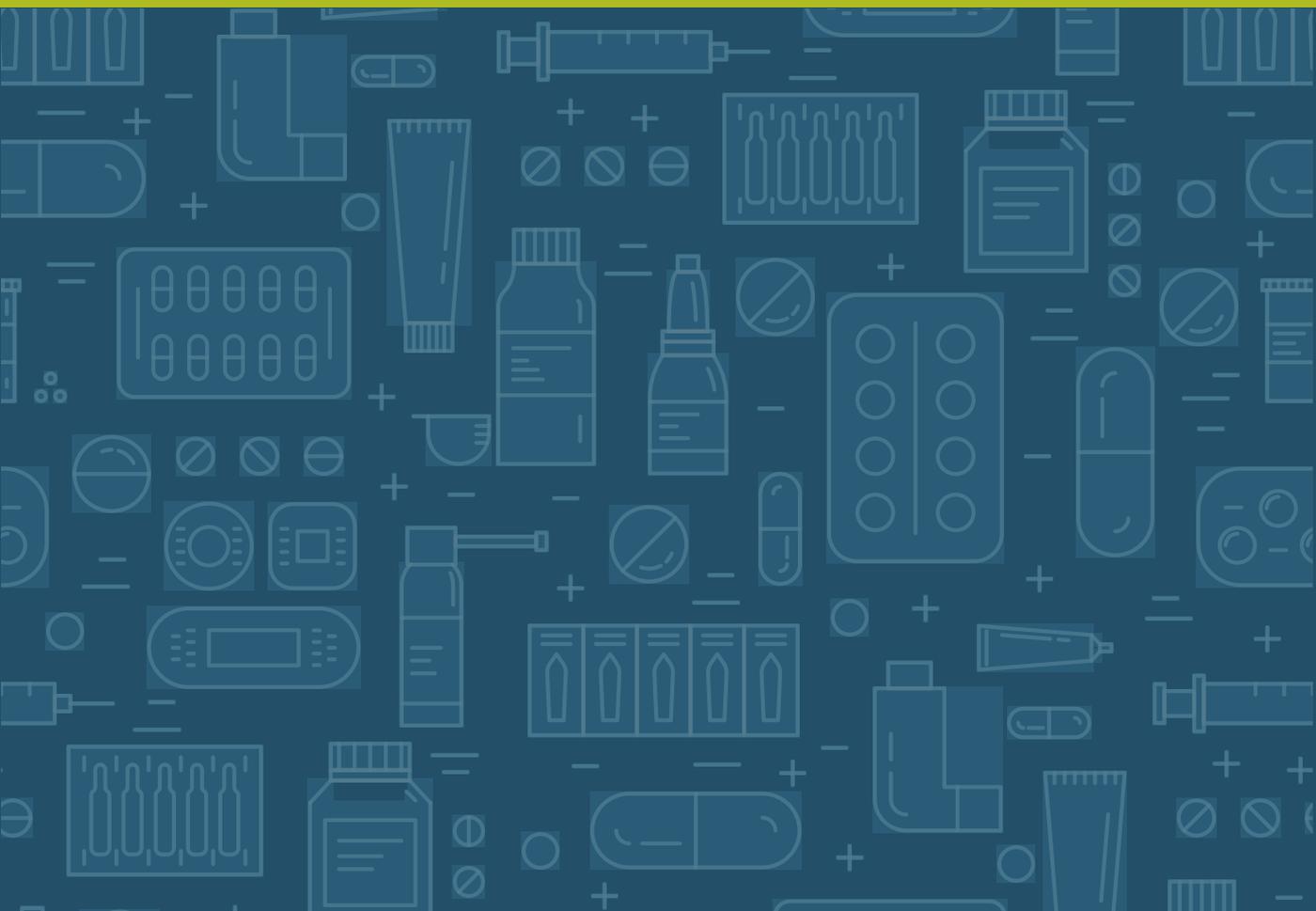




# NAVITUS

HEALTH SOLUTIONS | 2017 Drug Trend





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# | Reinventing Pharmacy Benefit Management:

## A Path to Improved Health and Increased Savings

At Navitus, we work hard every day to take the unnecessary costs out of pharmacy benefit management and make prescriptions more affordable for clients and members alike. Using our powerful PBM engine—built on our transformative pass-through approach, lowest-net-cost philosophy, and outstanding service and clinical care model—we help our clients reinvent their pharmacy benefits to work smarter and harder to reduce costs. At the same time, we strive to support members through enhanced engagement efforts to help them close gaps in care and embark on a journey to better health.

