Delivering world class value for money in drug provision and pharmacy services

Ontario

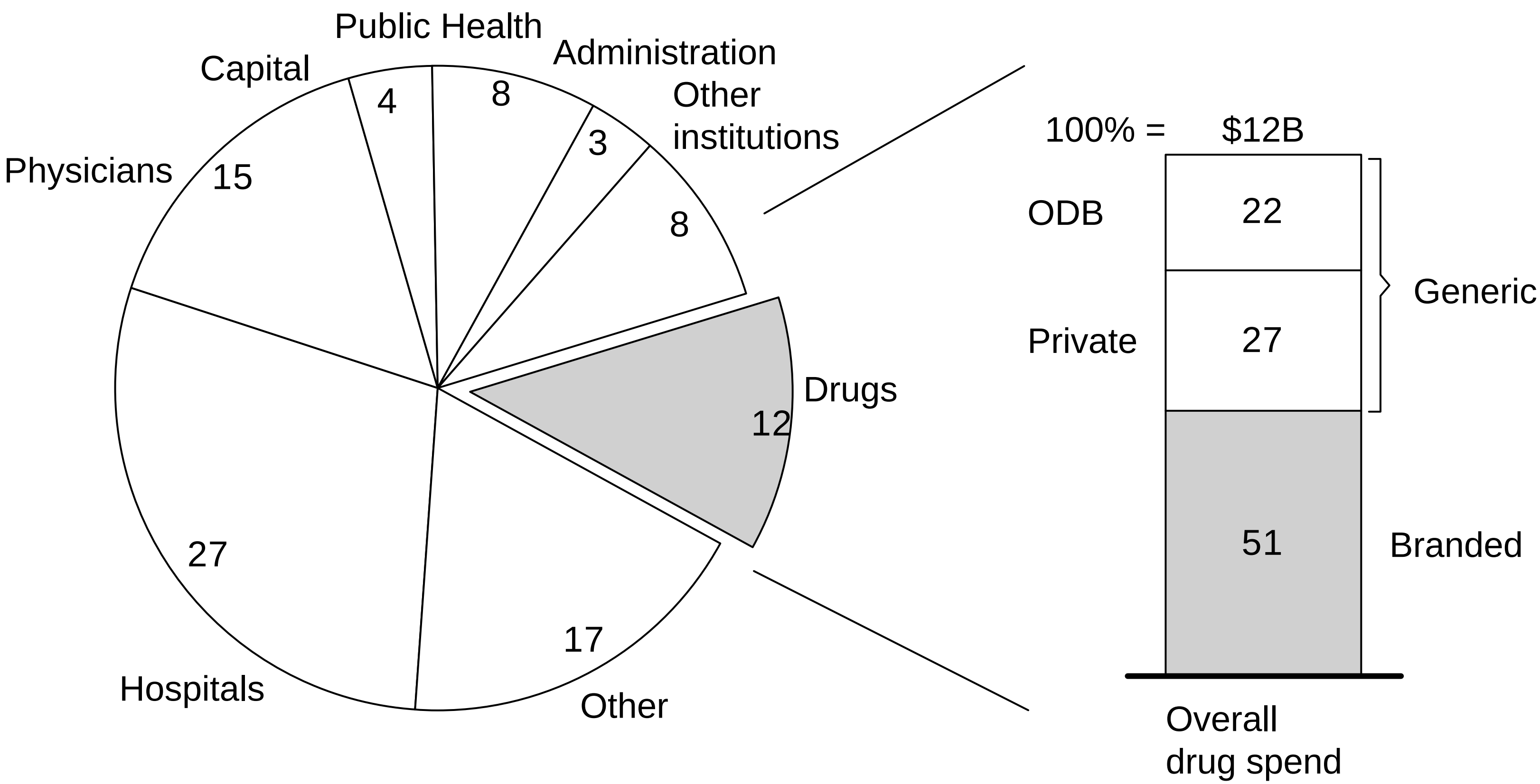
MINISTRY OF HEALTH AND LONG TERM CARE

September 2009

Total spending on branded drugs in Ontario is ~$6B per year

Overall healthcare spend[1] in Ontario, FY2008

Canadian $, billions (100% = $68B)



1 Includes institutional drug spend, but scope of document is limited to non-institutional drug spend only, which is ~50% of total drug spend ($6.25B/year)

