

Unknown

From: Inserra, Robert [OMP]
Sent: Tuesday, August 12, 2003 11:59 AM
To: Forsthoefel, Tim [OMP]
Subject: FW: DXL LVQ Pricing Update 7-08.ppt

final clean-ups

- DXL Medicaid % to 36% (per Bonnie R)
- Levaquin Delta revised to 25% (30% for Omnicare)
- other formating.

-----Original Message-----

From: Forsthoefel, Tim [OMP]
Sent: Tuesday, August 12, 2003 12:11 PM
To: Inserra, Robert [OMP]
Cc: Washburn, Ken [OMP]; Russell, Dale [OMP]
Subject: DXL LVQ Pricing Update 7-08.ppt



DXL LVQ Pricing
Update 7-08.p...

Some additional Polish: action plan, LTC GPO adm. Fees, etc. Tim

LTC Levaquin & Ditropan XL Pricing Review

Who Is LTC?

Comparative Market Value

Composition of Market

Market Approach

Customer Segmentation

Strategy, Contract Structure

Market Results

Market Opportunities – Threats

Medicaid PDLs

Sensitivity Analysis

“Play Book”

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LTC Institutional Definition

LTC

N1 - NURSING HOME RESIDENTIAL CARE FACILITY WITHOUT A HOSPITAL

~~N2 - NURSING HOME PROVIDER (100% OF BUSINESS)~~

N3 - VISITING NURSE (HOME HEALTH CARE SERVICES)

~~N4 - CHAIN NH PROVIDER/PURCHASING SERVICE~~

~~N7 - NH PHARMACY (SERVICING MULTIPLE NH'S AND MAY INCLUDE RETAIL BUSINESS) /PURCHASING SERVICE~~

Numbers will not "tie-out" Between "LTC" and Segmented Tier 1's, because of N1 and N3 Category inclusion

Source: 1Q'03 IMS-DDD Report

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LTC Customer Components

Many "Players" in LTC

Nurses'Aids

Nurses

Nurse Practitioners

Medical Directors



Influenced with Key Clinical Messages,
Professional Associations, Practice
Standards, Regulatory Bodies

Pharmacy Consultants

Executive Pharmacy Buyers



High degree of impact on product selection
Influenced with same methods above, but
highly motivated based on economics.

Emphasis less on net costs, and more on
quality of product and "spread" (their
margin)

Focus Contractual Efforts on the Pharmacy Buyers

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LTC Customer Components

Pharmacy Component Broken into 2 Segments:

GPOs (50%-60% \$ Sales)

Access for Discounts
Voluntary membership

Attempting to influence Key
Components referred to as
Committed Aligned Member
(CAM) – Clustered Customers
within a GPO membership,
with Tier 1 “like” approach

Consolidated Pharmacy Providers (Tier 1's)

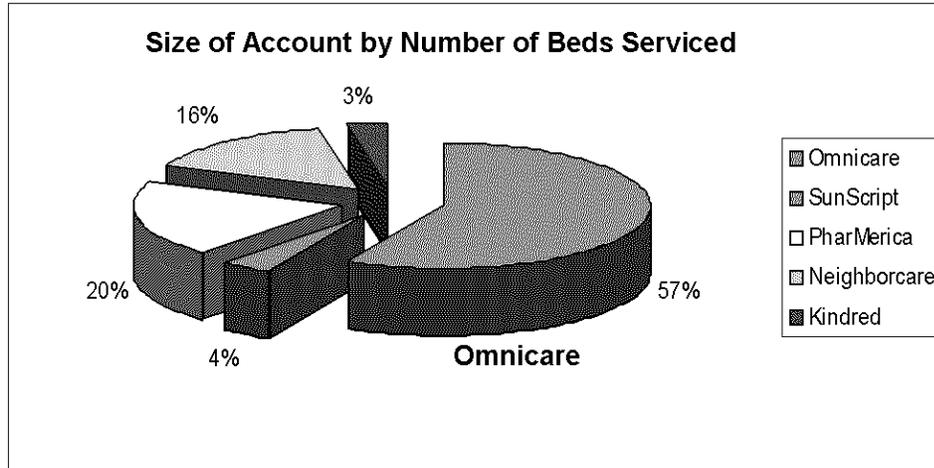
High Control; High Demand
Corporate Ownership
Demonstrated Share Performance for Top 2

