

## **Omnicare, Inc.**

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## I. Executive Summary

Omnicare, Inc. is the largest independent provider of professional pharmacy and related services for long term care initiatives such as nursing homes, retirement centers, and other institutional facilities. Omnicare services 617,300 residents in 8,600 facilities across the United States. This represents over 100 pharmacy locations and 30% of the long-term care market. Omnicare is headquartered in Covington, Ky.

Omnicare's growth over the past 4 years has been approximately 30%, exceeding the rate of the consolidating post-acute care market. Omnicare currently represents 30% of the market. It represented 28% in 1998, 24% in 1997, 20% in 1996, 14% of the market in 1995, and 9% of the market in 1994. Omnicare's vision is to grow by 60,000 beds per year and be servicing over 700,000 post-acute care beds by the year 2000, representing over 35% of this market segment.

The latest major acquisition, announced in June, 1999, was Life Care Centers of America, Inc., based in Cleveland, Tennessee, is one of the nation's largest privately owned operators of skilled nursing, assisted living, and retirement facilities with approximately 233 facilities servicing more than 31,000 residents in 28 states.

Despite its growth trend of acquiring independent pharmacies, Omnicare has quickly taken control of its business units' purchasing functions. Omnicare has a strict corporate policy of compliance with therapeutic substitution, interchange, and dispensing of Omnicare Select products. It is through this venue that Omnicare is able to move market share of selected products. An example is the success that Levaquin® has had at Omnicare. Levaquin has jumped from a 12% share in January of 1999 to 41% in June for the entire anri-infective market.

### Current Business Situation

#### Business Overview

Omnicare is traded on the New York Stock Exchange under the symbol OCR. Through its rapid expansion period, Omnicare has remained financially strong. Omnicare is currently operating with zero debt. Annual sales are in excess of 1.5 billion dollars and grew by 68% in 1998. Net income in 1998 rose 65% over 1997 to \$80.4 million. Earnings per share rose 70% in 1998. Revenues reflect acquisitions of long-term care pharmacy providers and sustained internal growth.

Omnicare's stock has slipped during the second quarter of 1999 to around \$13 per share. Throughout 1998 Omnicare's stock was trading in the \$25-\$30 price range. Much of the freefall can be attributed to the effects that Prospective Payment has had on the system. The stock has been added to the S&P Mid Cap 400.

In the second quarter of 1999 the Company failed to reach analysts' estimates of .34 cents per share. Omnicare will appear to come in at between 25 – 30 cents per share. Speculation on the shortfall in earning results primarily from lower-than-anticipated occupancy in many client skilled nursing facilities. Joel F. Gemunder, President of Omnicare, explained, "It has become increasingly apparent in recent weeks that the new Prospective Payment System for Medicare residents of skilled nursing facilities (PPS) has created a much more turbulent environment than anticipated. Johnson & Johnson has been the leading supplier of pharmaceuticals to Omnicare for the past 3 years.. J&J sales in pharmaceuticals to Omnicare in 1998 were \$80 million.

**Acquisitions**

Acquisitions have played a large part in Omnicare's operating strategy over the past 24 months. It has grown in beds serviced at a rate of 50% for the past 2 years. Omnicare looks to acquire pharmacies that are competitive in local markets and that are geographically positioned to increase market share in a given area.

Once Omnicare acquires a site, it strives to increase the efficiency of pharmacy operations by consolidating functions, increasing beds serviced utilizing the company's National Sales and Marketing Force, and increasing each pharmacy's ability to compete in the changing environment by increasing information system capabilities, and product mix offerings.

The acquisition program reached a record level of activity in the third quarter of 1997, highlighted by the addition of American Medserve Corporation, which marked Omnicare's entry into six new states, added major operations to two states which they had only a nominal presence and significantly broadened the network of existing pharmacies in three other states. In addition, they acquired institutional pharmacy providers in Texas and Utah, both of which represent new markets for Omnicare, and expanded the operations in New York and Illinois through acquisitions. These transactions, combined with internal growth generated by National Sales and Marketing Group and the pharmacy staff, brought the number of nursing facility residents served at September 30, 1997 to 427,400, up 55% over the number served one year ago. That growth coupled with acquisitions completed in June of 1999, brings the total number of residents currently served by Omnicare to approximately 617,300..

Other acquisitions that were made during 1999 have been:	
Life Care Pharmacy	Tennessee
Pharmacy Consultants	South Carolina
Pharmacy Care Associates	Iowa
Bach's Pharmacy Services	New Jersey

**Formulary/Clinical Interventional Programs**

Omnicare's formulary plays a large part in both increasing the profitability of Omnicare, and offering service to post-acute care facilities. Omnicare subscribes to the theory that pharmaceuticals remain the most cost-effective means of treating most chronic ailments in the elderly. Omnicare has developed the first clinically based drug formulary tailored to the unique needs of the elderly. During 1999 Omnicare released the seventh edition of its "Geriatric Pharmaceutical Care Guidelines." Omnicare utilizes the Philadelphia College of Pharmacy, noted for its expertise in long-term care, to rate over 700 drugs in 100 therapeutic classes as clinically Preferred, Acceptable, or Unacceptable.

Omnicare then considers the Philadelphia College of Pharmacy clinical recommendation, along with the cost of the drug to the payer and acquisition drug cost to Omnicare, to determine the drugs for which it implements therapeutic interchange, substitution, and disease state management programs. Omnicare's goal is to increase the clinical effectiveness, decrease the drug-related side effects, and decrease the cost to the payer, while increasing the profitability of Omnicare pharmacies.

Omnicare has over 800 consultant pharmacists who review patient charts monthly and make recommendations based on the formulary and Omnicare programs for physicians. Pharmacists' recommendations are accepted more than 80% of the time. Consultant pharmacists actively meet with physicians or correspond with them through the mail to obtain approval to make appropriate medication switches for all their applicable nursing home patients. Pharmacists are also responsible for in-servicing the nursing staffs on pharmaceutical and patient care. Omnicare consultant pharmacists receive

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monthly "report cards" showing them their success in obtaining goals for therapeutic programs. Thus, Omnicare is able to drive market shares on products that increase clinical effectiveness, decrease costs to the systems in which they operate, and increase profits to Omnicare.

#### Managed Care

Omnicare's vision is to be the leader in geriatric care, not only long-term care as managed care enters into this market place. Omnicare has positioned itself very well to be competitive by increasing its market share in regional markets, increasing its information system capabilities and outcomes data, to be a source of valuable information in managed care and vertical integration in the post-acute care market, and increasing operating efficiencies.

Omnicare has over 57% market share in every market it is involved in, thus making itself a strong enough player that, as managed care enters into this segment, it hopes to be in contention for the LTC business.

Also, Omnicare has data on over 300,000 geriatric patients, giving it the leverage of being the Pharmacy Benefits Manager (PBM) for the geriatric population, which utilizes over 60% of all prescription drugs. Omnicare and other consultant pharmacists are positioning themselves to be not only a provider of drugs for LTC, but also a provider of information on cost-effective outcomes for the geriatric population. Omnicare's large number of geriatric patients gives the company an advantage over other pharmacy organizations in this area. Omnicare has also invested in computer systems to manage this data, and has acquired Coromed and IBAH, two Contract research organizations (CROs), to help with facilitating outcomes research and managing data.

Coromed, headquartered in Troy, New York, provides comprehensive clinical drug development and research services to the pharmaceutical, biotechnology and medical device industries. Coromed's clinical drug development services includes Phases I - IV clinical trials management, biostatistics, medical writing, medical and regulatory affairs consulting, systems development, and quality assurance and compliance. It also has extensive capabilities in drug research services, which include biological research (safety and efficacy) and chemical synthesis.

