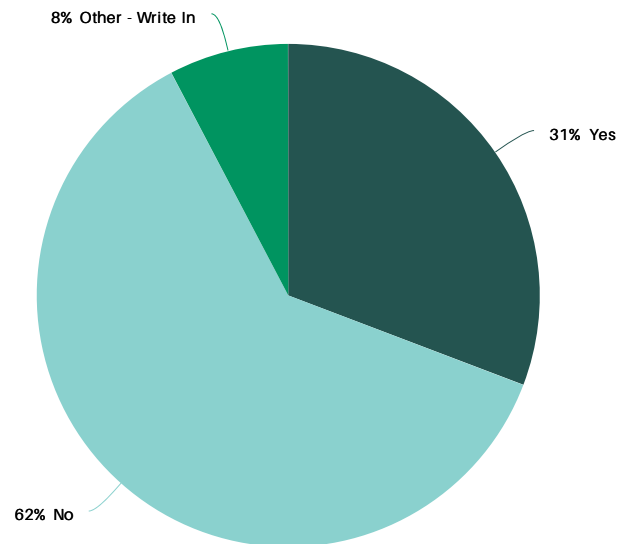
68% of specialty pharmacies reported no programs had been eliminated or reduced in response to DIR fees

INDEPENDENT SPECIALTY PHARMACIES SURVEY

As a Result of DIR Fees, Have You Had to Decline Participation in Any Medicare Part D Networks?

The majority of specialty pharmacy respondents (62%) have not had to decline participation in any Medicare Part D networks, 31% have had to refuse participation, and 8% were not sure or gave other answers, including the following:

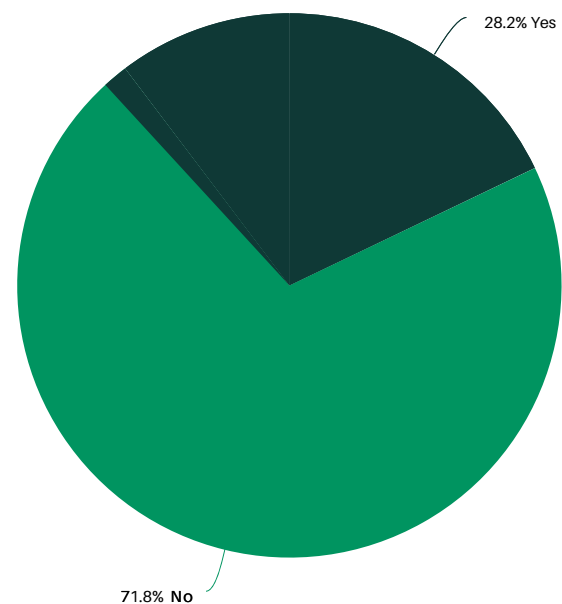
- have to take a loss just to service patients
- unable to pay the cost of drugs, resulting in a loss to the pharmacy



As a Result of DIR Fees, Have You Had to Reduce Staff and if So, How Many People Have Lost Their Jobs as a Result?

Nearly three-fourths (72%) of respondents said they have not needed to reduce staff as a result of DIR fees, while 28% reported they have needed to cut staff by the following numbers:

- 3 staff members
- 5 staff members
- 18 staff members



INDEPENDENT SPECIALTY PHARMACIES SURVEY

How Do You See Specialty Pharmacy Evolving into 2020?

Despite strong growth in recent years, respondents have mixed feelings about the industry as it heads toward 2020 and beyond. More than 20% see increased growth ahead for the industry with more new drugs and molecules coming to market. However, over half of all respondents (54%) shared unfavorable expectations moving forward, including the following:

- declining reimbursement and profitability and increasing margin compression
- increasing barriers by payors and unpredictable fees
- more regulation, vertical integration, and mergers

As was the case in 2017, large PBMs and health plans were identified as continuing to drive more patients to one another and fewer in the direction of independents. Some respondents believe there will be more consolidation and fewer specialty pharmacies in the years ahead. There is also a belief that reform is needed (particularly where PBMs are concerned) in order for smaller pharmacies and independents to be able to compete.

Lower margins have meant that smaller SPs are less and less able to offer the high-touch services they provided in the past, taking away one of their key competitive advantages in the market. Twenty percent of respondents worry about tightening margins, increased LDDs, declining reimbursements, and unpredictable DIR fees.