Source:Canadian Institute for Health Information

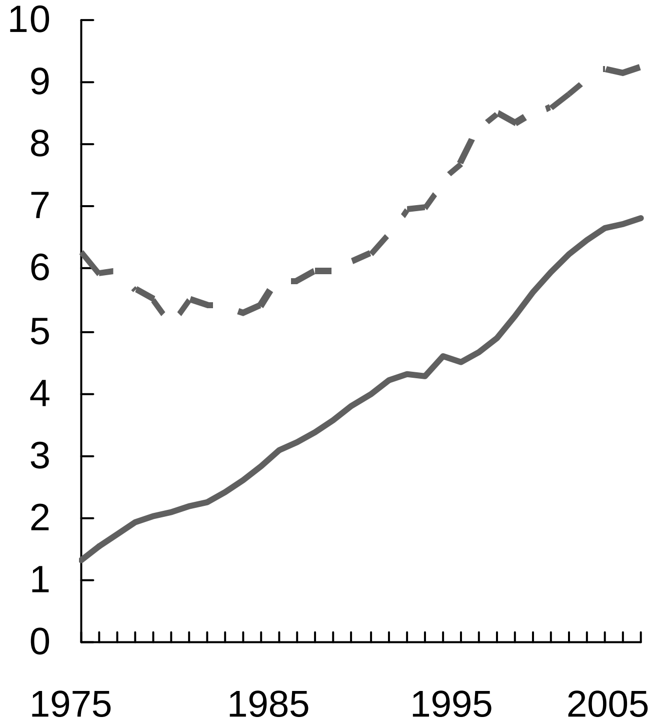
Historically, Canadians have not felt the need to manage drug costs but this is changing with rising drug costs

Private

Public

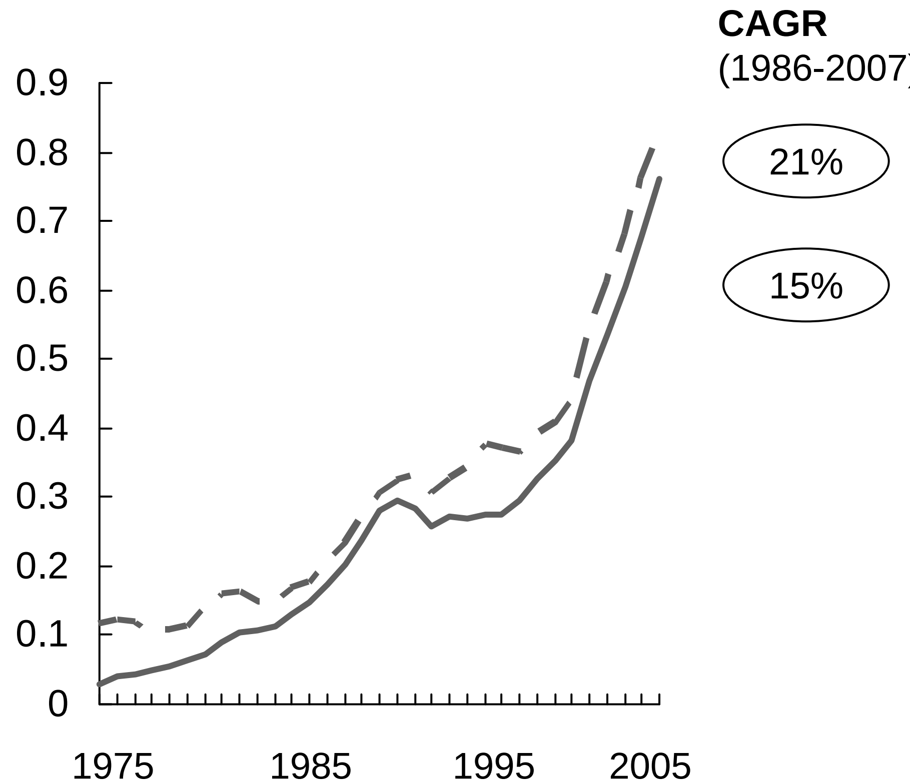
Prescribed drug spend* as % of total health expenditure

%



Prescribed drug spend as % of GDP

%



* Pharmaceuticals and other medical non-durables

Source: OECD; Statistics Canada

Profit pool from drug provision in Ontario

Branded pharmaceuticals

Revenue	4700	
Estimated EBIT	**1200**	25%

Generic pharmaceuticals

Revenue	1500	
Estimated EBIT	**260**	17%

76%

24%

Wholesale

Drug price	3600	
Gross margin	70	2%
Estimated cost	40	1%
Estimated EBIT	**40**	1%

Flow from distributors

Drug price 5700

Self-distributing chain

Drug price	2100	
Estimated cost	25	1.15%

Flow from generic

All PA[1] **660**

ODB PA[1] **140**

63%

37%

91%

Note: These figures do not capture all services fees within the drug system.