IBAH, Inc., headquartered in Blue Bell, Pennsylvania is a worldwide leader in providing comprehensive product development services to client companies in the pharmaceutical, biotechnology, medical device and diagnostics industries. As the fifth largest CRO, IBAH offers services for all stages of drug development, Helping client companies to accelerate products from discovery through development and commercialization more rapidly and cost-effectively. Based on revenues reported for the quarter ended March 31, 1998, IBAH's annualized revenues are approximately \$107 million.

In addition, Omnicare is well positioned to excel in managed care because revenues per bed are 17% less than their competitors, and operating profits are 51% higher.

Omnicare is also branching beyond long-term care pharmacies and acquiring other types of post-acute care facilities to position itself for managed care. The company's vision is to work with acute care discharge case workers and be able to provide a variety of services at a variety of sites in the post-acute market. It is currently the fifth largest home infusion company in the country. Omnicare is expanding its current pharmacies to branch into home healthcare. Omnicare is also looking for other opportunities, such as dialysis units.

#### Corporate Philosophy

Omnicare's operating philosophy is to: 1) Focus on what it knows best—pharmaceutical care education; 2) Leverage its expertise in the geriatric population; 3) Build alliances with strategic pharmaceutical

companies; and 4) Become known as a large source for outcomes-driven data in geriatrics.

### Strengths/Leverages/Vulnerability

#### **Strengths:**

- The Strength of our product line in LTC makes J&J Omnicare's leading vendor. Currently, Risperdal®, Propulsid®, Duragesic®, and Ultram® are in its top 20 drugs dispensed. Risperdal® is Omnicare's preferred typical antipsychotic for dementia. Levaquin is "preferred" in the anti-infective

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market. All other J&J products are Acceptable with the exception of Propulsid.

- The diversity and breadth of J&J positions us to be a resource to Omnicare beyond the portfolio of products we represent.
- J&J has signed a five year performance based contract with Omnicare which provides rebate incentives to Omnicare to advocate appropriate use of J&J products. (May 1, 1999)

#### Leverages:

- Omnicare has developed a Patient Specific Therapeutic Interchange (P.S.T.I.) program for Risperdal®. The consultants are evaluated on their monthly report cards as to the success they are having with this P.S.T. I. The Long Term Care Business Managers (LTCBM's) are working with regional Omnicare sites to support this intervention, Through June of 1999, national Risperdal Market Share for Omnicare was at 41%..
- Omnicare has voiced a strong interest in switching all Darvocet® business to another analgesic. Consultants are also measured on their report cards as to the amount of propoxyphene being written in their homes. Ultram® is one choice. Tom Lerman is currently piloting a Ultram program focused on switching propoxyphene patients to Ultram.
- Omnicare has began its first prospective intervention with Levaquin during February of 1999. The overall goal of this program was to achieve a market share of over 50% in the quinolone market. Cipro had been the main anti-biotic of choice generating over 70% of the market (UTI) At the end of June, Levaquin national share for Omnicare was 41%.
- Pain is categorized in the formulary as one disease state—Chronic Pain (non-malignant). Pain has become a big issue in long-term care with the MDS 2.0, state regulations, and national events surrounding pain. During the first six months of 1999, Omnicare embarked on a National Pain Initiative that featured Terry Baumann, a Pharm D from Traverse City, MI., discussing alternative methods of treating pain to 15 Regional Pharmacy Sites. .
- Working with Heartland Healthcare Services to produce stability studies on our products to assist them in their repackaging efforts will give our products a strategic advantage over competitors for which Omnicare does not have stability data. Propulsid® and Risperdal® samples have been sent to Heartland for re-packaging and completed. Discussions are currently underway to see if the new dosage form of Risperdal (.5mg) should be tested.

- A clinical presentation has been given on Aciphex to the University of Sciences in Philadelphia. An advisory board was also held at Mid-Year ASCP to determine PPI market dynamics and specifics. Contractual plans are currently under way. Prevacid currently holds 78% of the PPI market.
- Increasing home infusion business will increase opportunity for Procrit® and the awareness of fatigue in nursing home settings.

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Vulnerability:

This account represents \$80 million worth of sales. All of our products have competition that could replace at least a portion of this business. Risperdal® is currently 42% of our sales with Omnicare. Zyprexa® has been very aggressive with Omnicare and could have supporting data for use in Dementia next year. Eli Lilly has also been very active in the long-term care market for the past 5 years and is pursuing a preferred formulary status in the next formulary edition at PCPS.

**1999 KEY ACTION STEPS**

Initiative	Estimated Start/Completion	Responsibility
Pull Through Risperdal® P.S.T.I.	Ongoing	LTCBM's/Eldercare
Launch Ultram®/ Propoxyphene Intervention	4 <sup>th</sup> Quarter/99	LTCBM's
Complete National Pain Initiative	6/99	LTCBM's
Levaquin® Prospective Intervention Program	12/99	LTCBM's/OMP
Aciphex Prospective Intervention Program	4 <sup>th</sup> Quarter/99	LTCBM's/Eldercare
Regranex Wound Care Protocols	4 <sup>th</sup> Quarter/99	LTCBM's/OMP Wound Care



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## **II. Charter Statement** **(Who, What & Why)**

Johnson & Johnson supplies high-quality products and jointly created clinical and business programs that aid Omnicare in meeting corporate goals and objectives.

### III. Customer's Business Situation Appraisal

#### Customer Business Situation

Omnicare, Inc. is the leading independent provider of professional pharmacy and related consulting services for long-term care facilities, such as nursing homes, retirement centers, and other institutional healthcare facilities. Omnicare, Inc. was established in the institutional pharmacy business in December 1988 as a merger of four pharmacies in the Midwest. Acquisition has played an important role in Omnicare's success, as the company now owns 180 locations in 43 states, concentrated in the Midwest, Northeast, and Pacific Northwest regions of the United States. Omnicare today serves 617,300 residents in 8,600 long-term care facilities across the United States. This represents 30% of the total LTC beds at year end 1998. In 1995 Omnicare serviced 14% of the nation's long-term care residents, up from 9% in 1994.

#### A. Organizational Structure

The President of Omnicare, Inc. is Joel Gemunder. Reporting to Joel are:

#### B.

Patrick Keefe, Executive Vice President of Operations. Pat has overall responsibility for the operations of Omnicare and all regional facilities. Reporting to Pat are eight regional vice presidents and all other corporate vice presidents. One of the vice presidents reporting to Pat is Dennis Holmes, Vice President - Operations Group. He oversees all Heartland operations to include the repackaging facility.

Cheryl Hodges, Senior Vice President of Investor Relations. Cheryl's responsibilities include all dealings with financial institutions to include Wall Street, all corporate relations, and shareholder relations.

Tim Bien RPh, Senior Vice President of Purchasing and Professional Services. Tim oversees all purchasing and contractual agreements. Dan Maloney, Director of Purchasing, reports directly to Tim. Mark Lehman, PharmD, and Gary Erwin, PharmD report to Tim and handle all clinical matters as Directors of Clinical Services.

Dan Maloney, Director of Purchasing, has responsibility for organizing the contractual and purchasing agreements that Omnicare has with various manufacturers and all purchasing functions. Each of the Omnicare regions is in the process of hiring a regional purchasing manager, who will report to Dan.

Mark Lehman, Director of Clinical Services, has responsibilities for the coordination of the formulary, disease state management programs, and other clinical intervention programs. Mark heads three committees within Omnicare: the PSC Formulary Champions, the Professional Services Committee, and the National P&T Committee. The PSC Formulary Champions, which is a group of one consultant from each location, are charged with assisting the consultants at their regional location in achieving compliance of the formulary and intervention programs in the homes they service. The PSC Formulary Champions receive "report cards" on each pharmacist to gauge their success. The Professional Services Committee, comprised of 15 pharmacists, is responsible for the creation and implementation policy and procedures from a clinical and operational perspective. Mark also heads the National P&T Committee, made up of three physicians, three directors of nursing, three pharmacists, and a representative from the Philadelphia College of Pharmacy. Lisa Welford is Mark's assistant and implements many of the activities associated with a product intervention.