Key to our success, is our collaborative partnership with our clients. Through these partnerships, we develop aligned goals, foster the willingness to try innovative solutions, and join forces to make changes in health care that truly make a difference.

With this in mind, we are proud to report that we continued to provide substantially lower costs for our clients in 2017, achieving an industry-leading net cost per member per month (PMPM) of \$76.56 across our commercial business, which is 15.5 percent lower than the industry average of \$90.66 PMPM. While exceptional year-to-year performance is important, it is even more critical to lower costs and maintain savings over the life of a contract. To that end, we are pleased to report that we have successfully saved clients \$62.35 PMPM over the course of 5 years, compared to the industry average. These numbers demonstrate success more accurately than simply measuring drug trend and reflect the true net cost paid by our clients.

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**In 2017 we achieved an industry-leading net cost per member per month (PMPM) of \$76.56, and have consistently managed to a low PMPM for the past five years.**

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In addition to lowering costs, here are a few highlights of our achievements in 2017:

- » Generated significant client savings of approximately \$17.5 million through our network management strategies
- » Saved clients 20 percent over the cost of using a generic medication by encouraging the use of cost-effective, post-patent drugs (e.g., Synthroid vs. levothyroxine)
- » Reduced overall generic drug spend by an additional 4.3 percent by using our highly effective Maximum Allowable Cost (MAC) management solution that gives our clients immediate discount improvements from our pass-through model.
- » Achieved significant savings for plan sponsors through our price protection program that covers over 350 products
- » Reduced the impact of specialty drug inflation by 6 percent using our unique first-in-first-out (FIFO) methodology
- » Improved adherence by 28 percent among members enrolled in our pharmacoadherence program

Although we have achieved exceptional results this year, we always strive to accomplish more. We will continue to develop innovative solutions and refine existing programs as we work to lower costs and improve health in the years ahead.



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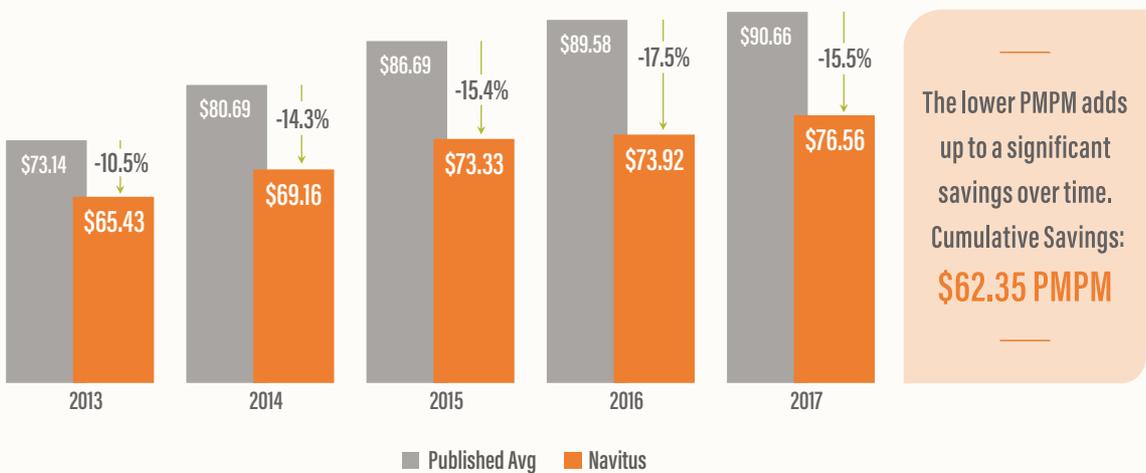




# Achieving Industry-Leading PMPM

In an environment fraught with price inflation and increased utilization, we continue to deliver the lowest-net-cost solution to our clients. As a result, we achieved a commercial book-of-business PMPM of \$76.56 in 2017, which is 15.5 percent lower than the industry average of \$90.66. This accomplishment allows us to take an industry-leading position when it comes to providing clients with a lower, more cost-effective PMPM.