Pharmacies

Markups	500	8%
Dispensing fees	1200	
Allowances/Rebates	660	
Estimated EBIT	**830**	

55%

37%

8%

ODB plan

Drug price	3400
Markup	270
Dispensing fee	700

Private insurance

Drug price	2300
Markup	190
Dispensing fee	380

Cash

Drug price	510
Markup	40[2]
Dispensing fee	80[2]

1 Based on reported Professional Allowances given by generic manufacturers

2 Extrapolated based on %of total Rx price (private insurance)

Source: IMS Health 2009; Brogan data; Competition Bureau of Canada Canadian Generic Drug Sector Study 2007, Company Financials; ODB data; Industry Interviews

A number of major drugs are expected to come off patent in the next several years

Drugs coming off patent (with FY 2008/09 ODB spend)[1]
Canadian $ in millions

FY 2009

Prevacid	*63.1*
Norvasc	*166.3*
Total	***229.4***

FY end 2010[2]

Exelon	*17.2*
Proscar	*18.5*
Total	***98.8***

FY 2011

Caduet	*14.6*
Diovan	*37.3*
Femara	*9.2*
Lipitor	*354.0*
Lupron	*15.4*
Spiriva	*60.0*
Total	***656.9***

FY 2012

Arthrotec	*10.2*
Cozaar	*24.2*
Hyzaar	*6.2*
Micardis	*21.1*
Singulair	*1.2*
Total	***62.9***

FY 2013

Arimidex	*13.6*
Atacand	*37.9*
Cosopt	*10.7*
Crestor	*107.4*
Oxycontin	*67.2*
Plavix	*56.3*
Prograf	*9.2*
Total	***302.4***

FY 2014

Aricept	*67.3*
Celebrex	*29.3*
Gleevec	*26.2*
Wellbutrin	*2.4*
Total	***125.2***

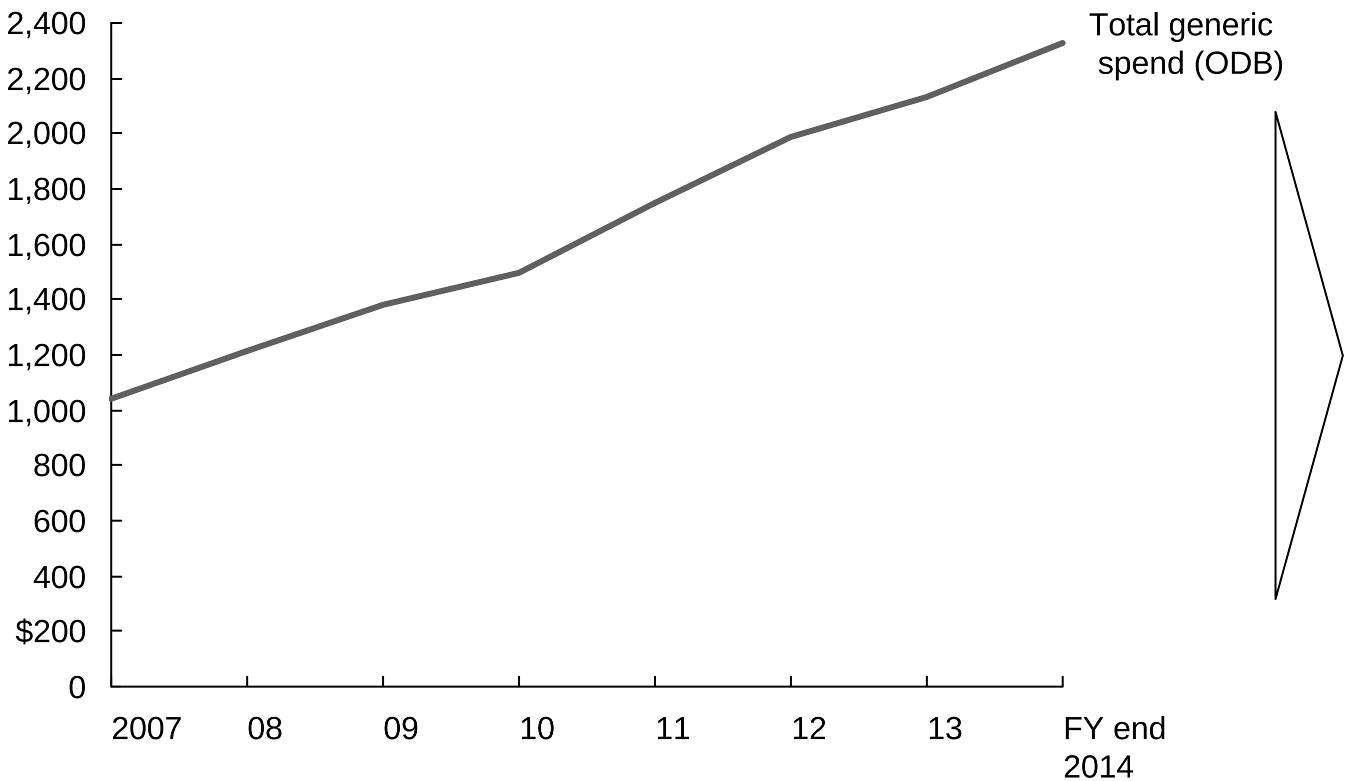
1 Includes government and recipient pay portions
2 Fiscal Year is defined as April to March, e.g. FY end 2010 is 4/09 – 3/10

