

# The Value of Walgreens, Part 2

*Why employers and patients value Walgreens*

*Why Walgreens believes that it will win back most Express Scripts employers and members over time*

In the white paper *The Value of Walgreens* (released in September 2011), Walgreens updated the market on the facts behind the Express Scripts situation and demonstrated the value Walgreens provides to pharmacy plan sponsors. While Walgreens has worked hard to reach an agreement with Express Scripts and has offered a number of cost-saving concessions, negotiations remain at an impasse. Both Walgreens and Express Scripts have informed patients that Walgreens will not be included in the Express Scripts network as of January 1, 2012.

This paper outlines why we believe we will win back most Express Scripts plan sponsors and members over time. This belief is based on a rich set of data and experiences including a proprietary employer survey that Walgreens recently commissioned with a diverse panel of 823 business executives who are involved in their company's pharmacy benefit decisions.

At Walgreens we appreciate that the retail pharmacy market is competitive and employers are very cost conscious. We do not take anything for granted. However our convenient nationwide network, trusted pharmacist relationships, and other health services provide real value to patients and employers, and **we are confident that the vast majority of employers are not willing to remove Walgreens from their network for little to no economic benefit in return.**

## The value of Walgreens

Walgreens delivers significant value for pharmacy benefit plans and patients through convenience, with nearly 8,000 stores at the most convenient locations and the greatest number of 24-hour and drive-thru pharmacies of any national chain; choice; personal service and low-cost prescriptions. In addition, Walgreens is delivering on its commitment to being more than a drug store by providing a broad array of health and wellness services that offer appropriate, cost-effective and time-efficient alternatives that help to address the need for greater access to primary care.

Based on benchmarks and recent pharmacy acquisitions, we know Walgreens offers competitive unit prices. In addition, we also find that Walgreens overall cost per adjusted script is often lower, because of our better performance in dispensing generic drugs and promoting cost-saving programs like 90-day retail prescriptions where appropriate.

In addition, Walgreens can lower healthcare costs by promoting medication adherence and proper use, and delivering health services such as flu shots, health testing, coordinated wellness care and work-site health and wellness centers that keep employees healthy.

**Excluding Walgreens from a pharmacy network will result in little to no savings for most sponsors and patients.** Walgreens believes that the vast majority of pharmacies, including Walgreens, receive reimbursements per script that fall within a narrow band, typically within less than 5% of one another. Therefore, excluding any pharmacy with 20% market share from a 5% pricing band can only result in savings on the order of 1% or less.

## Walgreens believes it will win back Express Scripts customers over time

Walgreens believes the vast majority of employers value Walgreens and would require significant savings to exclude Walgreens from their pharmacy network. In addition, we believe many employers who use Express Scripts have options in their contracts that could be activated in the upcoming months if access to Walgreens is not restored. Finally, pharmacy benefit managers like Express Scripts that do not include Walgreens in their networks may face a more challenging selling season in 2012 and beyond.

## Employers value Walgreens

Most employers expect Walgreens to be in their pharmacy network or would expect significant savings in return for excluding Walgreens. In many cases the expected savings exceed the modest amounts Express Scripts has reportedly offered clients for removing Walgreens from their network.

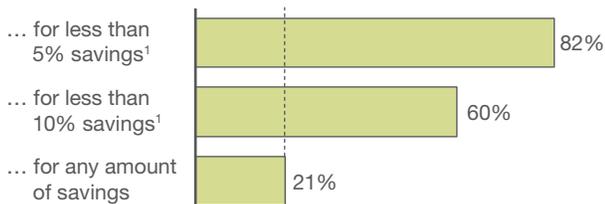
In Walgreens proprietary employer survey, 82% of employers said that they would not exclude Walgreens for less than 5% savings on their total pharmacy spend, as seen in the chart below. 60% of employers would not exclude Walgreens for less than 10% savings, and 21% would not exclude Walgreens from their network regardless of the amount of savings. These findings on employer attitudes are consistent with recent research published by several leading equity research analysts.

### Most employers say they require significant savings to exclude Walgreens

What cost savings would you require in order to accept a network that EXCLUDES Walgreens retail pharmacies? (That is, employees would NOT be permitted to fill prescriptions at Walgreens pharmacies)

Percent of respondents (question asked to 248 random respondents)

**I would not exclude Walgreens ...**



<sup>1</sup> Includes 21% who said "I would not accept it" for any amount of savings

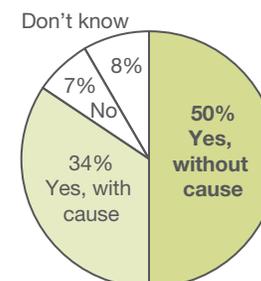
## Many employers say they have contract flexibility

In Walgreens Employer Survey, many employers indicated they have pharmacy contract provisions that could enable them to take action to preserve access to Walgreens. While not limited specifically to Express Scripts, 50% of self-insured employers (those who contract separately for medical and pharmacy benefits) surveyed say they can terminate their PBM contract without cause, as shown in the chart below. In addition, 51% of self-insured employers say they can contract separately with retail pharmacies that are excluded from their plan's pharmacy network.