W. Gary Erwin Vice President Health Systems Programs Gary comes to Omnicare, effective September 1, from the Philadelphia College of Pharmacy where he was Vice President of Professional

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Programs. Gary's responsibilities will be to work with managed care organization, employer groups and insurers to position Omnicare as the provider for their geriatric care. In addition, Gary will be involved with the Coromed acquisition.

David Froesel, Senior Vice President and Chief Financial Officer. David is in charge of all operating financial data.

Omnicare organizes the company's pharmacies into eight regions. Each region is led by a regional vice president reporting to Pat Keefe; Pat is responsible for overseeing the operational functions in the region, and growing the sales and profitability of the region. The regional vice presidents also report to Pat Keefe, Executive Vice President of Operations.

The current regional vice presidents are as follows:

- Dan Smith — Northeast Vice President. He has responsibility for Share Pharmacy north to Maine.
- Eric Balotin, RPh — Vice President, Dir. Of Operations, Mid-Atlantic Region.
- Jeff Stamps, RPh — Jeff operates out of Beeber Pharmacy in Columbus, Ohio. He has responsibility for Ohio, West Virginia, Indiana, and western New York.
- Gary Kadlec, RPh — Gary operates out of Specialized Pharmacy in Detroit and has responsibility for Specialized Pharmacy, Westhaven, Anderson, and Lo-Med.
- Sam Enloe, RPh — Sam operates out of Enloe Pharmacy and has responsibility for Illinois (with the exception of Chicago) and Wisconsin.
- Rick Doane, RPh — Rick operates out of Evergreen Pharmacy and has responsibility for the Northwest.
- Each region also is in the process of hiring a regional clinical director and a regional purchasing coordinator. The regional clinical directors will be responsible for overseeing the success of disease state management programs and therapeutic interventional programs in their areas. Currently, there are eight in place: Lisa Welford, Alan Mason, Terry O'Shea, Sheila Phipps, Karen Burton, Joe Gruber, Nora Flint and Jeanette Hagerty.

<u>Lisa Welford</u>	<u>Alan Mason</u>	<u>Terry O'Shea</u>	<u>Sheila Phipps</u>	<u>Karen Burton</u>
Specialized Pharmacy	Sequoia Health Services	Beeber Pharmacy	Evergreen Pharmaceuticals, Inc.	Apex Pharmacy
Westhaven Pharm. Services	Interlock Pharmacy Services	PRN Pharmacy Services	Northwest Pharmaceutical Services	Benwood LTC
Heartland Healthcare	Freeds Pharmacy	Home Pharmacy	Budget Pharmacy, Inc.	Datascript Corp.
Anderson Medical Services	Home Pharmacy Services	Pharmacare		Downeast Pharmacy

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Lo-Med Rx Services	Medical Arts Health Care	DNR Pharmacare		LTC — Gettysburg
Total Care Pharmacy Services	Carters Pharmacy	Long Term Care		LTC — Upstate New York
	Managed Health Care	Instacare, Inc.		Prometheus Pharmacy Corp.
	Clasen Pharmacy	Care Pharmaceutical Services		Pompton Nursing Home Suppliers
	United	Howards Pharmacy		
	Lipira			
	Unicare			

**B. P&L Performance**

During 1998:

Net income rose 63% to \$80.4 million.

Earnings per share grew to 90 cents.

Sales grew 68% to \$1.5 billion.

The number of nursing homes serviced grew 570,000.

Omnicare completed 17 acquisitions. This entered them into two new states (Wisconsin and New Jersey) and strengthened their position in the Northeast, Northwest, and Midwest.

**C. Market Forces**

Omnicare has invested its resources in positioning itself for the future of the post-acute market. The company's investment in acquisitions, formulary management, managed care, information systems, and disease and outcomes management is a portion of why Omnicare feels it will be successful in the future. The above areas are discussed in detail below.

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On January 8, 1998, Omnicare announced a joint initiative to develop a senior health alliance to promote wellness and positive outcomes among the frail elderly in LifeTrust's assisted living facilities.

The new program will serve as a health and wellness model targeting the elderly population, with special emphasis on residents over the age of 75. Among the services to be promoted through the senior health alliance are health status evaluations, wellness profiles, on-site pharmacy consulting, prescription services, pharmacy benefits management and outcomes management.

**1. Acquisitions**

Acquisitions have been the thrust of Omnicare's efforts for the past 18 to 24 months. Omnicare looks to acquire pharmacies that have been successful in their current markets and that will help the company achieve at least a 35% market share in a given geography. Omnicare is looking to have a hold on its locations to be competitive when managed care enters this market segment. Currently, Omnicare has surpassed this goal and has a 57% share in the areas it services. By the year 2000, the company is targeting to service 700,000 skilled nursing and assisted living facilities.

Omnicare is in an extremely competitive market, competing with NCS and PharMerica. for pharmacy

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acquisitions. These acquisitions are capital intensive, as market price for a 1,000-bed pharmacy is approximately \$1 to \$2 million. Omnicare's philosophy is to pursue acquisitions that allow the company to gain strength in new geographic markets.

When Omnicare acquires pharmacies, the previous owner and/or upper level manager agrees to stay for at least 3 years to keep continuity with the staff and customers. The company is proud of its track record in past-owner retention, as over 95% of past owners stay past the 3-year commitment despite having sold the pharmacy for millions of dollars.

Once acquired, Omnicare moves to increase operating efficiencies by consolidating functions related to purchasing, formulary compliance and therapeutic intervention programs, medical records, dispensing, marketing, and professional services. The company believes the other functions of the pharmacy should be maintained as they were as an independent pharmacy because these are the things that made the pharmacy successful in its particular market. Therefore, the practices of each Omnicare pharmacy, in many ways, are very different. For example, Westhaven Pharmacy Services, a pharmacy servicing 20,000 beds out of Toledo, Ohio, has a philosophy whereby it sends three people into every nursing home: a consultant pharmacist, a quality control representative, and a customer relations representative. The feeling is that this frees up more of the consultants' time. No other Omnicare pharmacy operates in this manner.

Omnicare's growth strategy has allowed the company to generate economies of scale and streamline operations in order to fund development and expansion of innovative services—designed to improve care for the elderly on a cost-effective basis.

A large contributor to the pharmacy efficiency is Omnicare's arrangement with Heartland Healthcare Services. In late 1994, Omnicare entered into a 50-50 agreement with Heartland Healthcare Services. This venture is to use Heartland's high-volume repackaging facilities in Toledo, Ohio, and Ft. Lauderdale, Florida, to provide greater efficiencies and substantially reduce costs in repackaging pharmaceuticals for nursing homes. Cost of repackaging at the regional facilities is approximately 80 cents per package. Cost associated in repackaging at Heartland is approximately 20 cents per package. The company is currently repackaging generic drugs and the top 20 branded drugs used in the system.

Omnicare's goal is to repackage 80% of all pharmaceuticals at these facilities in 1999. This would further reduce costs associated with repackaging. The company's goal is to be able to make larger runs

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and send more packages to regional facilities at one time. In order to accomplish this, the company will need to increase dating on repackaging by completing stability studies on the new packaging. Omnicare has turned to the manufacturers for help in this area. Currently, Risperdal®, Propulsid®, and Ultram® are being repackaged at Heartland.

After successful acquisitions and standardization of the above functions, Omnicare set out to grow the number of beds served at the regional sites and increase efficiency of pharmacy operations. Omnicare utilizes its National Sales and Marketing force, established in 1994, to increase the number of beds each facility services, promoting the strength of the Omnicare system and the benefits this will provide to the nursing home. The sales and marketing functions are run by Mary Lou Fox, Vice President of Sales and Marketing and past president of Westhaven Pharmacy, a 20,000-bed Omnicare facility.

