Value-Based Pharmacy Management

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CVS Health
Agenda

1. Marketplace Overview
2. Value-Based Management Considerations
3. Value-Based Strategies in Action
The Complexity of Patients and Market Changes Require Broad Set of Interventions

<table>
<thead>
<tr>
<th>Rising spend across benefits</th>
<th>Complex multi-drug regimens</th>
<th>Technology driving clinical innovation</th>
<th>Value-based management</th>
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- Pipeline (new drugs, indications)
- Rising launch prices
- Emerging management models
- Biosimilars
Changing Market Dynamics Contribute to Growth in Specialty

Drivers of Specialty Trend

- Rising spend across pharmacy and medical benefits
- Pipeline of new drugs and indications
- Complex, high-cost member population
- Rising launch prices and inflation

Specialty will represent 55% of all drug spend by 2020

Supplemental Indications Expected to Grow in Specialty, Creating Management Opportunities

<table>
<thead>
<tr>
<th>2018-2020</th>
<th>~30% of Indications for Specialty Drugs</th>
<th>$2B Forecasted Ocaliva™ Sales by 2020</th>
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<tbody>
<tr>
<td>Anticipated Robust Pipeline¹</td>
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<tr>
<td>New drugs</td>
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<tr>
<td>Specialty drugs</td>
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<tr>
<td>Specialty indications</td>
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<tr>
<td>Biosimilars approved by FDA to date</td>
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<td>Gene therapies approved by FDA to date</td>
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<tr>
<td>533</td>
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<td>291</td>
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85 of the 295 supplemental indications approved between 2005 and 2014 were for specialty biologic drugs

Cancer therapies accounted for 80 of these new indications

One highly anticipated supplemental indication is for Ocaliva:

• Approved in May 2016, for PBC, a relatively rare liver condition
• Approval for a new indication, NASH, is expected in 2018, and may push Ocaliva to blockbuster status by 2020

New Drugs Launching at Progressively Increasing Prices

ANNUAL PRICE IN THOUSANDS

|$240
|$200
|$160
|$120
|$80
|$40
|$0

~$140K
average annual price last three approved oral oncology drugs


This slide contains references to brand-name prescription drugs that are trademarks or registered trademarks of pharmaceutical manufacturers not affiliated with CVS Health.
PBM Solutions Were Key to Reducing Trend; 42% of Clients Experiencing Negative Trend

Value-Based Management (VBM) Evolution: Highest Quality at Lowest Net Cost

SYSTEM IS MOVING TOWARD A FRAMEWORK THAT INCENTIVIZES COST-EFFECTIVE CARE

Fee for Service  
Pay for Performance

PROVIDERS ARE MOVING THIS WAY, PHARMACY CARE NEEDS TO AS WELL

Lowest Net Cost  
Quality  
Outcomes
The Right Time for Value-Based Pharmacy Management

BRAND DRUG PRICES SKYROCKETING

Average Price
Brand Prescriptions

CURRENT DRUG PRICING

- Brand manufacturers set and raise prices according to “what the market will bear”
- Launch prices increase year after year
- Multiple indications expand a drug’s market, but pricing does not reflect variations in efficacy per indication
- Direct-to-consumer advertising can drive utilization of less cost-effective medications

VBM offers an alternative to the current unsustainable pricing system

Source: Visante analysis data published by the QuintilesIMS Institute, 2017. Study used Wholesale Acquisition Cost (WAC) to evaluate price.
Value-Based Management Approaches are Helping Payors Meet Outcome and Cost Goals

<table>
<thead>
<tr>
<th>INDICATION-BASED</th>
<th>OUTCOMES-BASED</th>
<th>COST CAP-BASED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing and/or rebates align with drug’s <strong>effectiveness</strong> for the specific indication</td>
<td>Aligns costs with drug’s <strong>effectiveness</strong> at achieving a specified clinical marker, such as cholesterol or A1C levels</td>
<td>PMPM cost threshold <strong>defined</strong>; manufacturer provides additional value if threshold is exceeded</td>
</tr>
<tr>
<td>Efficacy validated by independent Pharmacy and Therapeutics Committee</td>
<td><strong>Example:</strong> Rheumatoid arthritis and oncology</td>
<td><strong>Example:</strong> PCSK9 inhibitors</td>
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<tr>
<td><strong>Example:</strong> Expansion into 6 autoimmune categories</td>
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PMPM (Per member per month).
## Creating the Right Environment for VBM; Guardrails for Success