More than 20% see increased growth ahead for the industry

There was also a feeling that with more specialty products coming to market, they will bring increased restrictions and tighter networks with them. In addition to some of the feedback, this group is also concerned about the impact that both vertical integration and the increasing position of health system specialty pharmacies may have on their business.

A small number (8%) of respondents did not answer.



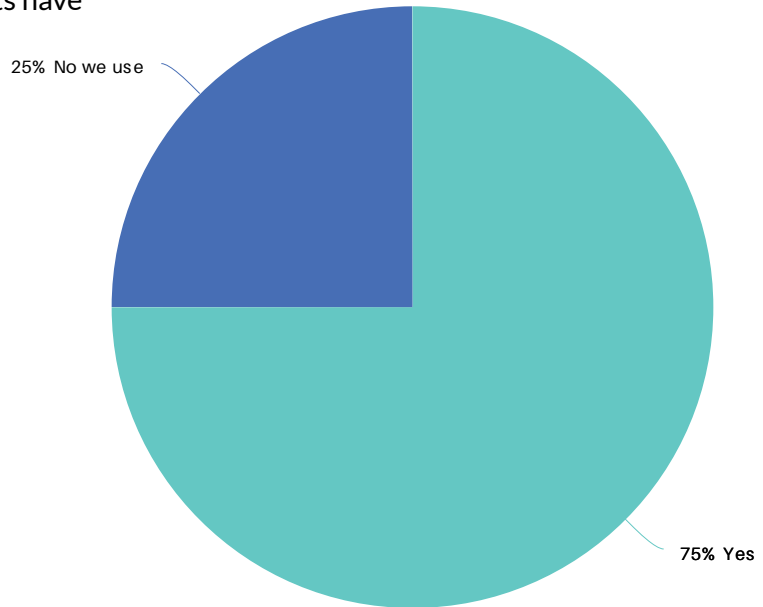
SECTION 4

PAYORS

PAYORS SURVEY

Do You Have Your Own PBM or Use Another?

Seventy-five percent of payor respondents have their own PBM.



What Mail Order Service Do You Use?

Payors named three mail order services that they use, namely:

- Homescrpts
- USPS
- CVS

How Many States Do You Operate In?

Half of payor respondents (50%) operate in fifty states, and 25% operate in five states. Twenty-five percent of respondents did not provide an answer.

Do You Cover Medicare Lives? If Yes, What Is the Percent of Overall Membership You Cover?

Fifty percent of payors cover Medicare lives. Of those payors that do, they cover 35% of their overall membership.

Do You Own Your Own Specialty Pharmacy? If Yes, How Do You Handle LDDs You Don't Have Access To? If No, How Many Specialty Pharmacies Are in Your Network?

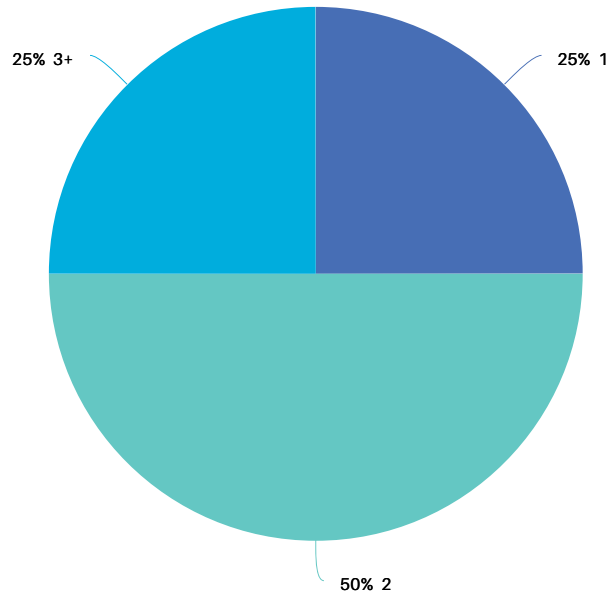
Fifty percent of payors surveyed have their own specialty pharmacy, and 25% of them handle LDDs through CVS partnership. For the other 50% of payor respondents that do not own a specialty pharmacy, 25% have one specialty pharmacy in their network, and another 25% have two.

PAYORS SURVEY

How Many Accreditations Do You Require Your Specialty Pharmacies to Have?

