

Prescription Economics in the U.S. Drug Channel System

<u>Assumptions</u>		
	Brand WAC/unit	\$10.00
	Pharmacy reimbursement (AWP discount)	16.0%
	Pharmacy acquisition cost (WAC discount)	4.0%
	Wholesaler fees/discounts	5.0%
	PBM Rebate	30.0%
	PBM rebate pass-through to plan sponsor	90.0%
	PBM Admin Fee	4.0%
	PBM admin fee pass-through to plan sponsor	50.0%
	PBM network spread	1.0%

No.	Item	Amount	Computation
[1]	Wholesale Acquisition Cost (WAC)	\$300.00	Set by manufacturer
[2]	Average Wholesale Price (AWP)	\$360.00	[1] * 1.20
Pharmacy Revenue			
[3]	Ingredient Cost Reimbursement	\$302.40	[2] * 84% (= AWP-16%)
[4]	Average Dispensing Fee	<u>\$2.00</u>	estimate
[5]	Total Pharmacy Revenue	\$304.40	[3] + [4]
Reduction in Payer Expense			
[6]	Consumer Copayment	\$35.00	Preferred brand-name drug (Tier 2)
[7]	Manufacturer Rebate (pass through)	\$81.00	[1] * 30.0% * 90.0%
[8]	Admin Fee (pass through)	\$6.00	[1] * 4.0% * 50.0%
PBM Administration Expense			
[9]	Retail Network Spread	\$3.00	[3] * 1.0%
[10]	Retained Rebate	\$9.00	[1] * 30.0% * 10.0%
[11]	Retained Admin Fee	\$6.00	[1] * 4.0% * 50.0%
[12]	Total Expense to Payer	\$185.40	[5] - [6] - [7] - [8] + [9]
Pharmacy Profits			
[13]	Acquisition Cost from Wholesaler	\$288.00	[1] - 4.0%
[14]	Gross Profit per Prescription	\$16.40	[5] - [13]
[15]	Gross Margin per Prescription	5.4%	[14] / [5]

<u>SUMMARY</u>			
<u>Entity / Revenue Computation</u>	<u>Revenues</u>	<u>Gross Profit</u>	<u>Computation</u>
Manufacturer (net)*	\$183.00	\$137.25	estimate
Wholesaler = [13]	\$288.00	\$3.00	[13] - [1] * (100% - 5.0%)
Pharmacy = [5]	\$304.40	\$16.40	[5] - [13]
PBM (network revenues)** = [5] + [9]	\$307.40	\$18.00	[9] + [10] + [11]

* Manufacturer Net Revenues = [1] * [100% - (PBM Rebate + PBM Admin Fee + Wholesaler fees/discounts)]

** Some publicly traded PBMs report revenues net of pass through rebates (item [7]).

Source: Adam J. Fein, PhD., Drug Channels/Pembroke Consulting. Example illustrates economics for a patient-administered, outpatient brand-name prescription. It is not intended to be a complete representation of every type of financial, product flow, or contractual relationship in the marketplace. For ease of presentation, some figures are rounded to the nearest whole dollar. Results illustrate economics for individual roles within drug channel, i.e., pharmacy and PBM are shown as being under separate ownership. For sources, please see *The 2017 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*. Available at:

http://drugchannelsinstitute.com/products/industry_report/pharmacy/