Source: ODB Database; Mylan; Brogan; team interviews

Growth in generic drug spending will result in significant potential savings

Projected total ODB generics spend[1]

CAD $ Millions



- Annual projected increase in generic drug spending of **11%** between 2009 and 2014

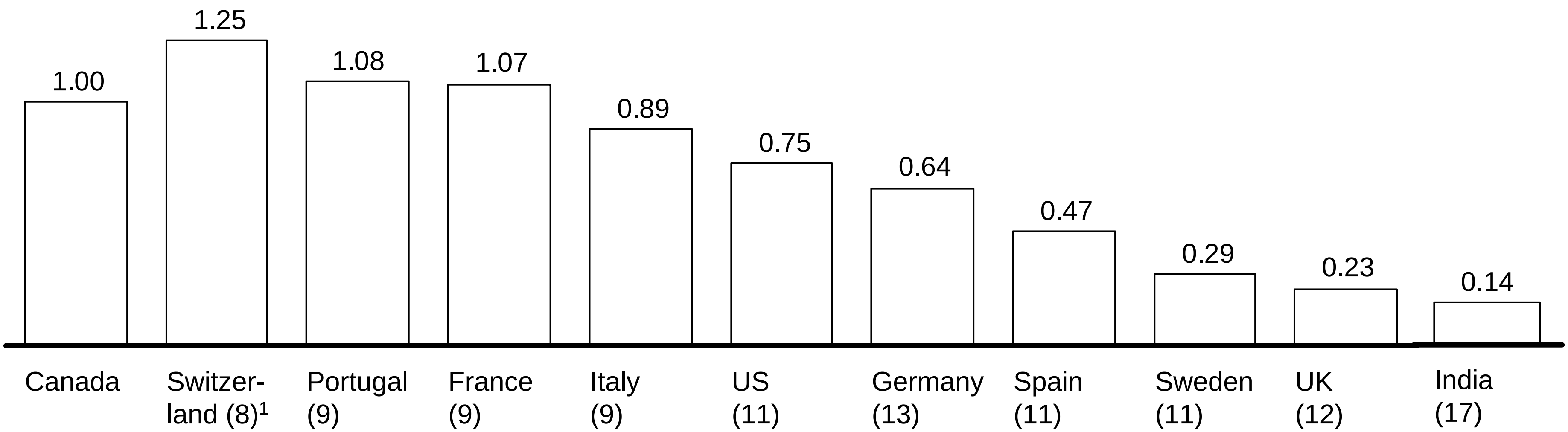
1 Includes government and recipient pay portions