When asked how many accreditations they require their specialty pharmacies to have, payors gave the following responses:

- one (25%)
- two (50%)
- three or more (25%)

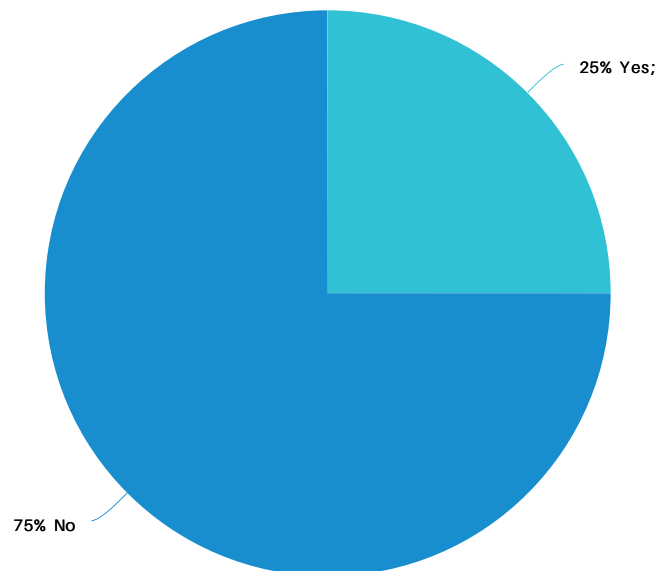


What Accreditation Do You Require for Specialty Pharmacies?

All payors surveyed require URAC accreditation for specialty pharmacies.

Do You Require Different Accreditation for Your Home Infusion Providers than You Do for Specialty Pharmacy Providers? If Yes, which One(s)?

The majority of payors surveyed (75%) do not require different accreditation for their home infusion providers than they do for their specialty pharmacy providers. Of those payors that do require separate accreditation, ACHC accreditation was the one they preferred.



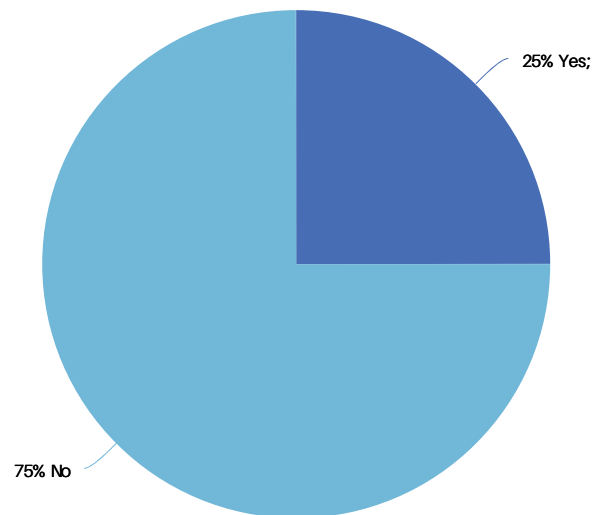
PAYORS SURVEY

Do You Have any Health System Specialty Pharmacies in Your Network? If No, Why Not?

Half of payors surveyed (50%) reported having health system specialty pharmacies in their networks. Of the 25% of payors that do not have health systems as part of their networks, the reasons stated were a lack of need and concerns about pricing.

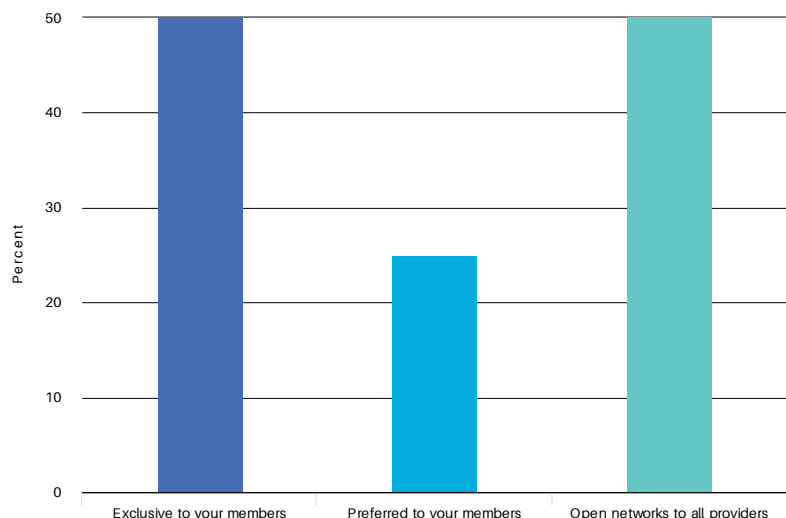
Does Your Organization Own or Partner with Health System Specialty Pharmacies? If Yes, Is That Pharmacy Included in Your Pharmacy Network for Specialty Drugs and Is It Required that Your Specialty Prescriptions Are Serviced by External Specialty Pharmacies?