Focus Field Effort and Contract Incentives on Tier 1's; CAMs in GPOs

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Segmentation of Tier 1 LTC Rx Providers, by Beds



With Recent Acquisition of NCS Healthcare and Sunscript, Omnicare represents 61% of All Tier 1 Beds, approximately 15% of the LTC market for DXL; 24% for LVQ

Source: 1Q'03 LTCBG Report; 1Q'03 IMS DDD Sales

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Sales and Investments for LTC GPOs vs Tier 1's

	CAM	GPO	Tier 1
Sales	\$ 13,019,686	\$ 66,687,536	\$ 54,828,321
Rebates	\$ 832,614	\$ 1,667,188	\$ 6,809,000
% Sales	9.7%	49.6%	40.8%

While half of sales are through GPOs; Investments follow Control of Tier 1's

Source: 3Q'02 LTCBG Report

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Sales and Investments for Tier 1 LTC

	Ultracet	Ultram	Levaquin Tabs	Levaquin IV	Ditropan XL
Annualized Sales	\$ 2,878,125	\$ 4,528,076	\$ 44,100,432	\$ 3,321,681	NA
Annualized Rebates	\$ 137,501	\$ 62,463	\$ 6,390,232	\$ 219,779	NA
% Total Sales	5.2%	8.3%	80.4%	6.1%	\$ -
% Total Rebates	2.0%	0.9%	93.8%	3.2%	NA
Realized Rebate Rate	4.8%	1.4%	14.5%	6.6%	\$ -

Focus and Manage Levaquin, and you Manage 80% of the LTC Market for OMP

Source: 3Q'02 LTCBG Report

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Contract Status: Tier 1 Providers

Contractee Name	J&J Corporate Contract		Contract Status		
	Contract Start Date	Contract End Date	Ditropan XL®	Ultracet®	Levaquin®
MHA	11/1/2000	12/31/2003	Formulary	Formulary	Formulary
PBI	11/1/2000	12/31/2003	Non Formulary	Formulary	Formulary
(Premier) Innovatix	11/1/2000	12/31/2003	Formulary	Formulary	Formulary
GeriMed (Owen)	11/1/2000	12/31/2003	Formulary	Formulary	Formulary
NeighborCare	7/1/2000	3/31/2003	Formulary	Formulary	Formulary
PharMerica* Recently Took 30 Day Out	1/1/2000	3/31/2002	*Formulary	Formulary	Formulary
KINDRED (Vencor)	12/1/1998	11/30/2003	Formulary	Formulary	Formulary
Omnicare	5/1/2000	3/31/2004	Formulary	Formulary	Formulary
* PharMerica previously did not award DXL; global J&J agreement suspended, pending renegotiation					

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Levaquin® Institutional Segment Values

IMS-DDD	1Q 2002			1Q 2003			% \$ Chg
	PRYR ROLLING 3 MTHS			CYR ROLLING 3 MTHS			
LEVAQUIN Tablets	MARKET \$	BRAND	MKT SHR	MARKET \$	BRAND	MKT SHR	
HOSPITAL	\$78,380,230	\$27,921,293	35.6%	\$85,231,864	\$30,266,904	35.5%	8.4%
LONG-TERM CARE	\$42,373,072	\$16,209,186	38.3%	\$46,005,126	\$18,820,505	40.9%	16.1%
GOVERNMENT/VA/DOD	\$48,781,470	\$14,039,793	28.8%	\$75,900,684	\$17,506,162	23.1%	24.7%
Totals	\$169,534,772	\$58,170,272	34.3%	\$207,137,674	\$66,593,571	32.1%	14.5%

LTC Annualized

Market Potential: \$ 184MM

Actual Sales: \$ 75MM

Does Not Include Omnicare, Approximately \$ 27MM Annually

LTC Represents 22% of Institutional Market Potential, but 28% of LVQ Institutional dollar Sales

Source: 1Q'03 IMS-DDD Report

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Levaquin® Strategy and Contract Structure: GPOs

Strategy: Maintain access; accelerate growth through incentives to Corporate Aligned Members (CAMs) (High control members of GPOs, Like Tier 1s)

Approach:

- GPOs: Minimal access discounts, standard Adm. Fees

Product	Access Discounts	Administrative Fees	Future Adm.Fees	
			GPO Sales	CAM Sales
LEVAQUIN®	Benefits Member	Benefits GPO Management		
%	1.00%	2.50%	1.00%	1.00%

Future Direction: Accelerate Growth of CAMs, similar to Tier 1 Account Offerings.