Source: Internal OPDP calculations based on HNS database; Brogan; Mylan

Ontario pays higher generic drug prices than most developed countries

Benchmark of generics drug prices based on top 18 MOHLTC drugs

MOHLTC price indexed to 100%



If average generic drug prices moved to the level of US (with all else held constant) ODB would have saved around $290M per year (assuming current spend levels) or up to ~$440M per year by 2014 considering a number of drugs coming off patent in the next several years

1 Figures in brackets represents number of comparable drugs available in respective country to MOHLTC's top 18 drugs

Source: OPDP formulary as of 3/09; FSS (US); Vidal (France); FarmaDati (Italy); TLV (Sweden); SL-Priese (Switzerland); Lauer-taxe (Germany); BNF (UK), Drug Today (India); Portal Farma (Spain); Infarmed (Portugal)

2007/2008

Ontario Public Drug Programs - 2007-2008

			What Pharmacy Receives to Dispense Drug					
	Number of Claims	**Drug Cost**	**Mark-up**	**Dispensing Fee**	**Compounding Fee**	**Prof. Allowances***	**SubTotal**	**Total**
Brand	39,968,657.00	2,414,473,137.00	181,188,465.00	270,066,447.00	9,506,375.00	negligible	460,761,287.00	**2,875,234,424.00**
Generic	59,615,289.00	789,992,972.00	61,371,957.00	416,602,744.00	365,921.00	157,998,594.40	636,339,216.40	**1,426,332,188.40**
Total drug	99,583,946.00	3,204,466,109.00	242,560,422.00	686,669,191.00	9,872,296.00	157,998,594.40	1,097,100,503.40	**4,301,566,612.40**

* Professional allowances capped at 20% of total OPDP generic drug costs. PAs are paid by generic company to pharmacy

Private Payors - 2007/08

Data estimate based on private sales data reported by Brogan In

		What Pharmacy Receives to Dispense Drug					
	Drug Cost	**Mark-up**	**Dispensing Fee**	**Prof. Allowances***	**SubTotal**	**Total**
Brand	2,031,767,127	276,610,018.23	232,737,300.78	negligible	509,347,319.01	**2,541,114,445.81**
Generic	547,621,204.97	45,062,564.58	172,545,076.79	438,096,963.97	655,704,605.35	**1,203,325,810.31**
Total drug	2,579,388,331.77	321,672,582.81	405,282,377.58	438,096,963.97	1,165,051,924.36	**3,744,440,256.12**

* Professional allowances calculated at 88%, based on certified reports provided to Ministry by generic companies:
- June to December 2008, $322 million paid from generic companies to pharmacy. $644 million annualized.
- Of $644 million, per above, $157.998 million (20% of $790 million) paid on OPDP sales, balance of $486 million. $486 million on $547.6 million sales = 88%

Does not include 5 to 7% paid to wholesaler, of which about 2% flows through to pharmacies

June to December 2008

From Pharmacy Reporting

No. pharmacies submitting reports	3,176		
Public & Private*	June to Dec '08	Annualized	
Total PAs received by pharmacies	$187.9 million	$375.8 million	
Total PAs spent by pharmacies	$223.7 million	$447.4 million	
More spent than received	$35.8 million	$71.6 million	
* Based on 2,809 complete reports of 3,176 submitted reports			
Private Payors	June to Dec '08	Annualized	As % of total
Private payor PAs received by pharmacies, based on pharmacy and manufacturer submitted reports	$119.2 million	$238.4 million	63%
Private payor PAs received by pharmacies, based on generic co-submitted reports	$253.3 million	$506.6 million	78.6%
Generics paid more than pharmacy received	$134.1 million	$268.2 million	
Public (OPDP)	June to Dec '08	Annualized	As % of total
Public PAs received by pharmacies	$68.7 million	$137.4 million	36%
Public PAs spent by pharmacies	$113.7 million	$227.4 million	50%
More spent than received	$45 million	$90 million	
How Public PAs used by pharmacies			
Public PAs spent by pharmacies	$113.7 million		
			As % of total
Pharmacy/pharmacist programs	$15.3 million		13.5%
Private counselling areas	$1.0 million		0.90%
Compliance packaging	$24.2 million		21.3%
Pharmacy staffing costs	$70.5 million		62.0%
Staff bonus payments	$2.5 million		2.2%
Unaccounted for	$.2 million		

From Generic Company Reporting

No. generic cos submitting reports	21	
Public & Private	June to Dec '08	Annualized
Total PAs paid to pharmacies	$322 million	$644 million