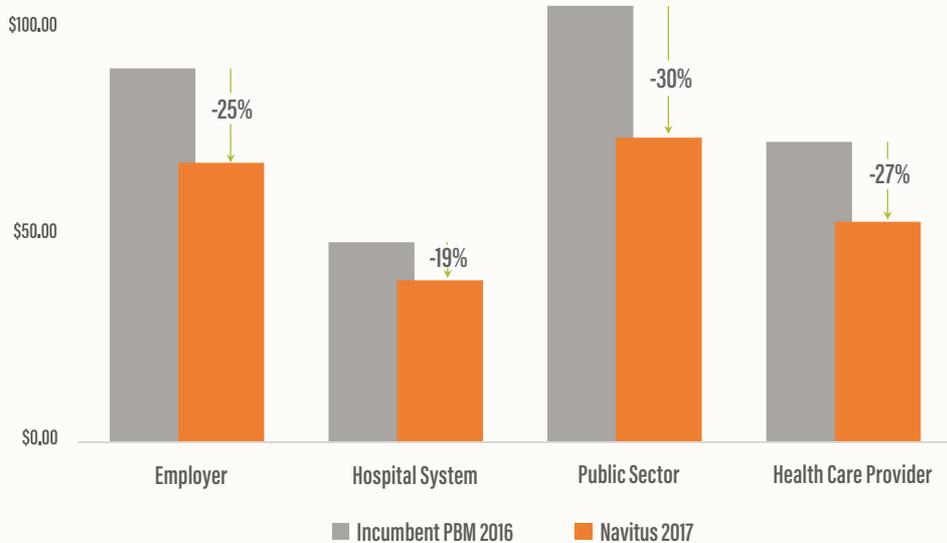
5-Year Pharmacy Cost PMPM Comparison



What’s more, we’ve been able to lower costs and maintain savings over the life of the contract and beyond. Each year from 2013 to 2017 we’ve successfully held PMPM costs to a significantly lower number than the industry average. This adds up to a significant, cumulative savings over time of \$62.35 PMPM.

More importantly, in the quest to make pharmacy benefits more affordable this accomplishment enabled us to realize improvements in trend for many of our plan sponsors. In fact, 40 percent of our clients experienced a negative PMPM trend compared to the previous year.

## Lowering PMPM Trend: Clients New to Navitus in 2017



Additionally, clients that switched to Navitus from another PBM in 2017 saved an average of 17 percent in drug cost. Although these clients come from a wide range of industry sectors, by adopting our model and using recommended cost-reduction strategies, they achieved a substantial PMPM trend savings of up to 30 percent. Most noteworthy, one of our new public sector clients achieved an outstanding 30 percent reduction in cost last year, largely driven by our highly effective formulary drug mix in the dermatological and antihyperlipidemics category.

Our 100 percent pass-through model and innovative cost containment solutions make it possible for us to provide this level of savings to our clients. We have no hidden fees or extra revenue streams. Instead, we are truly stewards of our clients' best interests and are in complete alignment with their goals and strategies.

## | Key Trend Drivers: The Top 10 Therapeutic Categories

The top 10 drug categories accounted for 60 percent of overall drug cost and were dominated by medications used to treat autoimmune diseases (anti-inflammatory and dermatological categories), diabetes, cancer, multiple sclerosis and HIV/Hepatitis C (anti-virals).

Among non-specialty drugs, anticonvulsants and antidiabetics stand out as the top two trend drivers, with upward trends of 8.6 percent and 8.2 percent respectively.

Rank	Drug Class	PMPM 2017	NON-SPECIALTY COMMERCIAL TREND			
			Change	Utilization +	Cost =	Trend Total
1	ANTIDIABETICS	\$8.55	\$0.65	4.6%	3.6%	8.2%
2	ADHD/ANTI-NARCOLEPSY/ ANTI-OBESITY/ANOREXIANTS	\$3.22	-\$0.26	2.1%	-9.5%	-7.4%
3	ANTIASTHMATIC AND BRONCHODILATOR AGENTS	\$3.08	\$0.02	3.1%	-2.6%	0.5%
4	DERMATOLOGICALS	\$2.36	-\$0.44	-2.5%	-13.2%	-15.7%
5	ANTICONVULSANTS	\$2.12	\$0.17	3.0%	5.6%	8.6%
6	ANTIDEPRESSANTS	\$2.10	-\$0.02	4.0%	-5.2%	-1.2%
7	CONTRACEPTIVES	\$1.62	\$0.03	0.4%	1.6%	2.0%
8	ANTHYPERLIPIDEMICS	\$1.40	-\$0.80	0.8%	37.1%	-36.3%
9	GASTROINTESTINAL AGENTS	\$1.33	-\$0.01	1.7%	-2.6%	-0.9%
10	ANALGESICS - OPIOID	\$1.32	-\$0.21	-9.3%	-4.1%	-13.4%
	OVERALL	\$45.42	-\$1.26	0.9%	-3.6%	-2.7%

Among specialty medications, analgesics - anti-inflammatory medications, such as Humira® and Enbrel®, continue to be significant drivers of plan sponsor cost.