GPO incentive payments with shifted focus to CAM sales, as opposed to “Open” Membership sales (move from 2.5% to 1%; 1% CAMs)

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Source: Omnicare Contract
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Levaquin® Strategy and Contract Structure: Tier 1 Providers

Strategy: Entrench Levaquin's Market Strength, accelerate growth through incentives

Approach:

- Tier 1's: Sole Source or Preferred Status

Product	Access Discounts	Performance Rebate	Tier 1	Tier 2
Levaquin®		Actual DOT Market Share	<60.0%	>= 60.0%
Rebate %	1.00%		0.00%	15.00%

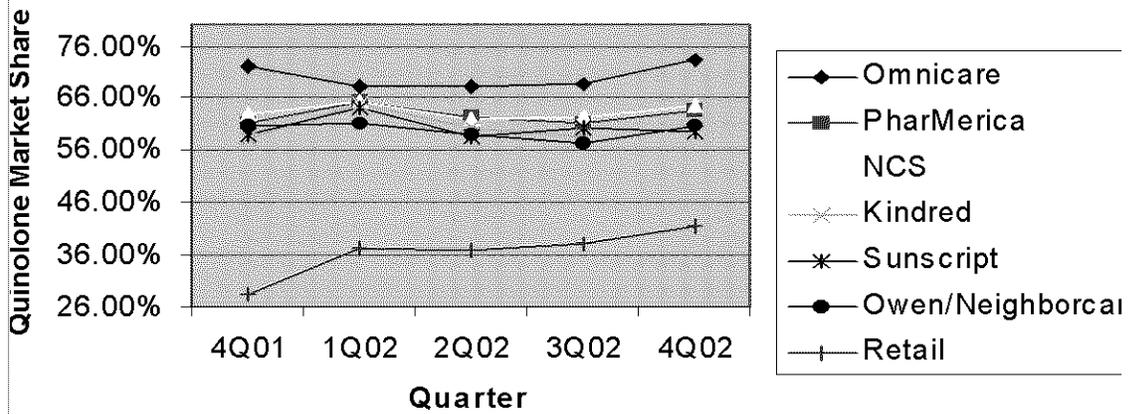
Total Discount Potential is 16%, All accounts performing at Tier 2, with exception of PharMerica, due to renegotiation of global J&J Agreement

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Levaquin® Tablet LTC Share Trend Analysis vs Retail

Tier 1 LTC vs Retail Share



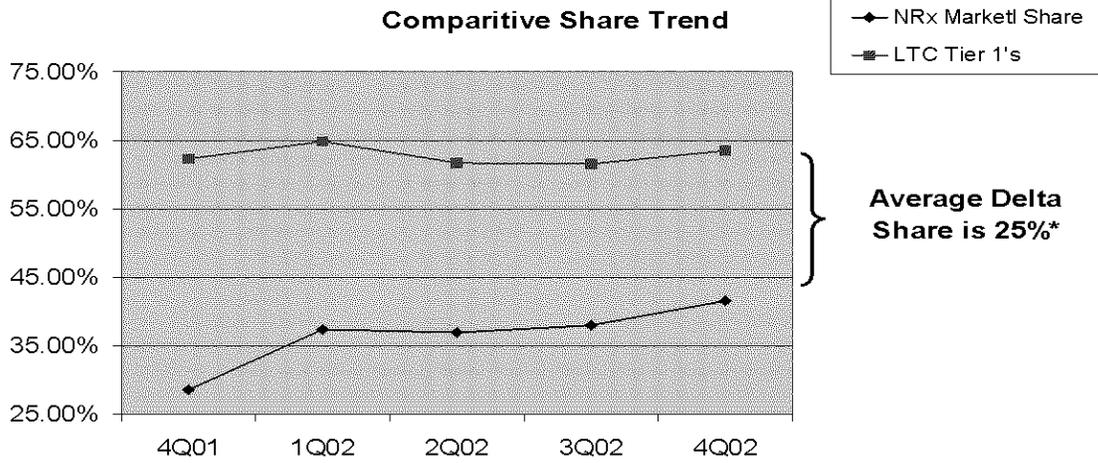
Measurable Performance Difference Between Retail (Baseline) and LTC Tier 1's