Only a quarter of payors surveyed (25%) own or partner with a health system specialty pharmacy. Of those payors that do, the health system specialty pharmacy is included in their network for specialty drugs, and specialty prescriptions are also required to be serviced by external specialty pharmacies.



Check All that Apply. Do You Have Specialty Pharmacy Providers That Are:

- Exclusive to your members (50%)
- Preferred to your members (25%)
- Open networks to all providers (50%)



PAYORS SURVEY

What Is the Biggest Challenge You Have with Specialty Pharmacies in Your Networks?

The most significant challenges mentioned by payors concerning specialty pharmacies in their networks included the following:

- pricing
- communication flow
- order adjudication
- coverage across the USA (many are regional)

Twenty-five percent of respondents were unable to provide an answer.

What Percentage of Your Drug Spend Does Specialty Pharmacy Represent?

When asked what percentage of their drug spend specialty pharmacy represents, payors gave the following responses:

- 36% of drug spend (25%)
- 20% of drug spend (25%)
- 76% of drug spend (25%)

Twenty-five percent of payors were unable to provide accurate information.

What Is the Percentage of Growth Rate in Specialty Spend You Are Currently Tracking?

Twenty-five percent of payors surveyed reported a 25% growth rate in specialty spend, while another 25% were tracking a 13% growth rate. Fifty percent of respondents were unable to provide an answer.

How Has Specialty Drug Spend Impacted Your Health Plan?

A quarter of payor respondents reported that it is difficult to predict costs throughout the year and for future years. For some payors, 1%–2% of patients drive 50% of cost, making it difficult to impossible to predict. Another 25% of payors noted an increase in health plan spend, while 25% of respondents said that specialty drug spend had an impact on cost. Twenty-five percent of respondents did not provide an answer.

25% reported that it is difficult to predict costs throughout the year and for future years

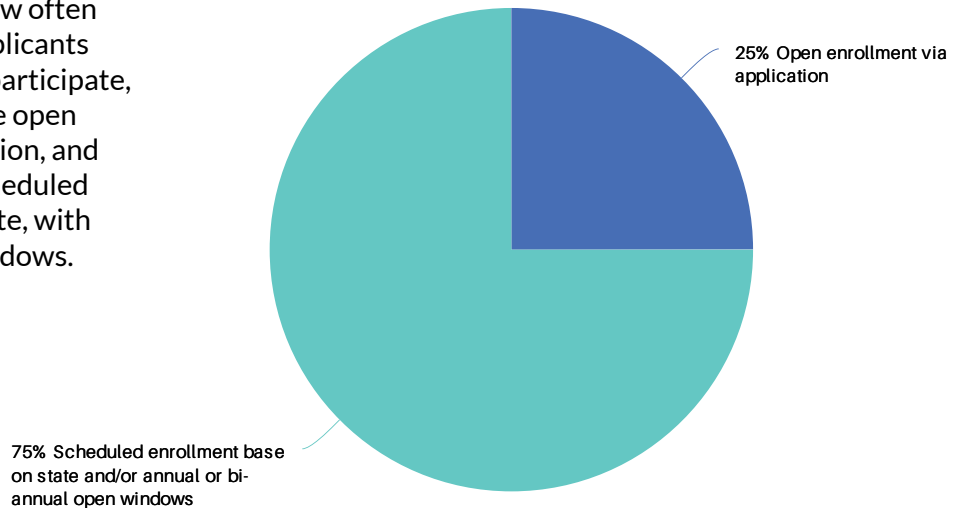
What Impact Have Patient Assistance Co-pay Programs Had on Your Health Plan, if Any?

The majority of payors (75%) reported that co-pay assistance programs have helped patients access and afford specialty drugs. They also indicated that these programs help increase Rx counts.