Rank	Drug Class	PMPM 2017	SPECIALTY COMMERCIAL TREND			
			Change	Utilization +	Cost	= Trend Total
1	ANALGESICS - ANTI-INFLAMMATORY	\$10.29	\$1.44	5.1%	11.2%	16.2%
2	MULTIPLE SCLEROSIS	\$5.81	\$0.27	-2.5%	7.3%	4.8%
3	ANTI-CANCER AGENTS	\$3.82	\$0.44	11.5%	1.6%	13.1%
4	ANTIVIRALS	\$3.18	-\$0.06	5.3%	-7.2%	-1.9%
5	ENDOCRINE AND METABOLIC AGENTS	\$1.59	\$0.35	20.5%	7.6%	28.1%
6	DERMATOLOGICALS	\$1.43	\$0.65	96.5%	-12.1%	84.4%
7	CYSTIC FIBROSIS AGENTS	\$1.05	\$0.30	16.2%	23.9%	40.1%
8	ASSORTED CLASSES	\$0.74	-\$0.35	-3.1%	-29.0%	-32.1%
9	CARDIOVASCULAR AGENTS	\$0.64	\$0.15	14.6%	15.5%	30.2%
10	GASTROINTESTINAL AGENTS	\$0.55	\$0.04	-2.6%	10.2%	7.6%
	OVERALL	\$31.14	\$3.95	8.5%	6.0%	14.5%

# Paving the Way to Greater Success: A Look at How We Are Helping Clients Reinvent Their Pharmacy Benefits

We are proud to have played a role in making health care more affordable for our clients and their members this past year. As a modern PBM, we continually work to make sure we offer innovative solutions that align with our clients' goals and provide flexibility to meet today's health care needs—year after year. Using this philosophy, we help clients of all types and sizes reinvent their pharmacy benefits to more effectively improve health and reduce costs. In fact, we have been doing this since our inception in 2003.

To accomplish this, our powerful PBM engine operates using a—transformative pass-through approach, lowest-net-cost philosophy and outstanding service and clinical care model—to deliver real savings and improve health. With this engine in place, standard PBM tools such as prior authorization, formulary management and utilization management perform at a higher level to generate even more savings. As a result, we can successfully drive down costs for plan sponsors and their members.

## A Transformative Pass-Through Approach

Our unique pass-through approach enables us to pass 100 percent of pharmacy network discounts and manufacturer rebates directly to our clients. This strategy enables us to take the unnecessary costs out of pharmacy spend and ensure our clients receive all of the savings. Our 100 percent pass-through, zero spread approach is highly successful because we:

- » Take no network spread
- » Use one MAC list
- » Pass 100 percent of all manufacturer revenue, in addition to rebates, to clients



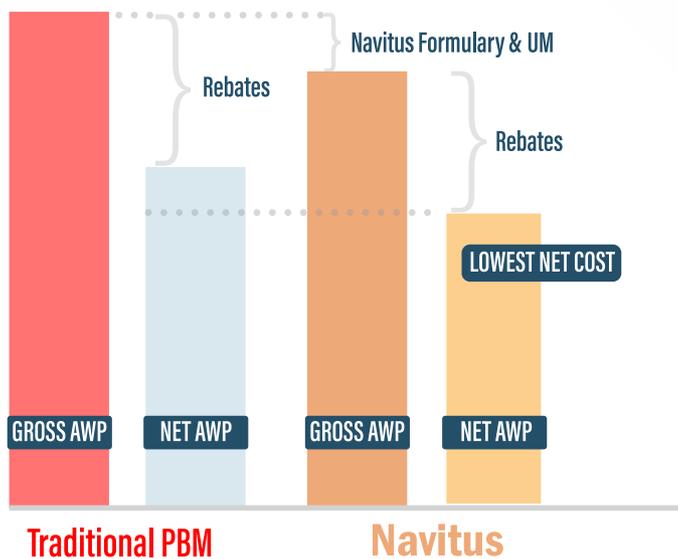


- » Take no rebate price protection spread
- » Offer transparent specialty pharmacy pricing, with extensive clinical oversight, to reduce waste and eliminate inappropriate use
- » Ensure that client data is owned by the client and is not sold or shared with outside parties

As a result, our clients experience lower year-over-year drug trend, lower PMPM and reduced overall costs.