Source: 4Q'02 LTCSBG Report vs Retail Weekly Market Share Report

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Levaquin® Tablet LTC Share Trend Analysis vs Retail



Significant Share Performance Gain with Tier 1 LTC Pharmacy Providers

Source: 4Q'02 LTCBG Report vs Retail Weekly Market Share Report

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* Delta ~ 30% for Omnicare

Levaquin® Profitability Model: Omnicare with Share Shifts

	Scenarios			
	Contract (Actual)	No Contract	No Contract @ Retail NMS	Increased PDL Reb (65%)
Omnicare Profitability for Levaquin				
Omnicare Share	69%	20%	40%	69%
2 & 3Q '02 Sales (Avg)	\$ 6.0			
Annualized Sales (Millions)	\$ 24.0	\$ 7.0	\$ 13.9	\$ 24.0
Less Rebates (15% Investment)	\$ (3.6)	\$ -	\$ -	\$ (3.6)
Less Medicaid Rebate (45%x65%)	\$ (7.0)	\$ (2.0)	\$ (4.1)	\$ (10.1)
Net Sales	\$ 13.4	\$ 4.9	\$ 9.8	\$ 10.3
Std Cost	\$ (5.2)	\$ (1.5)	\$ (3.0)	\$ (5.2)
Gross Margin	\$ 8.1	\$ 3.4	\$ 6.8	\$ 5.0
vs Current LTC Contract		\$ (4.7)	\$ (1.3)	\$ (3.1)

While "double dipping" has a substantial negative effect on LTC profitability, given the large share delta and cost structure, this still appears a wise investment. This needs watchful monitoring given trends in Medicaid.

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Levaquin® Profitability Model: Omnicare & Changing Medicaid

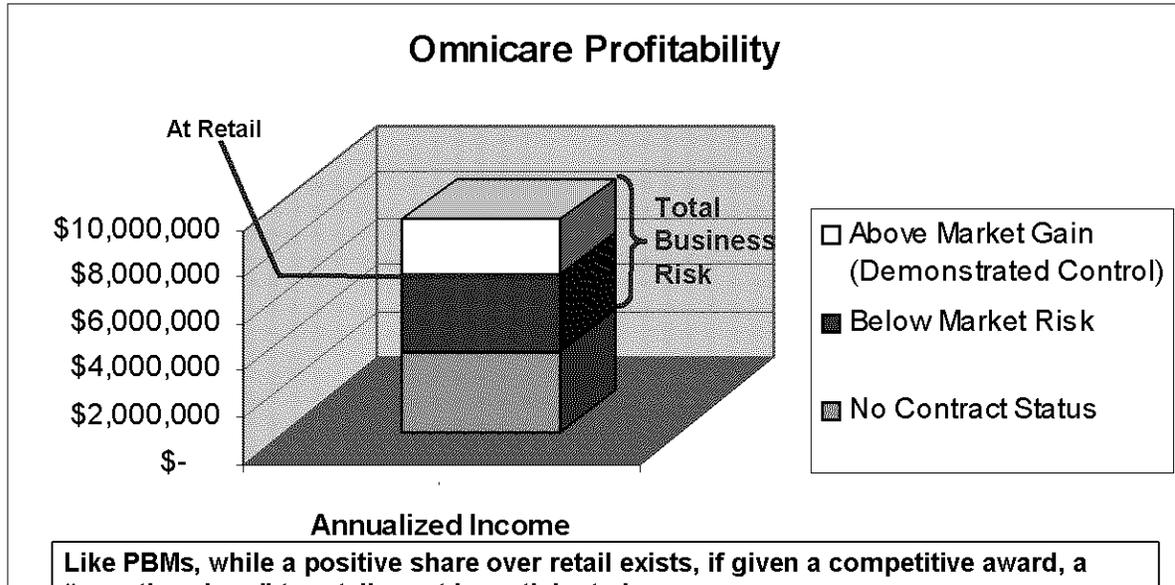
Omnicare Profitability for Levaquin	Medicaid Rebate Scenarios			
	45%	55%	65%	75%
	<i>TODAY</i>			
Omnicare Share	69%	69%	69%	69%
2 & 3 Q'02 Sales (Avg)	\$ 6.0			
Annualized Sales (Millions)	\$ 24.0	\$ 24.0	\$ 24.0	\$ 24.0
Less Rebates (15% Investment)	\$ (3.6)	\$ (3.6)	\$ (3.6)	\$ (3.6)
Less Medicaid Rebate (65% of LTC M)	\$ (7.0)	\$ (8.6)	\$ (10.1)	\$ (11.7)
Net Sales	\$ 13.4	\$ 11.8	\$ 10.3	\$ 8.7
Std Cost	\$ (5.2)	\$ (5.2)	\$ (5.2)	\$ (5.2)
Gross Margin	\$ 8.1	\$ 6.6	\$ 5.0	\$ 3.5
vs Current LTC Contract		\$ (1.6)	\$ (3.1)	\$ (4.7)