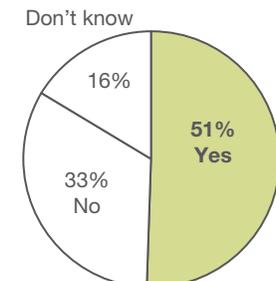
### Many self-insured employers say they have contract flexibility

Percent of self-insured respondents (n = 522)

**Termination:**  
Can you terminate your current contract with your pharmacy benefit manager?



**Direct contract:**  
Are you able to contract separately with retail pharmacies that are excluded from the plan's pharmacy network?



## Impact on Express Scripts retention and new sales in 2012 and beyond

In 2012 and beyond, excluding Walgreens will challenge Express Scripts' retention and new sales, as well as the value proposition of any PBM that doesn't have Walgreens in its network. To date, Walgreens has already worked with a large number of employers to create direct contracts and we are also aware of a number of employers who switched to a new PBM in order to maintain access to Walgreens. We anticipate the pace of employers looking to maintain or regain access to Walgreens to increase over time.

There is a large segment of employers who we believe have not yet taken action because they expect the situation to be resolved. In fact, 45% of employers in our proprietary survey think resolution is still likely in 2011, and another portion expects resolution by March 2012.

As time passes and it becomes increasingly clear that Walgreens will not be in Express Scripts network, we expect the pace of reconsideration to accelerate.

According to Walgreens proprietary research shown below, 61% of self-insured employers and 45% of fully-insured employers (those who contract for integrated medical and pharmacy benefits from a managed care organization) say they will be less likely to choose or renew Express Scripts (or a managed care organization that contracts with Express Scripts) if Express Scripts' network excludes Walgreens in 2012.

Of the 35% of self-insured employers and 49% of fully-insured employers who say their likelihood of choosing or renewing Express Scripts "hasn't changed," more than 3 out of 4 still expect greater than 5% savings if Walgreens is excluded—savings that we believe will be difficult to deliver. These attitudes are consistent with other recent research regarding the impact of the Walgreens situation on Express Scripts customer decisions.

Finally, only 20% of employers surveyed say switching PBMs would be difficult. This further supports our belief that employers are willing to exercise options in order to regain and maintain access to Walgreens over time.

### About the Walgreens Employer Survey

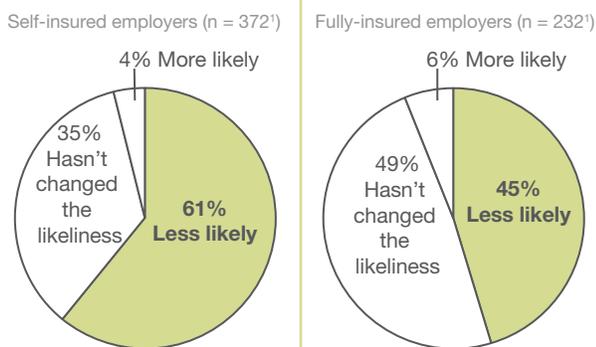
Walgreens conducted a proprietary market research study to better understand employers' pharmacy benefits needs and buying criteria as well as how they view the current situation with Express Scripts. A total of 823 executives and managers who self-identified as a final decision maker or one of the key decision makers (78% of respondents) or who provide input into pharmacy benefit decisions (22% of respondents) participated in this survey, administered by an independent vendor.

The survey was conducted anonymously between December 7th and December 14th, 2011 and included 522 self-insured employers who make separate decisions about medical and pharmacy benefits, and 301 fully-insured employers who purchase integrated medical and pharmacy benefits from managed care companies that contract with pharmacy benefit managers. Of the respondents, 51% were senior managers (e.g., CFO, SVP), CEO/president, or owner/partner, with the remaining 49% were directors or managers. A range of pharmacy benefit manager customers were represented within the survey, with one-third using Express Scripts. Respondents represented 48 states (based on where most beneficiaries live), with 22% of companies having more than 5,000 beneficiaries and 23% having fewer than 250. Given the large sample size, high quality of respondents and detailed methodology, this is one of the most robust employer surveys conducted to date.

### Most employers say they are less likely to choose or renew Express Scripts

Percent of respondents

Given Walgreens absence from the Express Scripts pharmacy network in 2012, are you more or less likely to choose or renew Express Scripts to manage your pharmacy benefits?



Over 75% of employers who said their likelihood to choose or renew "hasn't changed" still require savings > 5% to exclude Walgreens

<sup>1</sup> Number of employers who were asked this question

December 20, 2011