### Lowest-Net-Cost Philosophy

Our lowest-net-cost philosophy provides clinically sound, cost-effective alternatives, such as generics or less expensive brands, creating a high-performance formulary that consistently delivers the lowest net cost. While rebates alone are not the goal of our business model, our formulary, with its lower AWP starting point and focus on lowest net cost, makes it possible for clients to achieve substantial rebates and considerably lower PMPM costs.



Our formulary consistently produces savings of about 9 percent compared to other PBMs.

## Outstanding Service/Clinical Care Model

Built on proven practices, our service model is focused on providing superior service for clients and members alike. For clients, our outstanding service starts with a seamless implementation, followed by regularly scheduled account reviews and consultative VALUE summaries to ensure we meet client goals. For members, our outstanding Customer Care Center, award-winning web portal and best-in-class communications ensure that information and engagement work together to improve health.

Our robust, patient-centric clinical care model enables us to deliver high-touch support to promote adherence, close gaps in care and improve health outcomes. Using our highly informative prescription claims data, we are able to identify patients who can benefit from additional support. By combining this knowledge with evidence-based guidelines, and leveraging our relationships with members, pharmacists and prescribers, we are able to deliver meaningful interventions that lead to improved health.

“

*Navitus made my job so much easier. They assisted us in ensuring our significant formulary change went smoothly. The financial savings we experienced exceeded what we anticipated. Navitus lived up to its promises.*

- West Tennessee Healthcare

*I've always liked working with Navitus. They have spoiled me, and now I expect the same high level of customer service from all my vendors.*

- Server Products

*We have experienced cost savings through a number of avenues that our Navitus team has explored with us. They met with us to review how we can save money while meeting our objectives. From the first implementation meeting, we were given a choice of plan designs. That had never happened with our previous PBMs. Savings have come not only from the flexibility to use our in-house pharmacy for our employees, but from the robust plan design that Navitus has made possible.*

- Cookeville Regional Medical Center

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### NETWORK MANAGEMENT

Encourages members to use the most cost-effective pharmacies to optimize discount rates and reduce dispensing fees.



### MAC MANAGEMENT

Reduces costs by applying one simple, yet highly effective MAC list across all network channels.



### NETWORK AGREEMENT RE-CONTRACTING

Delivers near, real-time savings through constant contract renegotiations.



### FORMULARY MANAGEMENT

Strikes a balance between providing access to high-quality, clinically-effective medications to improve health and delivering the lowest net cost.



# 8 Innovative Strategies to Help Lower PMPM Costs

### PRICE PROTECTION

Employs an inflationary cap to limit the price increase a manufacturer can take in a year.

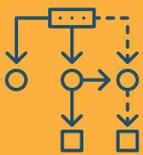
### SPECIALTY PHARMACY MANAGEMENT

Applies high-touch care combined with a unique cost management model to improve health and reduce expenses.



### REBATE CONTRACTING AND MANAGEMENT

Provides aggressive rebate negotiation to deliver the lowest-net-cost medications.



### POST-PATENT BRAND VIGILANCE

Generates greater savings through the strategic use of post-patent brands.



# Innovative Strategies to Help Clients Lower Their PMPM Costs

For plan sponsors looking to improve their pharmacy benefit programs, the following solutions have a history of providing excellent value to our clients. If not already in place, plan sponsors should consider adding one or more of these strategies to their pharmacy benefits to generate even greater savings and improve member health in 2018.

## Network Management

With soaring drug costs, plan sponsors must take steps to reduce pharmacy benefit expenses wherever possible. One area often overlooked is pharmacy network management. Our narrow network strategy, including limited, preferred and custom networks, allows for increased cost-saving opportunities by encouraging members to use key pharmacies, to optimize discount rates and reduce dispensing fees. In addition, narrowing the network and limiting pharmacies allows for improved pricing with high-cost providers.