While “double dipping” has a substantial negative effect on LTC profitability, given the large share delta and cost structure, this still appears a wise investment. This needs watchful monitoring given trends in Medicaid.

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Levaquin ® Business Risk Model



Like PBMs, while a positive share over retail exists, if given a competitive award, a “negative share” to retail must be anticipated.

Simply stated: If they can “help us”, they can “hurt us”

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Levaquin® Opportunities / Threats

- 
- Omnicare continues to grow rapidly in this sector, consolidating the market
 - J&J has a strong reputation in LTC; numerous awards
 - Positioning against Rocephin based on Quality of Care (IV/IM Avoidance) / Cost avoidance to Care Provider
 - CAM Agreements, incentives like Tier 1s, can gain additional focus within GPOs



• Growth of State Medicaid Supplements can have a significant impact on LTC share/profitability



• New Product Entries (Generic Cipro, Cipro XR)

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Ditropan XL® Institutional Segment Values

DITROPAN XL	1Q 2002			1Q 2003			% \$ Chg
	PRYR ROLLING 3 MTHS			CYR ROLLING 3 MTHS			
	MARKET \$	BRAND	MKT SHR	MARKET \$	BRAND	MKT SHR	
HOSPITAL	\$215,666	\$157,659	73.1%	\$87,897	\$29,628	33.7%	-81.2%
LONG-TERM CARE	\$12,433,077	\$4,480,616	36.0%	\$15,717,041	\$5,975,394	38.0%	33.4%
GOVERNMENT/VA/DOD	\$1,557,272	\$252,188	16.2%	\$2,625,742	\$807,598	30.8%	220.2%
Totals	\$14,206,015	\$4,890,463	34.4%	\$18,430,680	\$6,812,620	37.0%	39.3%

LTC Annualized

Market Potential: \$ 62.5MM

Actual Sales: \$ 24MM

Does Not Include Omnicare, Approximately \$3MM Annually

LTC Represents 85.3% of Institutional Market Potential, but 87.7% of DXL Institutional Sales

Source: 1Q'03 IMS-DDD Report

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Ditropan XL® Strategy and Contract Structure: GPOs

Strategy: Maintain access; accelerate growth through incentives to Corporate Aligned Members (CAMs) (High control members of GPOs, Like Tier 1s)

Approach:

- GPOs: Minimal access discounts, standard Adm. Fees

Product	Access Discounts	Administrative Fees	Future Adm. Fees	
			GPO Sales	CAM Sales
DITROPAN XL®	Benefits Member	Benefits GPO Management		
%	1.00%	2.50%	1.00%	1.00%

Future Direction: Accelerate Growth of CAMs, similar to Tier 1 Account Offerings.

