

Financial Analysis of Express Scripts

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Overview

The four major pharmacy chains in the U.S. are Walgreens, CVS Caremark, Express Scripts and Rite Aid. Together, these four pharmacy chains sold over 50% of the prescription drugs purchased in the U.S. in 2016. Walgreen corporation was expected to merge with Rite Aid in 2015, but that merger was cancelled a year later.

Walgreens pharmacies sell prescription medications almost entirely via retail pharmacy stores. CVS Caremark provides prescription drugs through both retail pharmacies and its pharmacy benefits manager service (Caremark) and Rite Aid is a retail pharmacy outlet that also recently began offering pharmacy benefit manager services. Express Scripts is solely a pharmacy benefit manager with a mail order prescription drug service.

All other prescription drugs in the U.S. are sold either by small independent pharmacies, large retail stores for whom prescription drugs sales are a small portion of their overall revenue (like Walmart) or pharmacy benefit managers that act as subdivisions of major health insurance companies.

Express Scripts

Unlike CVS, Walgreens or Rite Aid, Express Scripts has no retail pharmacy stores. Instead, Express Scripts is solely a pharmacy benefits manager that provides prescription medications through its mail order service and mediates retail prescription drug purchases through other retail pharmacies for health insurance companies.

In 2011 Express Scripts merged with Medco to become the largest pharmacy benefits manager in the US. By 2013, the total revenue for express scripts was over \$100 billion and \$37 billion of this was from mail order prescription drugs.

Pharmacy benefit managers (PBMs) were created in the late nineties to help insurance companies select cost effective medications for their formularies. At that time, the majority of prescriptions filled in the U.S. were for expensive brand name medications so PBMs could be helpful in reducing the overall cost of these drugs.

Now, nearly all prescriptions filled in the U.S. are for inexpensive generic medications. The PBMs determine the copays people pay for these medications, but usually pay nothing since generic medications cost so little. What's more, PBMs often split your copay with the pharmacy so, instead of helping you purchase your generic prescription medication, PBMs actually raise your out-of-pocket cost for these medications in order to get a kickback from your pharmacy.

To make matters worse, PBMs also get tens of billions of dollars each year in rebates from pharmaceutical companies to help them "select" which brand name medications to put on their formularies. So, instead of selecting the most cost effective medications, PBMs are encouraged to select medications that yield higher rebates. PBMs get away with all of this mostly because very few people know anything about them or what they do.