**Result:** Using network strategies, our clients saved approximately \$17.5 million. For example, an entertainment client in the Southwest saved over \$630,000 using our Limited Performance Network.

## Network Agreement Re-Contracting

We are constantly working to improve contract pricing for our clients. As a 100 percent pass-through PBM, we pass through all the savings to 100 percent of our clients upon execution of a new agreement, in real time. There is no need to wait for a renewal or until the new plan year. These savings are realized *immediately*.

**Result:** In 2017, we generated significant savings across all network contracts through re-contracting, passing the improved rates to our clients.

## MAC Management

Managing the MAC list is another way to reduce costs. Instead of using multiple lists, we take a simplified approach and use a single aggressive MAC list for all clients, applied across all network channels, passing through 100 percent of all savings to our clients. The MAC price sets the limit that a client will pay for more than 2,400 unique Generic Product Identifiers (GPIs). We update the MAC list twice weekly to reflect the products and prices available in the marketplace. When product prices decrease, we lower our MAC unit costs in sync with the market.

**Result:** Reduced overall generic drug spend by an additional 4.3 percent by using our highly effective Maximum Allowable Cost (MAC) management solution that gives our clients immediate discount improvements from our pass-through model.

## Rebate Contracting and Management

Rebate contracting is an essential component of cost management. While rebates help offset some prescription costs, our emphasis is not on chasing rebates. Instead, we aggressively negotiate rebate contracts to support our formulary and lowest-net-cost philosophy.

We hold rebate contracts with over 75 manufacturers, representing over 350 unique drugs. Notable rebate enhancements or additions in 2017 include the following treatments:

- » Long-acting Opioids
- » Opioid Deterrence
- » Cancer
- » Diabetes (including test strips)
- » Hepatitis C
- » Inflammatory Bowel Disease
- » Multiple Sclerosis
- » Rheumatoid Arthritis
- » Psoriasis

**Result:** In 2017, we significantly reduced total drug costs through our strategic rebate contracting.

## Price Protection

In any given year, drug manufacturers typically raise drug prices by 8 percent or more. To combat this increase, we employ an inflationary cap or 'price protection' to limit the price increase a manufacturer can take in a year. We then monitor brand price increases weekly and routinely renegotiate with manufacturers to give our clients the most aggressive price protection possible. If a manufacturer exceeds the price limit, one hundred percent of dollars exceeding the limit are returned to our clients in the form of rebates.

**Result:** We implemented meaningful price protection on over 350 products with 45 manufacturers, achieving significant cost reduction, passing 100 percent of those savings on to our clients.

## Post-Patent Brand Vigilance

A post-patent brand strategy should be a part of every plan sponsor's cost management plan. Post-patent opportunities occur when a brand medication loses its patent exclusivity, leading to the release of generic counterparts. Working with manufacturers, we can retain post-patent medications on our formulary when the net cost is less than the cost of the generic counterpart. We also work to increase rebates in this scenario. If the generic is less expensive than the post-patent brand, we will pursue a generic strategy.

**Result:** In 2017, Navitus offered 13 post-patent opportunities on our formulary. These post patents saved clients 20 percent over the cost of using a generic medication. Additionally, plan participants were able to obtain the post-patent medication at the same out-of-pocket cost as the generic product.

## Specialty Pharmacy Management

With specialty pharmacy growth slated to reach 50 percent of drug spend by 2020, it is important to manage this costly segment. We offer an effective specialty pharmacy program through Lumicera Health Solutions, our wholly-owned subsidiary that combines high-touch care and clinical support with a stringent cost management model. To generate savings, Lumicera provides a unique acquisition cost-plus pricing model that combines the actual net acquisition cost using a first-in, first-out (FIFO) methodology, with a patient management fee and shipping costs.

**Result:** In 2017, Lumicera's FIFO methodology reduced the impact of specialty drug (list price) inflation by 6 percent.

Improving health and quality of life is a key part of the Lumicera solution. Our advanced adherence programs—steeped in behavioral science and motivational interviewing techniques— work to encourage patients to take medications correctly and help to slow disease progression, minimize complications and reduce additional health expenditures, such as emergency room visits.

**Result:** In 2017, we achieved the following high adherence ratings (average proportion of days covered):

- » Hepatitis – 98 percent
- » Multiple Sclerosis – 94 percent
- » Rheumatoid Arthritis – 91 percent

To support our lowest-net-cost philosophy and provide further savings, we promote the use of biosimilar agents whenever possible.