Higher acuity levels among nursing home residents contribute to sales and earnings momentum, as these patients require more complex care. In turn, this trend has generated greater demand for

Omnicare's expanding infusion therapy. Infusion therapy was one of Omnicare's fastest growing market segments in 1996, generating \$54 million in revenue. In 1996, despite the company's focus on servicing nursing homes, Omnicare was the fifth largest infusion company in the country. In February 1997, Omnicare acquired two infusion companies and plans to expand this segment of the company. Omnicare is in the process of adding Region IV Managers to their regional structures. The current issue with infusion therapy is competing with hospital services due to lower hospital prices.

Omnicare is also expanding its existing pharmacies to be more competitive in the home health market. According to Omnicare sources, it is currently the eighth largest company in home health. All pharmacies are in the process of incorporating a home health element into their business, to keep Omnicare the dominant player in the long-term care market. Omnicare has also moved into the growing assisted living market. Currently, 10% of Omnicare's sales are going into this market. The company is offering a quarterly review of assisted living resident medications and working with hospitals in rural areas to boost this business segment. Omnicare is also moving toward working with care-planners to follow patients through the various levels of acuity and being the provider of their drugs, infusion, or consulting needs at any level of acuity in the post-acute care market.

Omnicare is also looking to acquire other types of facilities outside of LTC pharmacies. The company feels there will be only so many viable LTC pharmacies to acquire. The company is looking at other businesses to expand the breadth of its services in healthcare. Dialysis centers is an area they are looking into. Northshore Pharmacy Services is currently the only Omnicare pharmacy involved in dialysis.

## **2. Formulary Management and Clinical Interventions**

Omnicare subscribes to the theory that pharmaceutical therapy remains the most cost-effective means of treating the chronic ailments that affect the elderly. Yet simply reducing the cost of pharmaceuticals is not the answer to improving the nation's healthcare system. Omnicare believes that weighing the clinical effectiveness of drug therapy, not just its cost, will ultimately lower healthcare costs and provide better medicine for the elderly. Thus, Omnicare developed the nation's first clinically based drug formulary tailored to the unique needs of the geriatric patient. It enhances the ability of physicians and other healthcare professionals practicing in long-term care facilities to provide superior care to the elderly while reducing costs.

In 1993, Omnicare began to work with a highly respected and independent academic institution, the University of Sciences in Philadelphia (USP), noted for its expertise in long-term care. Disease states and therapeutic drug classes that have the greatest impact on geriatric medicine and long-term care, as well as cost impact on the healthcare system, are selected. The mission of this program has been to

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create a disease-specific, clinically sound reference for drug selection, taking into account the unique needs of the elderly in nursing facilities. "Geriatric Pharmaceutical Care Guidelines" is updated annually and contains clinical reviews of more than 100 therapeutic drug classes and over 600 individual drugs.

All drugs are organized by disease state and therapeutic class used to treat that disease. The clinical evaluations and ratings of each drug are performed by USP. Within its therapeutic class, each medication is classified as "Preferred," "Acceptable," or "Unacceptable" based on the drug's effectiveness. Effectiveness is determined based on age-specific variables, interactions with other drugs and food, safety, toxicity, drug administration, other nursing facility considerations, and resulting quality of life.

The criteria used for these clinical rankings are:

**PREFERRED:** Drugs that have documented, distinguishing positive effects or outcomes compared with other drugs in the therapeutic class, lower potential prevalence of adverse drug reactions, or some unique characteristic that provides a clear clinical advantage in the nursing facility resident population.

**ACCEPTABLE:** Drugs that have comparable efficacy and safety with minimal distinguishing characteristics (e.g., therapeutic outcome, functional improvement) in the nursing facility resident population.

**UNACCEPTABLE:** Drugs with greater prevalence or severity of adverse reactions or lack of documented therapeutic efficacy versus other drugs when used in the nursing facility population.

The Preferred, Acceptable, or Unacceptable rating is the view of PCPS clinically in geriatrics per disease state and does not necessarily indicate the drug preferred by Omnicare.

Following the clinical review by USP, every Preferred or Acceptable drug is assigned a dollar symbol, ranging from one to seven dollar signs, representing the drug's relative cost within its therapeutic class by Omnicare's PCPS Formulary Champions. The dollar signs are reflective not of contract price to Omnicare, but the end cost to the payer based on a 30-day prescription.

Of clinical relevance to Johnson & Johnson are the following drug categories: Behavioral Disturbances Associated with Dementia, Chronic Pain (non-malignant), GERD, Respiratory Tract Infections, and Urinary Tract Infections.

Risperdal® is rated as the Preferred drug in the category Behavioral Disturbances Associated with Dementia. Risperdal® is currently the number two drug in dollars prescribed in the Omnicare system, representing in excess of \$34 million. Risperdal® has been assigned six dollar symbols, more than any other antipsychotic. Clozaril® is rated Unacceptable, and Zyprexa® was added to the 1997-1998 formulary as Acceptable. Risperdal® share in the first quarter of 1999 was 41%.

The category Chronic Pain (non-malignant) was added in the 1997 formulary update. Omnicare is looking at further review of pain, separating different types of pain in the future, and further defining the class as three classes: Acute Pain, Chronic Malignant Pain, and Chronic Non-Malignant Pain. Both Ultram® and Duragesic® are rated Acceptable in this category. They each have six dollar symbols. This class rates acetaminophen and salicylates (non-acetylated) Preferable. All of the NSAIDs and opioids are also rated in this class.

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Omnicare rated Darvocet® as Unacceptable and has expressed an interest in moving pharmacists from allowing this to be dispensed in the nursing homes. Consultants can lose up to 30% of their total points on monthly "report cards" based on excessive propoxyphene use. Omnicare nationally dispenses 12 million units of Darvocet® per year. Alan Mason, PharmD, Regional Director of Clinical Services in the Gateway Region has created an intervention program to decrease Propoxyphene use. This program incorporates Ultram® as an alternative, and has national possibilities. Omnicare is also in the process of completing a Cytotec® study on GI bleeds, which may be beneficial to Ultram®.

The Proton Pump Inhibitors (PPIs) Prevacid® and Prilosec® are rated as Preferred agents in the GERD category. Prevacid® has three dollar signs and Prilosec® has four dollar signs. Propulsid® and Reglan® are both rated as Unacceptable.

Omnicare currently has an active intervention in place for anti-infectives. Levaquin is their preferred



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quinolone. Their current market share with Levaquin is 42.2%. An intervention was established in March, 1999 to drive Levaquin Market share. The initiative was rolled out via a teleconference with all pharmacists, dispensing pharmacists, RCDs and consultant pharmacists. These programs took place during the month of March. June market share data reflects a 42.2% market share. Omnicare's goal for 1999 for Levaquin is 50%.

Omnicare's current sales with Rocephin® are \$6 million. Currently, Omnicare is unhappy with Rocephin®, and has eliminated all contracting in LTC after price protecting Rocephin® for the past 3 years on the GPO contracts. Omnicare has sent mixed messages concerning this class. The company indicated it is looking to do something to switch this business but also mentioned Rocephin® is an extremely profitable drug because Medicare Part A can be billed for the injection. The company has an interest in doing a retrospective study on antibiotic appropriateness and/or putting together a prospective interventional program with antibiotic therapies.

The clinical discussions following the ratings are a review of the published literature in geriatrics. Due to the limited data currently available on J&J's pharmaceuticals in geriatrics, there are limited discussions on any of our brands except for the side effects listed in the respective package inserts.

The 1997 update includes a practice guideline for depression, a condition that affects 25% of all nursing home residents, and a pathway for pharmacologic management of patients with heart failure based on severity of Dyspnea on Excretion. Disease state management programs in progress are congestive heart failure being targeted nationwide, atrial fibrillation at Specialized Pharmacy and Beeber Pharmacy, depression at Westhaven Pharmacy and in Alabama, osteoporosis in St. Louis, and flu nationwide. Omnicare is currently planning for programs to implement in late 1998.