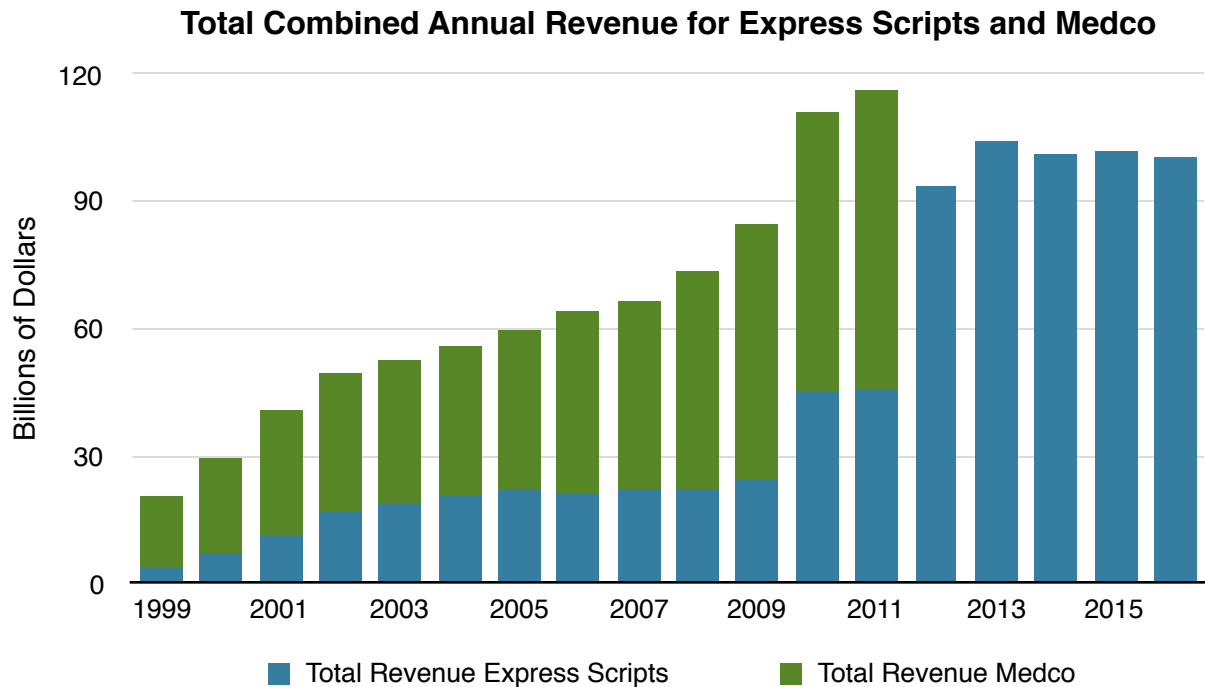
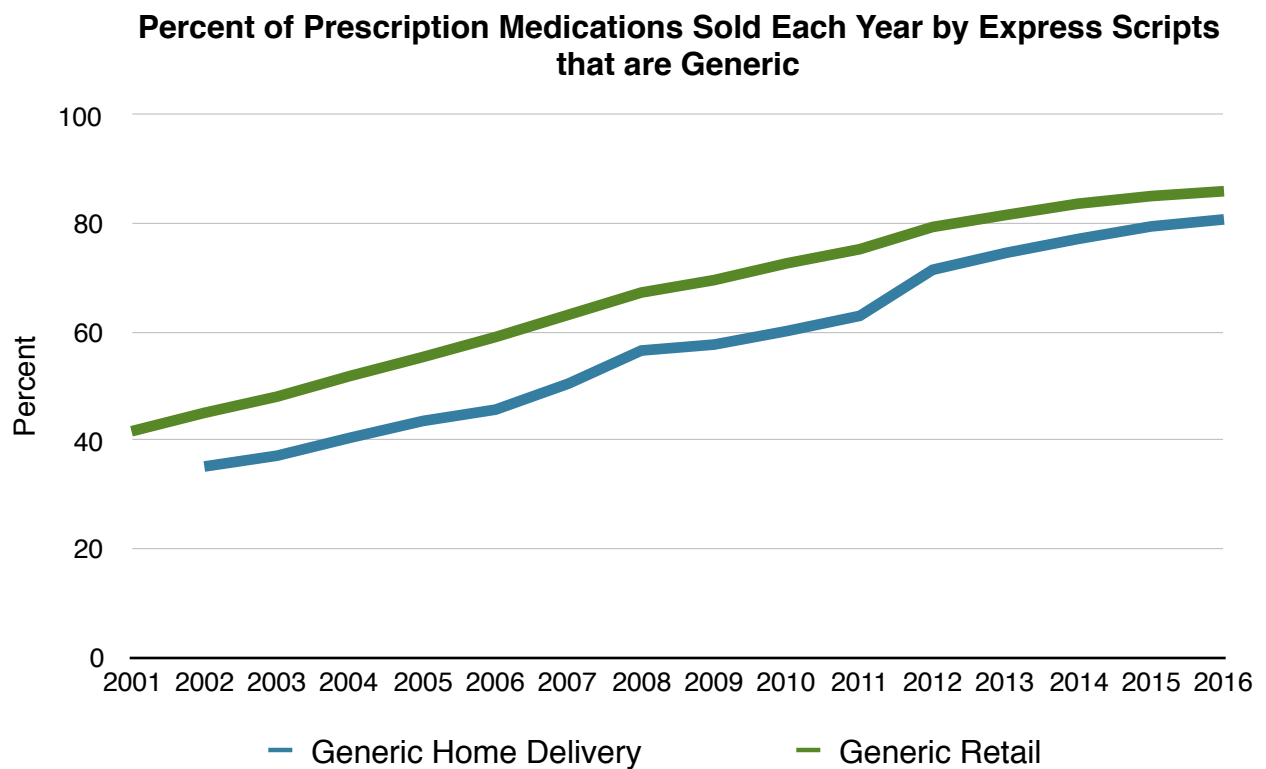


Figure 1: The total revenue for Express Scripts and Medco combined peaked at nearly \$120 billion in 2011. Since then their revenue has dropped somewhat.



Figures 2&3: The proportion of prescription drugs sold through both Express scripts that were generic was around 40% in 2001. In 2016 86% of the prescriptions that go through Express scripts are for generic medications.