**Result:** We helped clients shift from Neupogen® to the more cost-effective Zarxio®, which resulted in approximately 15 percent in drug cost savings.

# | Formulary Management

Formulary management is a key component to managing drug costs. Using a lowest-net-cost approach, our formulary strikes a balance between providing access to high-quality, clinically-effective medications to improve health and providing the lowest net cost. To that end, we monitor brand and generic price increases weekly and negotiate better pricing whenever needed. We then optimize the drug mix in each class to ensure we offer the most clinically-effective and cost-efficient medications. Benefit design and clinical programs work to further support the formulary.

## *Dermatology*

In recent years, we have seen substantial increases in spend within topical agent classes, including acne, antifungals, local anesthetics and corticosteroids. Drivers include increases in price for previously low-cost generics, new formulations or strengths of existing medications with premium price points and specialized packs or kits that combine agents. As a result, these drivers mark up the cost by thousands of dollars per prescription.

**Result:** By evaluating and repositioning topical corticosteroids, our clients experienced a 20 percent decrease in spend in this class, without impacting utilization. In the antifungals class, we excluded some high-cost brands and encouraged low-cost generic equivalents, resulting in a 95 percent savings.

## *Multiple Sclerosis*

In a therapeutic class with numerous medications, where no cure is available and lifelong treatment is required, prescription costs can quickly spiral out of control. To better manage expenses, we aggressively negotiate with manufacturers to provide a formulary that ensures member and provider choice while reining in costs.

**Result:** With this updated approach late in 2017, we are projected to save clients up to 5 percent on their multiple sclerosis spend. The percent savings will continue to grow as key generics continue to impact spend in this class.

## *Price Watch*

We monitor brand and generic price increases weekly for all of our clients. By excluding costly medications from our formularies, re-tiering brands/generics and providing effective alternatives, we can mitigate the impact on the PMPM administrative cost. For example, not all generics are low-cost. Some may actually cost more than the brand equivalent. In that case, we may move a generic to Tier 2 to promote the lower-cost brand at Tier 1.

**Result:** Through price watch, we have saved clients an additional 2 percent.

## *Utilization Management*

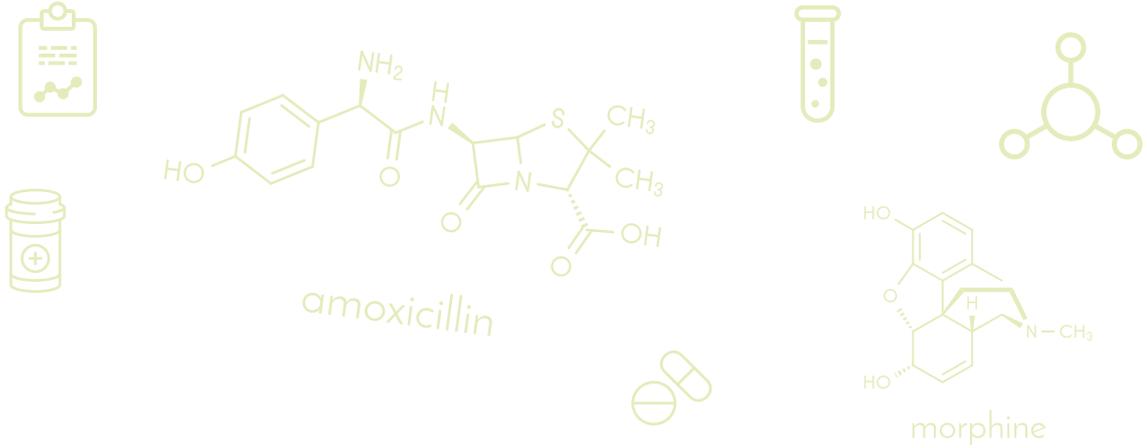
Building strategic utilization edits (e.g., prior authorization, step therapy and quantity limits) into a client's formulary and implementing clinical programs that monitor utilization of high-cost medications allows for increased cost control in expensive drug classes. Our fully customizable utilization management edits and clinical programs enable us to deliver appropriate care to members at the lowest net cost.

## *Opioids*

Our utilization management (UM) program, designed to actively address the opioid crisis, is utilization management as it should be. UM provides appropriate access to necessary medications while supporting the safe use of these medications.