PAYORS SURVEY

How Often Does Your Plan Evaluate New Applicants for Specialty Pharmacy Enrollment to Participate?

When payors were asked how often their plans evaluate new applicants for specialty enrollment to participate, 25% reported that they have open enrollment through application, and 75% indicated they have scheduled enrollment based on the state, with annual or biannual open windows.



Does Your Plan Offer Specialty Pharmacy Providers a Specialty Medical Contract?

The majority of payor plans (75%) do not offer specialty pharmacy providers a specialty medical contract. Twenty-five percent of plans offer it to their specialty pharmacy providers.

Are You Satisfied with the Data You Receive from Specialty Pharmacy Providers?

Only 25% of payors are satisfied with the data they receive from their specialty pharmacy providers, while 75% indicated there is room for improvement.

How Would You Improve the Type of Data that Specialty Pharmacies Collect on Behalf of Your Members?

When asked how specialty pharmacies could improve the type of data they collect, payors stressed the following needs:

- outcomes and intervention information
- real-time data
- consistency

How Satisfied Are You with Your Specialty Pharmacies' Customer Service?

Interestingly, half of the payors surveyed (50%) are extremely satisfied with their specialty pharmacies' customer service (a rating of 4 out of 4), while 25% are very satisfied (a rating of 3 out of 4) and 25% of payors are somewhat satisfied (a rating of 2 out of 4).

PAYORS SURVEY

Do You Require Service-Level Agreements to Ensure Pharmacies Adhere to Your Members' Expectations?

All payors surveyed (100%) require service-level agreements to ensure pharmacies adhere to their members' expectations.

What Are Three Improvements that Specialty Pharmacies Could Make to Enhance Services for Your Members?

The most prominent answers among payors regarding improvements specialty pharmacies could implement to enhance services for their members included the following:

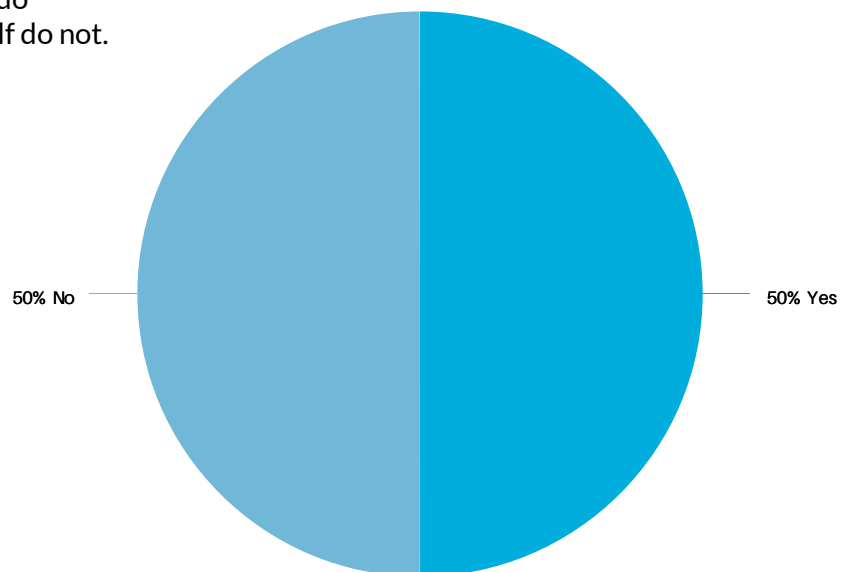
- open refill tape conversions
- match retail pricing
- enhance customer service
- timely mail order delivery
- greater access to medications
- be more consistent
- better knowledge of drugs
- provide more accurate data

Do You Have Any Specialty Value-Based or Risk-Sharing Contracts?

A quarter of payors surveyed (25%) reported having specialty value-based or risk-sharing contracts, while 50% do not have any. Twenty-five percent of respondents did not provide an answer.

Do You Publish Your Specialty Drug List?

Half of payors (50%) reported that they do publish their specialty drug list, while half do not.



PAYORS SURVEY

How Do You See Specialty Pharmacy Evolving into 2020?

When asked how they see specialty pharmacy evolving into 2020 and beyond, payors saw themselves becoming increasingly owned by the largest PBMs as the industry plays a more central role on the healthcare stage. Some payors see the specialty landscape becoming more expensive and harder to manage, especially because many employers are not experienced or well-versed in the workings of the industry.