GPO incentive payments with shifted focus to CAM sales, as opposed to "Open" Membership sales (move from 2.5% to 1%; 1% CAMs)

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Source: Omnicare Contract
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Ditropan XL® Strategy and Contract Structure: Tier 1 Providers

Strategy: Minimize market hurdles, accelerate growth through incentives, and block future entries

Approach:

- Tier 1's: Require 1 of 2 OAB agents, structure incentives commensurate to share gains; promote share growth

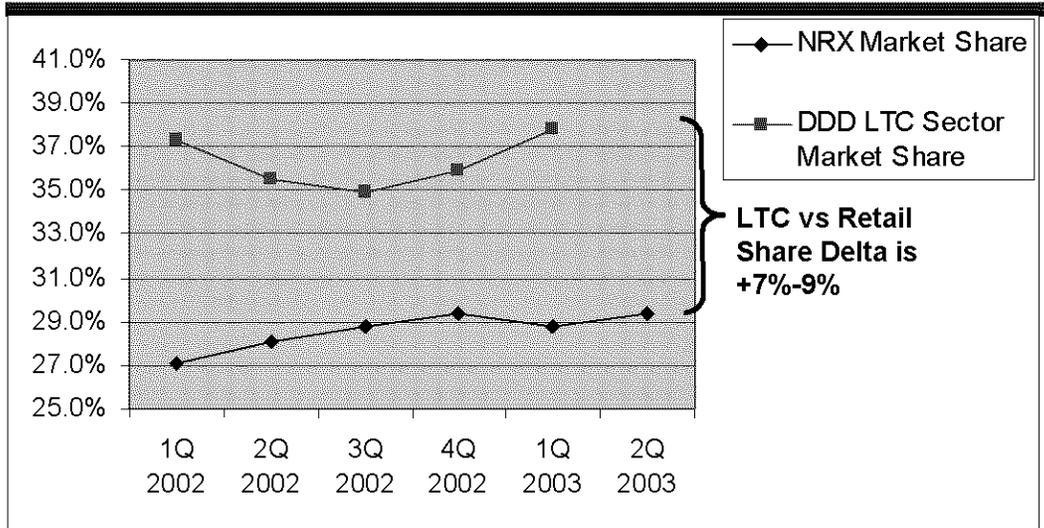
Product	Access Discounts	Performance Rebate	Tier 1	Tier 2	Tier 3	Tier 4	Overlay
DITROPAN XL®		Actual DOT Market Share	<25.0%	25.1% to 41.0%	41.1% to 49.9%	> 50.0%	Acceptance of DXL, LVQ IV and Ultracet®
Rebate %	1.00%		0.00%	8.00%	10.00%	11.00%	3.00%

All Accounts Performing at Tier 2 (12% rebate/discounts), with Existing Tiers for Growth. Total Discount Potential is 11%-15%.

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Ditropan XL Tablet LTC Share Trend Analysis vs Retail



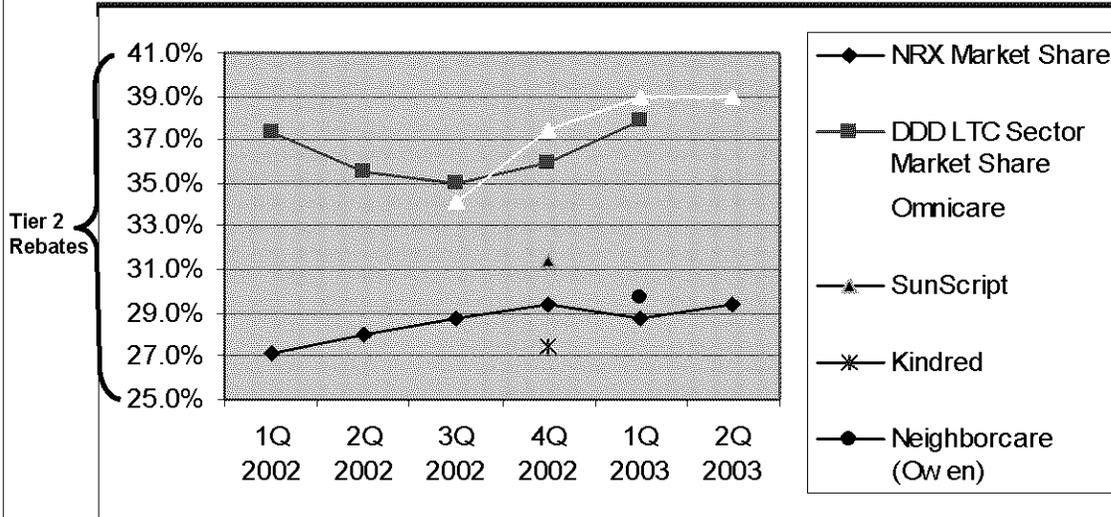
Measurable Performance Difference Between Retail (Baseline) and LTC Tier 1's