Omnicare currently has nearly 1000 clinical pharmacists that meet regularly with physicians and medical directors to review each resident's progress and drug regimen. By choosing a product with fewer dollar signs in the Preferred or Acceptable class, a physician can provide cost-effective therapy with the best possible clinical outcome. Omnicare has 18 active Patient Specific Therapeutic Interchange Programs in effect. The success of these interchanges determines the rating the consultants get on their report cards. Mark Lehman and Gary Irwin develop a "tool box" complete with pharmacologic drug information and interchange specifics to include charting tools and letters to physicians. The consultant pharmacists are active in having physicians sign therapeutic interchange forms that allow pharmacists to review charts and make switches without having to consult with the

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physician. Consultants receive report cards from Omnicare showing their success with Omnicare Select Products and share data on drugs in active therapeutic programs or part of disease state management programs. The PSC Formulary Champions work with the consultants to achieve Omnicare goals on specific drugs. Omnicare states that this effort has helped the company lower the cost of pharmaceutical care to the elderly by approximately 16%. New therapeutic classes will be selected on an annual basis.

When analyzing market share and formulary status, clinically and economically, there does not seem to be a direct correlation between the clinical rating (Preferred or Acceptable), dollar rating (\$-\$-\$-\$-\$-\$), and market share.

Omnicare is able to drive share on multisource products by utilizing the Toledo Heartland facility as a wholesaler and only stocking the one preferred generic.

### **3. Managed Care/ Information Systems/ Disease State Management/Prospective Payment**

The long-term care pharmacy is facing a changing environment as Medicaid and Medicare managed care becomes more of a reality. Omnicare needs to position itself as a provider of information concerning quality and cost-effective outcomes in the post-acute care market. Also, Omnicare's consultants need to become more of a resource both educationally and operationally in the nursing homes. Omnicare is positioned to meet the challenges of managed care. The company's clinically based formulary takes on a greater strategic significance and forms the basis for its role as a pharmaceutical benefit manager for the geriatric population. It also serves as the nucleus of Omnicare's entry into disease and outcomes management.

Toward this goal, Omnicare is integrating information systems to be a more comprehensive provider of geriatric therapies. The company acquired Dynatran Computer Systems, a Portland, Oregon, based software developer, in late 1995. This system provides assessment systems to nursing homes, and incorporates data on patient diagnosis, treatment plans, and health outcomes for each resident. Omnicare's OSCAR2 system is a consultant system that links all 1000 clinical pharmacists with a database of clinical information. The newest addition to the information system is the Oasis. This system will be placed in all regional pharmacies to computerize medical records, dispensing, and billing.

Omnicare currently has the Oasis system running in three pharmacies. PRN in Indianapolis was the first. When Oasis is active in all pharmacies, the company plans to link all three systems together to have a comprehensive system to generate valuable outcomes data to payers and pharmaceutical manufacturers.

In January 1997, Omnicare acquired the international contract research organization Coromed. Coromed provides comprehensive clinical drug development and research services to the pharmaceutical, biotechnical, and medical device industries. Omnicare feels this acquisition will provide a unique opportunity to utilize Coromed expertise in information and data management and will facilitate Omnicare's initiatives in disease state and outcomes by enabling the consolidation and analysis of healthcare data on more than 300,000 elderly residents served by Omnicare.

Omnicare's strategy has produced strong growth and positioned this company to meet the challenges ahead as the long-term care industry moves toward managed care and other models of cost control. To remain competitive as it grows in size and in involvement in managed care, Omnicare has expressed

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interests in resources to help train internal employees on marketing skills, total quality management and continuous quality improvement processes, tools to measure performance and report results, risk assessment tools to address capitation/Medicaid risk contracts, and assistance in achieving JCAHO accreditation for all of the company's pharmacy sites.

### **E. Omnicare Corporate Priorities**

Omnicare has indicated that its strategic priorities for 1999 are as follows:

1. Work efficiently within the Prospective Payment System
  - JCAHO accreditation for all pharmacies
  - Lower cost of pharmacy operations through increased efficiencies
  - Increase focus on outcomes research and data management to be prepared to provide cost-effective pharmaceutical solutions

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## IV. Customer's View of Industry & Competition

### A. General Practice

Omnicare's strategic priorities are much like those of a pharmaceutical manufacturer—to prove the value of pharmaceutical intervention in a healthcare environment focused on controlling cost. One of Omnicare's strategic priorities is to increase pharmaceutical expenditures from 8% to 12% in the facilities serviced, by demonstrating the ability to use pharmaceutical interventions versus more costly healthcare to improve patient outcomes. Omnicare has invested many resources in increasing its ability to successfully manage the available geriatric data to prove cost-effective outcomes. Another strategic objective is to partner with manufacturers at top levels of both corporations. Both are indicative of a positive view of the pharmaceutical industry overall.

Omnicare subscribes to a three-fold purchasing decision. First, the agent must be at least clinically Acceptable and no less efficacious than the current Omnicare Select Drug. Second, the agent must not be an increased cost to the payer of the bill, whether Medicaid, Medicare, or third party. Third, the drug must offer good margins to Omnicare. Omnicare looks for a good mix of all three in determining an Omnicare Select Drug and designing an interventional program to move share of a designated product.

### B. Key Players

Dan Maloney, RPh, Director of Purchasing, has the buying authority for Omnicare. Omnicare is in the process of hiring regional purchasing managers who will buy under Dan's authority. Dan's purchasing decisions need to balance with the clinical priorities of Gary Irwin, PharmD, and Mark Lehman, PharmD, Directors of Clinical Services. For example, if Dan signs a contract agreeing to Risperdal® achieving shares in excess of 80%, it will be Mark's responsibility to put into place the clinical interventions to make sure the contract is executed successfully. Dan, Gary, and Mark report to Tim Bien, RPh, Senior Vice President of Purchasing and Professional Services. Tim is the individual that would balance the priorities and differences between Clinical and Purchasing needs.

The five regional directors of clinical services play a critical role in implementation of clinical initiatives. The 1000 Omnicare consultants take direction from the five regional directors in prioritizing initiatives. Another key player is Robert Baran, PharmD, Vice President for Professional Programs at the University of the Sciences in Philadelphia, who is the individual responsible for the clinical evaluations that go into Omnicare's purchasing decisions. Omnicare also has a P&T Committee comprised of physicians, directors of nursing, and pharmacists.

### C. Customer's Attitude

Omnicare purchases more pharmaceuticals from J&J than any other manufacturer. We have been Omnicare's number one vendor for the past 36 months due to the escalating sales of Risperdal® escalating sales. The company feels, due to the quantity purchased from J&J, we have not serviced them in the past both contractually and with services and programs they deserve.

Omnicare and J&J signed a 5- year performance-based agreement effective May 1, 1999. The strategic products are Risperdal®, Duragesic®, Propulsid®, Ultram®, Levaquin®, Floxin®, and Procrit®. Omnicare is pleased with the agreement and current working relationship.

Omnicare is encouraged by J&J's commitment to invest in a group of specified long-term care business managers. Omnicare has been pleased with the progress we have made over the past 9 months in learning about each other's organizations and moving toward a direct contracting agreement. We are

viewed as a strategic partner.

Omnicare currently has good relationships with Bristol-Myers Squibb; as cited in the 1995 Annual Report, they partnered to develop the first geriatric disease management program on congestive heart failure. In addition, a current Director of Clinical Services, Mark Lehman, worked for several years at Bristol-Myers Squibb in Medical Marketing.

**Customer's View of our Competition**

<b><u>How Customer Sees</u></b> (Scale from 1:Worst to 10:Best)	<b><u>Competition</u></b>	<b><u>J&amp;J Pharmaceutical Companies</u></b>
Level of business relationship	10	10
Understanding of customer's business situation	7	9
Product fit to customer's needs	7	10
Positioning in customer's organization	7	8
Product/Service reputation	8	8
Prices	7	9
Helpfulness to customer	8	10
<b>TOTAL</b>	<b>54</b>	<b>64</b>

**Identify the Three Most Important Facts About Account's Appraisal of the Situation**

1. J&J is the largest supplier of pharmaceuticals to Omnicare. Not only does the company purchase more from us than any other vendor, we also have high market share in Risperdal®—42%, Levaquin—41% and Duragesic®—60%. Omnicare has mentioned repeatedly it is expensive to execute an interventional program to dethrone a market leader.