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Performance-Based Pharmacy Networks</strong></td>
<td>Pharmacies agree to meet certain clinical standards such as adherence</td>
</tr>
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<td><strong>Mandatory Use of Specialty Pharmacy</strong></td>
<td>Improves access to specialty medications Offers support and counseling; can improve drug adherence, compliance with other recommended treatment</td>
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<td><strong>Managed Formularies</strong></td>
<td>Encourage utilization of the most cost-effective, clinically appropriate treatments Enable better rebate and pricing negotiations with manufacturers</td>
</tr>
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<td><strong>Standard Utilization Management Criteria</strong></td>
<td>Help ensure payors are paying for the most cost-effective treatment with tools such as prior authorization, step therapy and clinical diagnosis review</td>
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**Examples of Considerations**

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<tr>
<th>MEASUREMENT NEEDED</th>
<th>TARGETED POPULATION</th>
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<tr>
<td>• Lower cholesterol to help prevent stroke, heart attack</td>
<td>• Pharmacy and medical data</td>
</tr>
<tr>
<td>• Optimal adherence to help prevent non-spinal fracture</td>
<td>• Lab data</td>
</tr>
<tr>
<td>• Achieve A1C goal to help prevent kidney, eye or cardiovascular issues</td>
<td>• Patient, provider-reported data</td>
</tr>
<tr>
<td>• Optimal adherence to help prevent MS relapse</td>
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<tr>
<td>• Reduction in hospitalization for members at risk for heart failure</td>
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**DEFINE MEANINGFUL OUTCOME**

• New starts to therapy
• Patients adherent to therapy
• Specific indications
• Applied genetic tests

MS (Multiple sclerosis). CVS Health uses and shares data as allowed by applicable law, and by our agreements and our information firewall.
Transforming Care for a Growing Number of High-Cost, Complex Diseases

Each individual offering within the Transform Care Series will:

- Focus on a high-cost and/or highly prevalent condition
- Provide a differentiated clinical offering that utilizes our enterprise assets
- Drive health outcomes that reduce the client’s overall health care costs

Conditions:
- Rheumatoid Arthritis
- Diabetes
- Hypertension
- Hypercholesterolemia
- Asthma
- Multiple Sclerosis
- Oncology
- Depression
Opportunity to Deliver Incremental Value with Innovative Cost Management Strategies

Continued evolution of formulary and value-based strategies needed for proactive, effective cost management.

NSCLC (Non-small cell lung cancer). *Trend guarantee available for payors meeting a minimum threshold of members with RA. Savings, trend changes, and clinical results will vary by client depending on member demographics and other factors. Client-specific modeling available upon request.
**Innovative Specialty Plan Designs Help to Stay Ahead of Robust Specialty Pipeline**

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<th>TIER-BASED</th>
<th>VALUE-BASED</th>
<th>REFERENCE-BASED</th>
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<tr>
<td>Specialty 3-tier copay structure to support use of generics, biosimilars (e.g., 10/250/400)</td>
<td>Align out-of-pocket costs with ‘value’ of therapy</td>
<td>Utilize ACA guidance for fully insured, large-group or self-funded plans to define essential health benefits</td>
</tr>
<tr>
<td>Incorporate accumulator solution to help ensure members do not get deductible/out-of-pocket credit for money paid by manufacturer copay card dollars</td>
<td>Establish framework to make coverage determinations based on comparative effectiveness research</td>
<td>• Costs in excess of ‘reference price’ can be designated as non-covered drugs</td>
</tr>
<tr>
<td></td>
<td>Define coverage rules based on value of therapy using quality-adjusted life year (QALY) data</td>
<td>• Non-covered drugs do not qualify as essential health benefits and member out-of-pocket costs can be excluded from members’ maximum out-of-pocket accumulation</td>
</tr>
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**Increased potential for savings**

**Innovative specialty plan designs delivers incremental value**

ACA (Affordable Care Act).
CVS Health is Utilizing Enterprise Assets to Build a Better Value-Based Management Model

**ENTERPRISE ASSETS**
- Face-to-face interventions
- MinuteClinic® screenings
- Utilize Coram®, Accordant®

**PBM TOOLS**
- Robust analytics
- Formulary, UM and network strategies
- Value-based designs

**TECHNOLOGY**
- Connected devices, wearables
- Epic: Provider connectivity
- Digital member engagement

PBM (Pharmacy benefit management). UM (Utilization management). CVS Health uses and shares data as allowed by applicable law, and by our agreements and our information firewall.
Thank You