Source: 4Q'02 LTCEBG Report vs Retail Weekly Market Share Report

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Ditropan XL LTC Share Trend Analysis vs Retail



Significant Share Performance Gain with Omnicare, over LTC Segment and other Tier 1's; Some Tier 1's show below sector and Retail Share

Source: 4Q'02 LTCBG Report vs Retail Weekly Market Share Report

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Ditropan XL Opportunities / Threats

- Omnicare continues to grow rapidly in this sector, consolidating the market
- J&J has a strong reputation in LTC; numerous awards
- Possibility to “Stratify” Tier 2 Performance into more refined tiers, given 10 point difference in Tier 1 accounts (Omnicare 37.4%, Kindred 27.4%)
- CAM Agreements, incentives like Tier 1s, can gain additional focus within GPOs
- Urinary Cost Calculator
- DXL acceptance is contingent upon status of global J&J agreement
- Growth of State Medicaid Supplements can have a significant impact on LTC share/profitability
- New Product Entries forthcoming via Yamanouchi/GSK

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Sensitivity Analysis For DXL in LTC



Current Status		Exit LTC Contracts (Optimistic)		Exit LTC Contracts (Likely)	
Current Sales	\$ 24.0	Current Sales	\$ 18.9	Current Sales	\$ 11.4
LTC DXL Share	38.0%	LTC DXL Share	30.0%	LTC DXL Share	18.0%
Delta Share to Retail	8.0%	Delta Share to Retail	0.0%	Delta Share to Retail	-12.0%
Medicaid Reb (65%@36%)	(5.6)	Medicaid Reb (65%@36%)	(4.4)	Medicaid Reb (65%@36%)	(2.7)
LTC Investments (7.75%)	(1.8)	LTC Investments (0%)	-	LTC Investments (0%)	-
Net Sales	<u>\$ 16.6</u>	Net Sales	<u>\$14.5</u>	Net Sales	<u>\$8.7</u>
		Variance to Status Quo	-\$2.1	Variance to Status Quo	-\$7.9

Scenarios Triggering Revisiting LTC Contract Strategy						
LTC Contracts Generate Positive Return today <3% Delta share, or >50% PDL Rebates would require exit consideration Rapid Changes in PDL States could challenge investment levels	Delta Share Drops to 3%		PDL's Dominate &/or Suppl Reb Incr			
	Current Sales	\$20.8	Current Sales	\$24.0		
	LTC DXL Share	33.0%	LTC DXL Share	38.0%		
	Delta Share to Retail	3.0%	Delta Share to Retail	8.0%		
	Medicaid Reb (65%@36%)	(4.9)	Medicaid Reb (65%@50%)	(7.8)		
	LTC Investments (7.75%)	(1.6)	LTC Investments (7.75%)	(1.8)		
	Net Sales	<u>\$ 14.4</u>	Net Sales	<u>\$ 14.4</u>		
		Variance to Status Quo \$ (2.2)		Variance to Status Quo \$ (2.2)		

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Medicaid Learnings

- PA Medicaid States are Growing
- “Double Dipping” *does occur.*

Rebates paid by Pharma Company to LTC Pharmacy Provider, who then submits approximately 65% of their business to State Medicaid for reimbursement.