2. Omnicare has initiated a P.S.T. I. on Risperdal®. The company feels there is a strong clinical and financial win in supporting this product. Currently, approximately 600,000 beds have been inserviced on this initiative or roughly 90% of their total bed count. Additional pull through support for this intervention include teleconference with a geriatric psychiatrist. This program would allow the pharmacists within Omnicare to ask questions and gather feedback and support from an expert. Additionally, some regions will be implementing a program to increase the competency and confidence of the pharmacists when dealing with resistant prescribers.

In June of 1999, Omnicare was willing to provide a prescriber list to the J & J Group and the Janssen ElderCare Sales Force. These names were provided to the sales force in an effort to increase the call frequency on these resistant prescribers and to eventually influence them to use more Rispderdal in the Elderly demented patient. As of July, 1999, over 350 names have been acquired and the representatives have begun their targeting on these prescribers.

Omnicare is also actively pursuing the possibility of a propoxyphene/ Ultram® intervention. Their intentions in 1998 were to take this program on a national basis. The Pain Management Initiative Program was launched in the third quarter of 1998 and completed in June of 1999. The propoxyphene initiative was included in this training program.

3. Omnicare is encouraged by the formation of the Long Term Care Business Group. The company has

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been impressed with our group and the progress we have made in understanding their business. Omnicare understands that the LTC Business Group has spent in excess of \$1,000,000 since 1997 for educational, pull-through, and social activities. They have mentioned on several occasions how pleased they have been with the way our group has taken to this partnership.

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<b><u>V. Situation Appraisal (Our View)</u></b>	
<b><i>Team Evaluation of the Account</i></b> (Scale from 1:Worst to 10:Best)	<b>Score</b>
Its sales trend (2-3 years out)(In their own market)	10
Its growth vs. our strengths	9
How coachable its people are	6
How much we enjoy working with the account	8
Showcase/referral source for us	10
Recent trends of orders	5
How much it helps us (Give and take or all take, no give)	5
<b>TOTAL</b>	<b>53</b>

Compare this team evaluation to that of the customer's view of us and our competition.

Omnicare is an important customer to the J&J Pharma Group due not only to the company's strength in size in the long term care market, but also due to the company's ability to drive market share. Omnicare also has the resources with its information systems and newly purchased CRO's, Coromed and IBAH, to assist us with needed geriatric outcomes data.

J&J is new to this segment of the market with a structured approach to working within this segment. Our relationship with Omnicare has improved during 1999. Omnicare is pleased with the approach we have taken with 14 business managers and offering to create clinical and business programs jointly to fit both parties' strategic goals. We have come a long way in catching long-standing relationships that Omnicare has with Merck, Lilly, and BMS.

## VI. Situation Appraisal Summary

### A. Strengths

Omnicare purchases more pharmaceuticals from J&J, in dollars, than any other manufacturer. Omnicare feels it is easier to go with the market leader than to put into place large interventional programs to switch from a market leader. Currently, Risperdal®, Propulsid®, Ultram®, and Duragesic® are among Omnicare's top 20 drugs dispensed. Omnicare has implemented a P.S.T.I. with Risperdal® effective July 1, 1997. Currently, plans are under way to incorporate a D/C on propoxyphenes that would have an increased market potential for Ultram®.

The diversity and breadth of J&J positions us to be a resource to Omnicare beyond the portfolio of products we represent. We have the resources to contribute to Omnicare's organizational and business issues; for example, our expertise in marketing, sales training, risk assessment reimbursement, and performance measurement.

J&J Pharma Group has signed a three year performance based contract with Omnicare. The contract offers significant rebate opportunities for driving share of Risperdal®, Duragesic®, Propulsid®, Ultram®, Levaquin®, Floxin® and Procrit®.

### B. Opportunities

The Risperdal® P.S.T.I program will continue with new acquisitions inserviced throughout 1998 and 1999. The Long Term Care Business Group and Janssen ElderCare have been assisting Omnicare at individual regional sites by inservicing 90% of their total beds. The issue now becomes the ability to track the effectiveness of the intervention program. Omnicare has been very limiting regarding specific utilization data. Since the revision of the contract in 1999, Omnicare has committed to providing this important information by site on a monthly basis. The delivery of this data has been very fragmented and inconsistent. We are currently working on improving Omnicare's compliance with this request. We also have an opportunity to perform a retrospective study looking at the efficacy, tolerability, and cost of Risperdal® in the geriatric patient population.

In June of 1999, Omnicare agreed to supply the LTC Group and Janssen ElderCare with the names of their most resistant prescribers. The Janssen ElderCare representatives have agreed to target these prescribers on a monthly basis. An opportunity now exists for both Omnicare and Janssen ElderCare; the ElderCare sales force can better target and direct their efforts to the prescribers that are adversely affecting Risperdal market share, and Omnicare has a "dedicated sales force" committed to driving the Risperdal market share.

During the third quarter of 1999, we will also roll out an "Ask the Experts" teleconference. This teleconference will give the pharmacists within Omnicare the opportunity to review various patient cases and scenarios, and discuss resistant prescribers with an expert.

Pain is categorized in the formulary as one disease state—Chronic Pain (non-malignant). Pain has become a big issue in long term care with the MDS 2.0, state regulations, and national events surrounding pain. We can leverage our deep product line in pain to help Omnicare better categorize types of pain, appropriate therapies for different types of pain in the long-term care setting, and ways to manage side effects of pain medications. We can also help Omnicare develop pain assessment tools, which regional pharmacies are looking for due to many that regulations individual states are putting on pain assessment in nursing homes. Omnicare implemented a national pain initiative during the second quarter of 1998.

Omnicare currently has a 40% market share in propoxyphenes. This drug has been the subject at many



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LTC conferences as being a bad choice for pain in geriatrics. Omnicare is interested in doing an interventional program switching the propoxyphenes with Ultram®. Currently Alan Mason's region is in the process of developing with the LTCBG a propoxyphene program that includes Ultram® as an alternative to propoxyphene therapy. The program has been in-serviced at all regional sites within Alan Mason Region. It will now be rolled out on a national basis.

Working with Heartland Healthcare Services to produce stability studies on our products to assist in repackaging efforts.

An anti-infective/ Levaquin® initiative was introduced in March of 1999. A clinical presentation has been given to Robert Baran at Philadelphia College of Pharmacy and Science. Additional study data surrounding Levaquin's use in geriatric patients was also forwarded to Bob. In 1999 Levaquin was given a "Preferred Status" rating in its geriatric formulary edition. Currently Levaquin has reached a 42.2% market share through June of 1999. In September of 1999, Omnicare intends to send an "Anti-Infective" mailing to their prescribers on a "respiratory/flu season update". This mailing will update the prescribers on the benefits of using Levaquin in the elderly patient. They hope that this newsletter and mailing will help Omnicare reach their goal of a 50% market share with Levaquin.

Helping Omnicare decrease expenditures in GERD by instituting an appropriate use program to help determine appropriate therapy for patients. Also, offer Healthy Directions program to assist in lifestyle changes to aid in decreasing progression of the disease and frequency of symptoms.

Procrit potential in place of patients being transported to hospitals for blood transfusions. Omnicare loses all revenues on this patient once they have been transported to a hospital.

#### C. Trends

Consolidation and acquisitions of pharmacy providers in the long-term care market.

The reality of capitation in the form of Prospective Payment Systems has become Federal Law on July 1, 1998.

Expansion of services into the Assisted Care Living and Home Health Care arenas.

