



# Executive Summary

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*Express Scripts 2006 Drug Trend Report*

## Executive Summary

### OVERVIEW

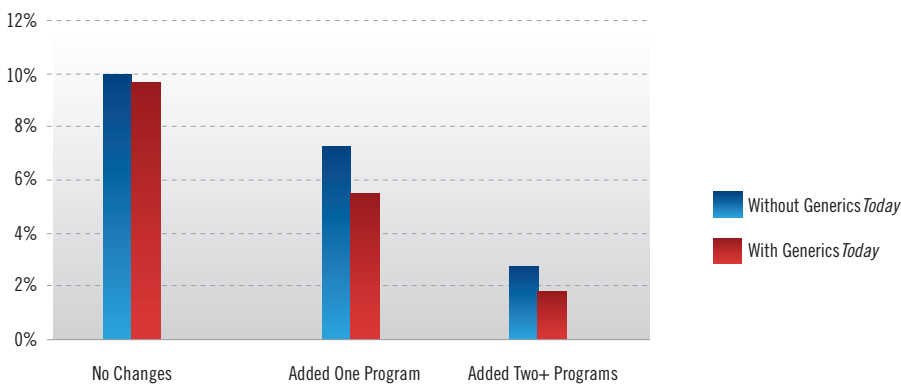
In historical terms, 2006 was a landmark year for patent expirations. Drugs representing more than \$13 billion in 2005 national drug spend<sup>1</sup> went generic. Many of these new generics — including several for blockbuster brand-name drugs — are in high-growth, high-volume therapy classes. Generics provide safe, effective options to their corresponding brands. In many cases, they also offer alternatives to other brands within their therapy classes. Therapeutic conversion opportunities from a brand to a generic for a similar brand further increases cost savings for plan sponsors.

### EXPRESS SCRIPTS TAKES ACTION

Express Scripts took advantage of these unprecedented cost-saving opportunities with *Generics Today*<sup>SM</sup>, a program that combines state-of-the-art member communications, dedicated customer service and advanced technological features, such as automated refill reminders. Plan sponsors achieved previously unattainable trend reductions by using *Generics Today* to augment more traditional plan-design features, such as 3-tier formularies, step therapy and copayment optimization.

### Exhibit 1

#### Ingredient-Cost Trend With and Without *Generics Today* 2005 to 2006

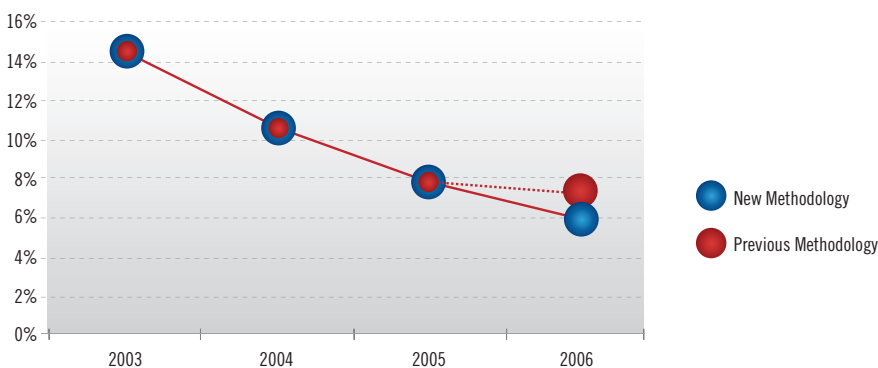


<sup>1</sup>Express Scripts analysis of information from: Top 200 brand-name drugs by retail dollars in 2005. *Drug Topics*. March 6, 2006. Available at: <http://www.drugtopics.com/drugtopics/data/articlestandard/drugtopics/082006/309440/article.pdf>. Accessed March 6, 2006; *JP Morgan Securities Prescription Pad*. February 2006; and manufacturer press releases.

**TREND**

In anticipation of the withdrawal of average wholesale price (AWP) as a drug-pricing benchmark, we revised our methodology for calculating trend. This year, our trends are based on actual ingredient costs, a method that better reflects the value that Express Scripts brings to our clients. Exhibit 2 shows nonspecialty drug trends over the past four years, with the 2005 to 2006 trend measured by both methods. The difference in 2006 represents the value of discounts we provide to our clients.

With ingredient costs rising only 5.9%, trend for nonspecialty drugs fell to the lowest levels seen in this decade. Both lower drug utilization for treating acute conditions and the introduction of new generics contributed to this decline. Despite smaller overall trend, however, some therapy classes continued their explosive growth. Hypnotics, for example, grew an astonishing 36.9%, fueled by the highest levels of direct-to-consumer (DTC) advertising for any class in 2006.

**Exhibit 2****Overall Nonspecialty Drug Trend — Express Scripts Plan Sponsors 2003 to 2006**

At 20.9%, specialty drug costs within the pharmacy benefit increased more than three times faster than the nonspecialty rate. Specialty trend reflects the growing demand for specialty products, which are typically expensive and require significant individualized patient care.

**FORECAST**

Over the next four years, nonspecialty drugs are expected to grow at rates slightly higher than they have over the past two years. Higher utilization from cyclical patterns of use for acute drugs and a slowdown in the generic pipeline are major factors in the rebound.

During the same period, growth of specialty drugs will continue to outpace the growth of nonspecialty drugs. Overall pharmacy and medical specialty spend is projected to grow by slightly more than 80% over the next four years, rising to 26% of total drug spend. Specialty drug cost under the pharmacy benefit is expected to grow even faster — by more than double — as specialty costs transfer from the medical benefit.