To-date we have not been able to verify that the LTC submission claims are separated or excluded by the State when submitting for rebates

Source: JPI Aciphex PA States

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LTC Facilities/Beds by State (PDLs Highlighted)

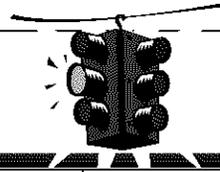
- Majority of LTC beds are located in 13 key states corresponding to population and the elderly
- Only 30% of LTC Beds are in PDL States
- Trigger States for Review: Ohio, Pennsylvania, Texas and New York

- PDL Implemented
- Pending PDL

<u>State</u>	<u>Facilities</u>	<u>Beds</u>
Texas	1,144	125,029
California	1,174	114,897
New York	568	100,843
Illinois	782	99,920
Ohio	947	92,833
Pennsylvania	667	91,252
Florida	625	74,140
Indiana	534	61,672
Missouri	541	55,289
Massachusetts	539	54,303
Michigan	419	48,753
New Jersey	341	46,857
Wisconsin	385	45,715

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Milestone Markers for Action

Scenarios	Enforce Current Agreements	Carve Out PDL States	Eliminate all LTC
Current Business Environment - PDLs, States acting Independently; Margins continue to erode, requiring watchful monitoring (Probability: 15%)	Enforcing agreements ensures our business profitability is maximized until Medicaid rebates exceed the incremental net income from LTC	Carving out PDL states is limited due to on-going dynamics; limited sources/capacity	Lose of market share requirements; loss of LTC PP to drive our business results
Medicare Drug Benefit Plan - Economy rebounds, Medicaid is fundamentally changed; Margins maintain at current levels	As money is infused into LTC, current agreements continue to drive business results	Customer acceptance of agreements unlikely; could place us at an disadvantage based on competitive profiles	Eliminating any current abilities to influence market, which is expanding due to increased funding
Draconian Measures - States implement tight controls, socialized medicine; Margins drastically reduced, nominal pricing to play (40%)	Ineffective as control will be exercised by state formularies. All performance agreements should be removed, if not negated by low shares	Mute point as all states move to a institutional(VA) or clinic type formulary	Best alternative. Important to try to maintain relationships with pharmacy due to clinical influence in private pay world
State Innovations - Coalitions, privatization, risk sharing (40%)	Keeping LTC Performance agreements benefits our position with states due to critical mass. LTC carve outs, pharmacy clinical influence and market knowledge are leveraging opportunities	Adds complexity to a dynamic market. Quarterly changes in positions and strategies. (Moving target)	Loss of leverage points to capitalize or reject state opportunities

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“Playbook” For LTC, Given Actions at State Levels

LONG TERM CARE TIER 1 PHARMACY PROVIDER "PLAY BOOK"			
Medicaid PDL Scenarios	Monitor	Trigger	Implied Actions
Increased Discounts; Multi-Brand Access	Combined Medicaid/LTCPP Rebates	Combined Discounts > 70%	Reduce OR Eliminate LTCPP Discounts
			Accelerate "Clinical Preference" in Geriatric Population, where feasible
Status Quo	Delta Market Share of Tier 1's vs Retail	Delta significantly Changes (Decreases), or value is less than 3% Share Points vs Retail for DXL, 20% LVQ	Reassess LTCPP Agreements, or mandate Floor Market Share Requirement
Prospective Payment / Capitation	Via SGA Key 6-8 LTC State Reimbursement Status (FFS vs Capitated)	Multi-State Movement to PPS	Continue to establish Product Positioning via Clinical vs Economic Value
	LTCPP Tier 1 for Market Insights / Contract Acceptance; Share Performance	Customer Feedback on PPS or Contract Valuation Delta significantly Changes (Decreases), or value is less than 3% Share Points vs Retail for DXL, 20% LVQ	Reassess Contract & Product Profile for Market Positioning - Increase Incentives where Fiscally Justifiable
Increased Discounts; Single Brands	Combined Medicaid/LTCPP Rebates	Combined Discount > 70% or LTC Market Share over Retail (Delta) < 3% DXL; 20% LVQ	Reduce OR Eliminate LTCPP Discounts
	Monitor State Level PDL Status Report (Trigger States: OH, PA, TX, NY)	Significant Portion of Tier 1 Business Covered by "Exclusive" State Positioning ("What are we buying")	Conduct a LTCPP Tier 1 Analysis on % Business by State Distribution Reduce OR Eliminate LTCPP Discounts

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