Preventing opioid abuse is a constant concern at Navitus. We have consistently introduced new programs to combat opioid abuse since 2007, to promote the safe and effective use of these medications. Our average days' supply for first fill of short-acting opioids is less than six days across our commercial book of business. In addition, the percent of members utilizing opioids has decreased 15 percent since 2015.

**Result:** Through our Controlled Substance Monitoring program, we've been able to decrease inappropriate utilization by 50 percent among members identified as being at high risk for abuse.



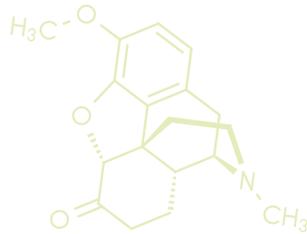
## Looking Ahead to 2018

Our commitment to client service and savings means that we work hard to research and stay abreast of new drugs that may impact clients and members in the upcoming year. The medications mentioned below are noteworthy, as we anticipate that they will be significant trend drivers going forward. We see great value in taking a proactive approach that allows our clients to anticipate and address utilization and cost increases before they occur.

### New Specialty Drugs/New Indications

Several new brand drugs entering the marketplace in 2018 may impact utilization by providing new mechanisms or potential enhancements to current treatment options. The following drugs merit particular attention:

- » Anti-migraine, anti-calcitonin gene-related peptides (anti-CGRPs)
  - Four new injectable monoclonal antibodies for the treatment and/or prophylaxis of chronic migraine will introduce migraine therapy to the specialty trend, commonly treated with, and prevented by, generic therapies. All anticipated medications have demonstrated substantial reduction in migraine frequency with infrequent monthly or quarterly dosing.
- » Numerous new oncology agents and expanding indications of existing therapies
  - Janssen's androgen receptor antagonist, apalutamide, was approved earlier than anticipated in Q1 2018, expanding targeted prostate cancer treatment to the larger non-metastatic population.
- » Two new oral agents for multiple sclerosis
  - Two new sphingosine-1 phosphate receptor agonists, similar to Gilenya® (fingolimod), will attempt to draw share from the aging soon-to-be-generic drug, with potential incremental improvements in tolerability or efficacy.



hydrocodone



- » Two new oral treatments for endometriosis and/or uterine fibroids are anticipated in 2018; both of these drugs have the potential to reach blockbuster status, although this is highly dependent on how the FDA defines the indicated population.
- » Biosimilars
  - In addition, we continually monitor biosimilar activity and advise clients of savings opportunities.

### New Generic Drugs

In 2018, several exciting opportunities exist for reducing drug trend with new entrants to the generic market.

The following drugs may experience new generic competition:

- » The blockbuster medication Advair® (fluticasone propionate/salmeterol), for asthma and chronic obstructive pulmonary disease
- » Erectile dysfunction drugs
- » Abbvie's last remaining branded transdermal testosterone formulation, Androgel® 1.62 percent
- » Specialty drugs, including Amgen's Sensipar® (cinacalcet) for treatment of hyperparathyroidism and Acorda's Ampyra®, a multiple sclerosis medication intended to increase patients' ambulation
- » Allergan's blockbuster Alzheimer's disease treatment Namenda XR (memantine ER)
- » Allergan's blockbuster product, Restasis® (cyclosporine), for dry eye disease



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## Methodology

PMPM is measured by comparing the net total cost trend (net of rebates) PMPM for 2017 and 2016. Net total cost is the discounted ingredient cost + dispensing fee + tax (if applicable) – rebates, and includes both the plan paid and the member paid (copay) portions. One hundred percent of dollars received from manufacturers are passed on to clients. Specialty drugs are included in our calculations. It is important to note that Navitus does not retain any rebates.

PMPM trend is made up of two components: utilization and cost. Utilization is measured by the change in total days of therapy PMPM. Cost measures changes in unit costs due to discounts, inflation, drug mix and cost share. Only clients that had claims utilization in both 2016 and 2017 are included in our commercial book of business. Our commercial book of business is made up of employer, health plan and public sector clients. PBM national average figures were calculated using available published PMPM figures from other PBMs in the industry.

2017 Drug Trend Report Research and Analytics provided by:  
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Source: Drug Trend Report 2017, CVS Health  
2017 Drug Trend Report, Express Scripts

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PHARMACY BENEFITS REINVENTED

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