Movement of payers from private insurance, fee for service, and government to managed care; this trend results in the need for pharmacies to become a source of information, as well as a source of pharmaceuticals, leading to:

—Increased need for information systems

—Increased need for ability to gather outcomes data

As pharmacies become large corporations made up of smaller regional pharmacies, their needs to acquire skills in marketing, management, training, etc. are increasing.

The requirements on consultant pharmacists continue to increase which decreases their time to implement new interventions.

#### D. Key Players

Sponsors

*Tim Bien RPh, Senior Vice President of Purchasing and Professional Services*

Antisponsors

None Identified

Strategic Coaches

*Dan Maloney, Director of Purchasing.* Prior to working with Omnicare Corporate, Dan was with Interlock Pharmacy, now an Omnicare-owned pharmacy, in operations.

*Mark Lehman, PharmD, Director of Clinical Services.* Prior to working for Omnicare, Mark was in the pharmaceutical industry. He worked for BMS in Medical Marketing. Prior to that he was a representative for Lilly.

*Robert W. Baran, Director of Clinical Outcomes, Philadelphia College of Pharmacy and Science.*

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*Dusychant Patel*, Director of Infusion Services, Lawrence Weber Medical.  
Five Regional Directors of Clinical Services.  
Eight Regional Vice Presidents.

**E. Vulnerability**

This account represents \$100 million worth of sales potential. All of our products do have competition that could replace at least a portion of this business. Risperdal® is currently 30% of our sales with Omnicare. Zyprexa® has been very aggressive with Omnicare. Omnicare has indicated that in newly acquired pharmacies, Zyprexa® has increased quickly. Eli Lilly has also been very active in the long-term care market for the past 5 years.

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**VII. LAMP Matrix**

<p><b>Contracts: Dollar Potential: Risperdal®</b></p>	<p>1. Risperdal® share 2. Heartland Repackaging Initiative. 3. Coromed - Outcome Based Research. 4. Pain Initiative 5. Anti - Infective Initiative.</p>	<p>1. Continued acquisition of pharmacies. (Growth). 2. Movement of payers to managed Medicaid or Medicare. Prospective Payment System. 3. Movement into Assisted Care Living and Home Health Care fields.</p>	<p>1. Tim Bien, RPh, VP Purchasing and Professional Services 2. Dan Maloney, Director of Purchasing 3. Mark Lehman, PharmD, Director of Clinical Services. 4. Robert W. Baran, Director, Clinical Outcomes - PCPS</p>	<p>1. Assist Omnicare with Heartland repackaging project for all strategic brands 2. Become Omnicare's resource for pain, behavior management, and anti-infective therapy</p>
<p><b>Strength: Breadth of J&amp;J Resources Product Line:</b></p>	<p>1 Risperdal® share. 2. Heartland Repackaging Initiative. 3. Coromed - Outcome Based Research. 4. Pain Initiative. 5. Anti - Infective Initiative.</p>	<p>1. Continued acquisition of pharmacies. (Growth) 2. Movement of payers to managed Medicaid or Medicare. Prospective Payment System. 3. Movement into Assisted Care Living and Home Health Care fields.</p>	<p>1. Tim Bien, RPh, VP Purchasing and Professional Services 2. Dan Maloney, Director of Purchasing 3. Mark Lehman, PharmD, Director of Clinical Services 4. Robert W. Baran, Director, Clinical Outcomes - PCPS</p>	<p>1. Partner to assist with reimbursement issues utilizing JPI reimbursement managers and JJHCS government affairs directors 2. Implement outcomes projects in APS and anti-infectives 3. Assist with JACHO accreditation</p>
<p><b>Strength: Partnership in Outcomes Management</b></p>	<p>1. Risperdal® share. 2. Heartland Repackaging Initiative. 3. Coromed - Outcome Based Research. 4. Pain Initiative. 5. Anti - Infective Initiative.</p>	<p>1. Consolidat- ion of pharmacies 2. Movement of payers to managed Medicaid or Medicare. Prospective Payment System. 3. Movement into Assisted Care Living and Home Health Care fields.</p>	<p>1. Gary Erwin, Vice President Health Systems 2. Robert W. Baran Director, Clinical Outcomes - PCPS 3. Dale Evans, CEO Coromed.</p>	<p>1. Outcomes project in APS 2. Outcomes project in anti-infectives 3. Pain management program. 4. Regranex® outcome research for pressure ulcers</p>

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<p><b>Vulnerability: Loss of Sales; Zyprexa® Threat to Risperdal®</b></p>	<p>1. Risperdal® share. 2. Heartland Repackaging Initiative. 3. Coromed - Outcome Based Research. 4. Pain Initiative. 5. Anti - Infective Initiative.</p>	<p>1. Consolidat- ion of pharmacies 2. Movement of payers to managed Medicaid or Medicare. Prospective Payment System. 3. Movement into Assisted Care Living and Home Health Care fields.</p>	<p>1. Tim Bien, RPh, VP Purchasing and Professional Services 2. Dan Maloney, Director of Purchasing 3. Mark Lehman, PharmD, Director of Clinical Services</p>	<p>1. Risperdal® interventional program 2. Pain interventional program 3. Anti - Infective Intervention Program</p>
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**Contract Summary**

This will be a five-year offer.

The contract is a combination charge-back and rebate agreement.

Strategic products are Risperdal®, Duragesic®, Ultram®, Propulsid®, Floxin®, and Levaquin®. They are all eligible for both a quarterly performance rebate and an annual performance fee.

Rebates are earned on the basis of:

- Actual market share attained
- Product's position on formulary with no competitive disadvantages
- Product designated, at minimum, "Acceptable" on formulary

Strategic product performance fee is earned upon:

- Implementing J&J approved interventional programs
- Achieving pre-determined performance tier
- Additional utilization
- Additive to the quarterly rebates

Market share is calculated on the basis of days of therapy derived from DACON measure.

All J&J products are purchased at contract price (distributor list price less a small discount for capturing charge-back). The rebated products shall also be purchased and rebated at this price-protected contract price. Contract price is price-protected for the first 12 months of the agreement. For the subsequent term, there will be no more than one price change per line item during the 12 months and the aggregate price increase will be CPI +2.

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## VIII. Putting It All Together

### Charter Statement

J&J supplies high-quality products and jointly created clinical and business programs to Omnicare that aid Omnicare in achieving corporate goals and objectives.

### Four Best Opportunities

Regain Risperdal® share of atypical APS market through interventional programs and outcomes research.

Execute interventional program to switch propoxyphene orders to Ultram®. Implementation of the National Pain Initiative as a Disease State Management Program.

Execute Levaquin® interventional quinolone program.

Establish relationships with Coromed and IBAH for outcome based research opportunities and generate stability data for Risperdal® 5mg for Heartland repackaging facility.

### Three Best Goals

Become Omnicare's resource for pain, behavior management, GERD, and anti-infective therapy through clinical expertise, clinical interventional tools appropriate to LTC, outcomes data, and value-added services.

Partner to assist with reimbursement Medicaid/Medicare/Prospective Payment issues utilizing JPI reimbursement managers and JJHCS government affairs directors.

Implement outcomes projects in APS, motility, and anti-infectives.

### Primary Revenue Target

Omnicare will purchase \$100 million from the J&J Pharmaceutical Group.

### Single Best Opportunity

Risperdal® preferred status on Omnicare's Geriatric Guidelines. To continue this formulary status and to implement Risperdal® PSTI program at all regional sites. Risperdal has the largest dollar potential and the most to lose.

### Focus Investment (Resources Needed)

APS programs geared to the LTC patient population

Funding for Ultram®/propoxyphene intervention

Funding for Levaquin® interventional program

Heartland repackaging project/ Coromed research projects.

### Stop Investment

Monies spent on consultant resources without focus on Omnicare corporate will be money poorly invested.

## IX. GOAL ACTION PLAN

Goal: Improve market share of the J&J Pharmaceutical products. Develop long-term relationship with Omnicare, Inc.