Total Annual Home Delivery Revenue and Other PBM Revenue for Express Scripts

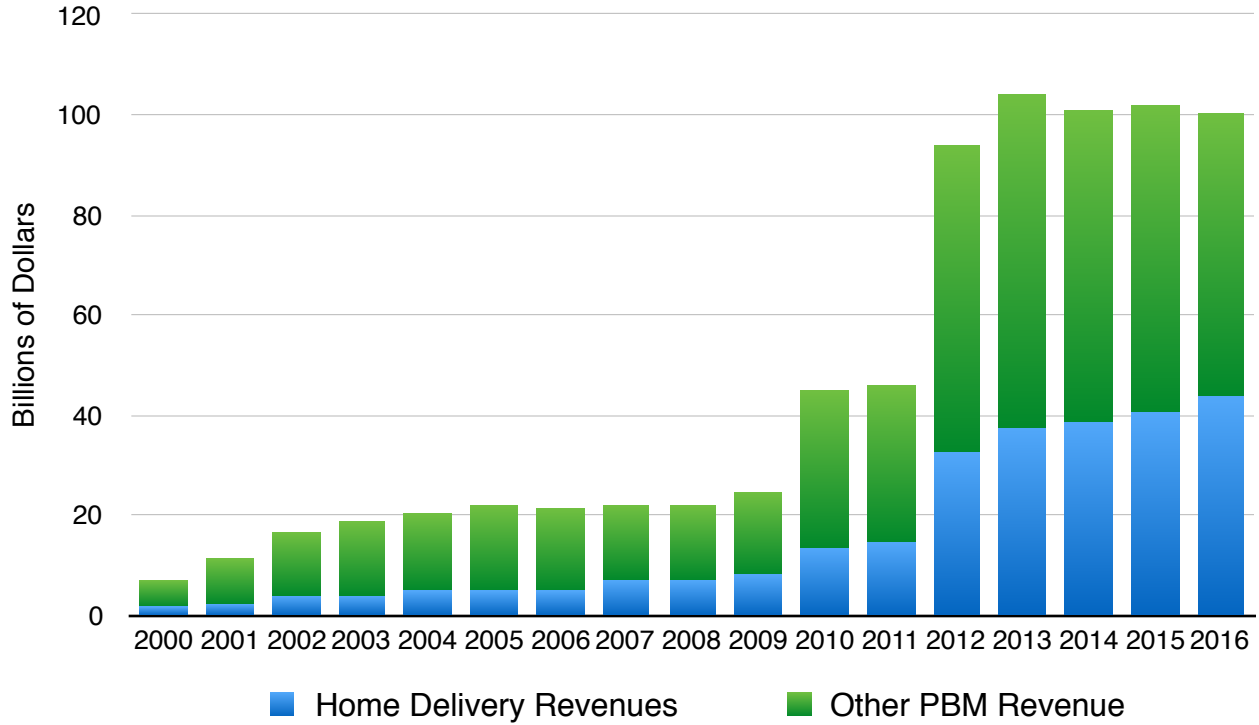


Figure 3: Nearly 60% of the revenue for Express Scripts is for “mediating” medication purchases at retail pharmacies. The rest comes from selling medications directly through their home delivery service.

Annual Profits for Express Scripts

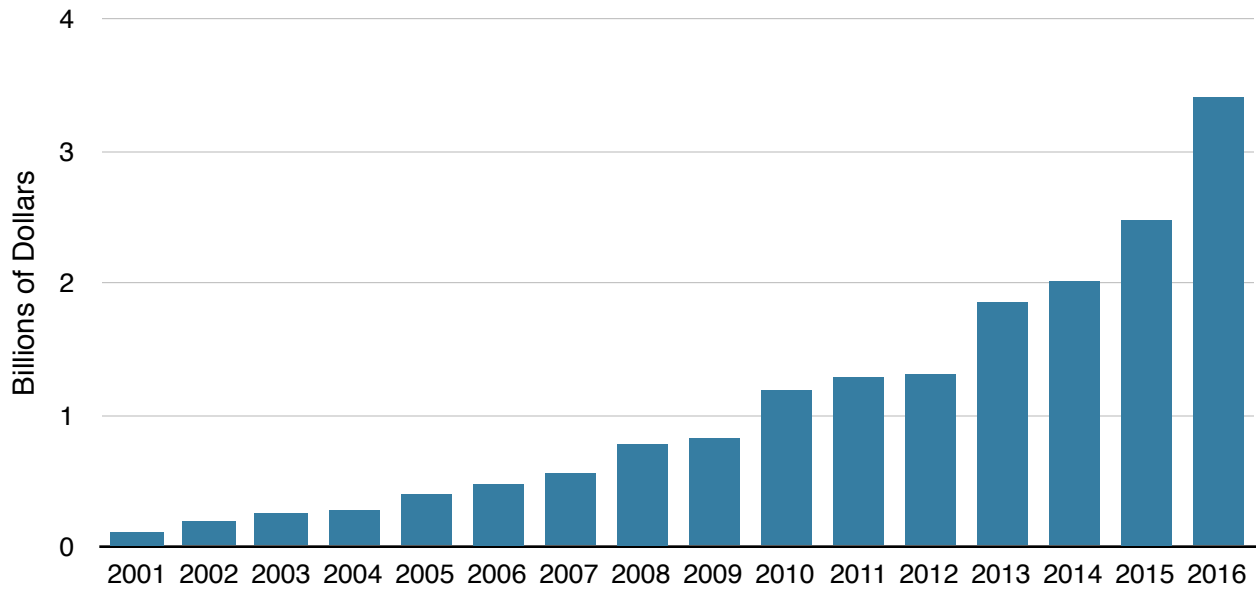


Figure 4: Express Scripts has had no trouble maintaining their profit even while total revenue is somewhat stagnant.

The total executive compensation for Express Scripts executives in 2016 was \$42.1 million with \$14.5 million going to their CEO Timothy C. Wentworth.

Sources: <http://truecostofhealthcare.net/pharmacy-financial-index/>

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