Primary Revenue Target (1998) Q1 \$18M Q2 \$22M Q3 \$24M Q4 \$26M

Objectives	1 <sup>st</sup> Quarter 1999	2 <sup>nd</sup> Quarter 1999	3 <sup>rd</sup> Quarter 1999	4 <sup>th</sup> Quarter 1999	Comments
Heartland Re-packaging Initiative.	Risperdal® and Propulsid® samples re-packaged at heartland sent to Janssen. Begin Discussions with OMP and Ultram.	Studies begin with Risperdal and Propulsid, Continue discussions with OMP	Janssen studies in progress. Decision by OMP.	Begin Studies Ultram®	
Regranex® Program	Clinical Presentation at Omnicare with Roy, Weir, Knox, Lehman, Maloney, Cummins, Ludeka. Discuss wound care at Business plan meeting with OCR.	Omnicare wound care specialists to be scheduled at OMP wound care centers of excellence.	LTCBM education at Regional Sites.	LTCBM education at Regional Sites	
Risperdal® P.S.T.I.	Continued P.S.T.I. program for all new acquisitions. Clinical Presentation at PCPS to insure new data is in Bob Barren's hands. "Dementia in the Elderly" newsletter sent.	Follow through on Risperdal® P.S.T.I. program and insure that interventions are in place. Work closely with Janssen sales force in generating "hit" list of key physicians. "Dementia in the Elderly" newsletter sent.	Target key prescribers on a monthly basis using the "Target MD List" provided to us by Omnicare. Report frequency back to Omnicare on a monthly basis.	Follow through on Risperdal® P.S.T.I. program pullthrough. Implement "Ask the Experts" teleconferences and reintroduce teletopics series. Propose Risperdal Training for all consultant pharmacists and RCDs	
Levaquin Initiative	Finalize Intervention plans and implementation	Begin teleconferencing series in March '99.	Finalize mailing for "flu season" newsletter to prescribers	Increase programs and pullthrough during fall and winter season.	

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## X. Review & Measurement

<b>Ninety-Day Review</b>		
<b>Five Critical Facts</b>	<b>Opportunity or Threat</b>	<b>Implications for Strategy</b>
<p>1. Good ongoing relationship with Omnicare.</p> <p>2. Successful PSTI program established with Risperdal®. 80% of all Omnicare beds have been inserviced.</p> <p>3. Pain Initiative has been received with great enthusiasm.</p> <p>4. Anti-Infective Clinical Presentation given at PCPS.</p> <p>5. Heartland Stability Studies/ Coromed partnership in outcome based research.</p>	<p>1. Build on current relationship.</p> <p>2. The possibility of preferred status with Zyprexa® on Omnicare's "Geriatric Guideline" Formulary.</p> <p>3. The D/C of propoxyphenes at all regional sites.</p> <p>4. Opportunity of a Levaquin® Intervention Program.</p> <p>5. Additional dating for Propulsid®, Risperdal®, Ultram® to help in Heartland's ability to help make production runs longer.</p>	<p>1. Business Strategy Meeting with Omnicare on 2/19/98. Become more acquainted with individual Regional Vice-Presidents.</p> <p>2. Inservice all new acquisitions to enforce Risperdal's "Preferred Status". Clinical review presentation at PCPS to include Dementia Data.</p> <p>3. Roll - out of "Non-Malignant Pain Program to all Regions.</p> <p>4. Levaquin® clinical presentation at Corporate.</p> <p>5. Completion of stability data for Heartland. Coromed / J&amp;J; meeting for possible partnering in outcome based research on March 12, 1998.</p>

**APPENDIX A**  
**OMNICARE ACCOUNT TEAM**

Bruce Cummins - Long Term Account Director

REDACTED

Colleen Jones - Long Term Care Account Manager

REDACTED

Tom Knox - Ortho-McNeil Strategic Account Director

REDACTED

Stuart Mohr - Ortho-BioTech Managed Care Manager

REDACTED

<b>APPENDIX B</b>				
<b>SALES RESULTS</b>				
<b>PRODUCT</b>	<b>1996 SALES</b>	<b>1996 MARKET SHARE</b>	<b>1997* SALES MARKET</b>	<b>1997* SHARE</b>
Risperdal®	\$12,510,000	85.0%	\$29,850,000	61.0%
Propulsid®	\$7,022,500	15.0%	\$11,200,000	12.9%
Duragesic®	\$4,000,000	51.0%	\$8,250,000	47.3%
Procrit®	\$3,100,000	90.0%	\$6,770,000	91.9%
Ultram®	\$1,500,000	8.6%	\$4,300,000	26.85%
Floxin®	\$763,000	13.0%	\$1,320,000	12.45%
Levaquin®	N/A		\$1,520,000	1.76%
<b>Total</b>	<b>\$28,895,500</b>		<b>\$63,210,000</b>	
1996 Sales per Bed = \$131.30				
1997 Sales per Bed = \$162.00				

**Long Term Care**

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<b>APPENDIX C OMNICARE REGIONAL SITES/RESPONSIBILITIES</b>		
<b>KANSAS CITY - B. Cummins</b>		
<b>PHARMACY</b>	<b>LOCATION</b>	<b>BEDS</b>
Sequoia	Tulsa/Oklahoma City Ok.(T. Mackey)	21,000
Freed's	Overland Park, Ks.	16,000
Interlock	St. Louis, Mo.	15,000
Home	Belleville, Il.	9,000
ManagedCare	Springfield, Mo	8,000
Geri Systems	Louisana, Mo.	2,500
Lipra	St. Joseph, Mo.	900
<b>CHICAGO – C. Jones</b>		
<b>PHARMACY</b>	<b>LOCATION</b>	<b>BEDS</b>
Jacobs Healthcare	Des Plains, Il.	18,400
Enloe Drug	Decatur-Hoffman Estates, Peoria, Il.	15,000
Lawrence Weber	Skokie, Il.	12,000
Care Pharmaceutical	Griffith, In. (B. Morris)	7,000
PRN Pharmaceuticals	Indianapolis (B. Morris)	5,100
Denham Pharmacy	Quincey, Il.	1,500
Nihan Martin	Rockford, IL	2,500
Roeschen's	Milwaukee, WI	3,500
Omnicare – Twin Cities	Minneapolis, MN	14,000
<b>ATLANTA - H. Bradley</b>		
<b>PHARMACY</b>	<b>LOCATION</b>	<b>BEDS</b>
D&R Pharmacare	Louisville, Bowling Green, Lexington, KY.	8,500
Uni-Care	Prattville, Birmingham, Ala.	6,600
Medcal Arts	Conyers, Ga.	3,000
Pharmacare	Ashland, Ky.	1,300
<b>CLEVELAND / PITTSBURGH - J. Shellem</b>		
<b>PHARMACY</b>	<b>LOCATION</b>	<b>BEDS</b>
Home Care	Cincinnati, Oh.	15,000
Lo Med Prescription	Wadsworth, Oh.	10,000
Anderson Medical	Pittsburgh, Pa.	6,000
Benwood Pharmacy	Tonawanda, N.Y.	3,000
<b>Indianapolis- B. Morris</b>		
<b>PHARMACY</b>	<b>LOCATION</b>	<b>BEDS</b>
Specialized Pharmacy	Livonia,MI.	20,500
West Haven Pharmacy	Perrysburg, Oh.	20,100
Beeber Pharmacies	Englewood, Oh.	6,753
Heartland Pharmacy	Toledo, Oh.	5,600
Total Care	Grand Rapids, Mi.	2,000

Large Account Management Process

<b>BOSTON - Tom Zavasky</b>		
<b>PHARMACY</b>	<b>LOCATION</b>	<b>BEDS</b>
Value Health Services	West Boylston, Ma.	7,300
Northshore Pharmacy	Peabody, Ma.	7,300

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Downeast Pharmacy	Augusta, Me.	5,200
<del>WANTON PHARMACY</del>	<del>WANTON, MA</del>	