

# Medco Health Solutions

Knowledge Source's Health Care

BusIntell Reports

203-377-0460

<http://www.knowsource.com>

November 2003

**Another BusIntell Report from Knowledge Source, Inc.**

## Knowledge Source's BusIntell Reports

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## Industry Overview

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**Pharmacy benefit managers (PBMs) organize the market for prescription drugs.**

- Pharmacy benefit managers secure deep discounts from drug manufacturers and retail pharmacies for large employers or health plans. They try to influence doctors' prescribing habits and encourage the use of lower-cost drugs, including generic substitutes for brand-name medicines. They strongly recommend certain drugs over others in each therapeutic category.
- A true PBM is an organization that manages delivery and financing of pharmacy benefits for health benefit purchasers. Initially, PBMs were designed to lower administrative costs, such as claims processing fees, related to the pharmacy benefit. Then PBMs were asked to lower unit costs of prescription drugs by obtaining discounts from pharmacies and pharmaceutical companies.

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## Industry Overview

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**PBMs provide management and other services for outpatient drug benefits on behalf of their clients. These services include:**

- Design and implementation of formularies, which are lists of preferred drugs from which a PBM's client's members and their physicians can choose.
- Large-scale, highly automated claims adjudication with retail and home delivery pharmacies.
- Negotiated discounts and rebates from pharmaceutical manufacturers and discounts from drug wholesalers and retail pharmacies.
- Increasingly, home delivery pharmacies.
- Programs to promote safe, economic use of pharmaceuticals and adherence to regimens to control chronic health conditions.

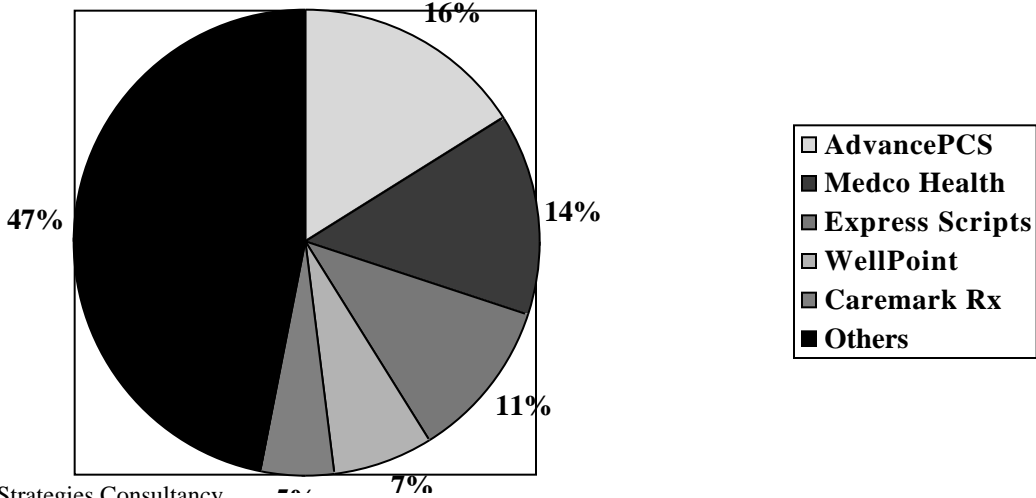
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# Industry Overview

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PBMs provide prescription services for about 200 million people, including about two-thirds of people over 65.

**Market Share of PBMs by Number of People Covered, 2002**



Source: Health Strategies Consultancy

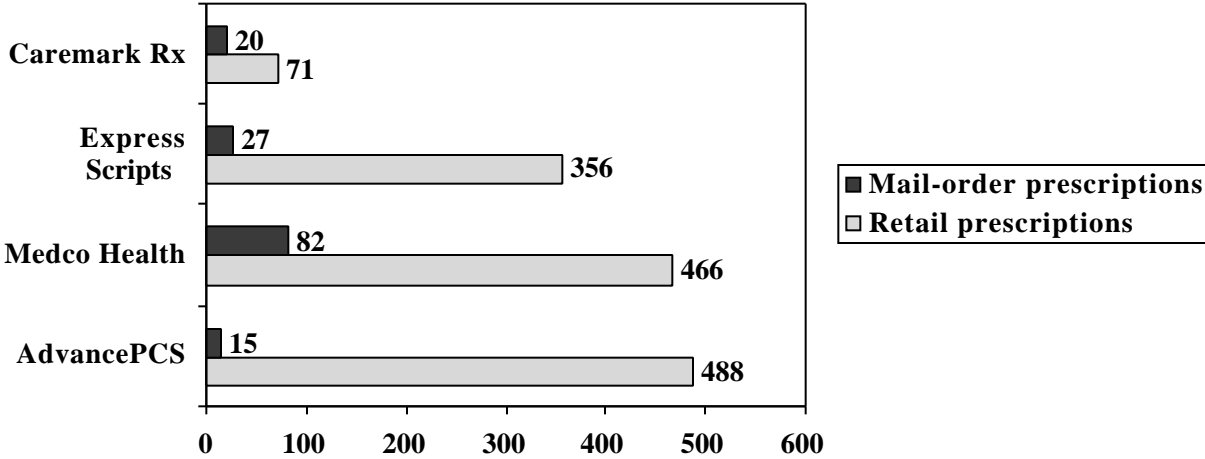
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# Industry Overview

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The PBM market is dominated by a small number of companies, including:

**PBM # of Prescriptions  
2002 Data (millions)**



Source: the companies, WSJ

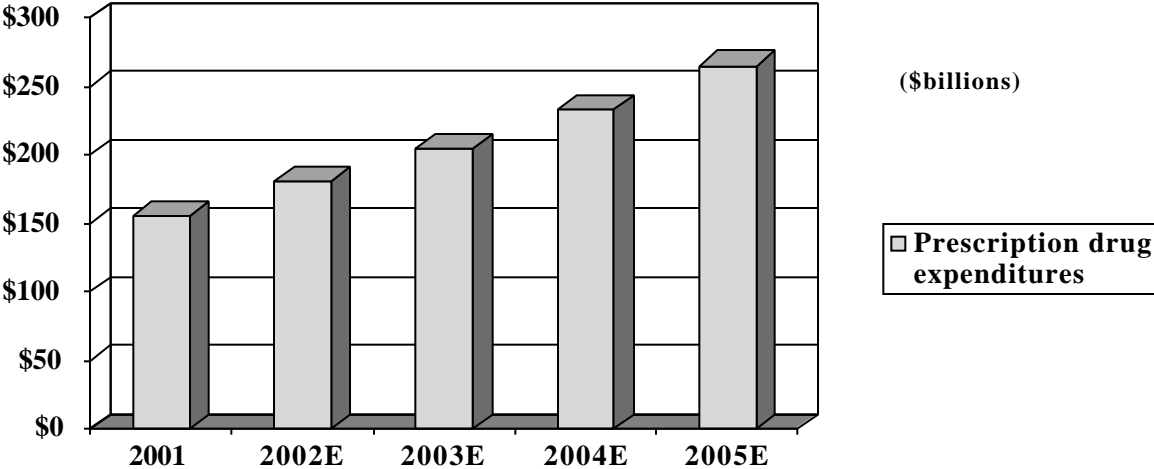
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# Industry Overview

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Prescription drug expenditures are projected to reach \$265 billion in 2005.

### Prescription Drug Expenditures



Source: CMS

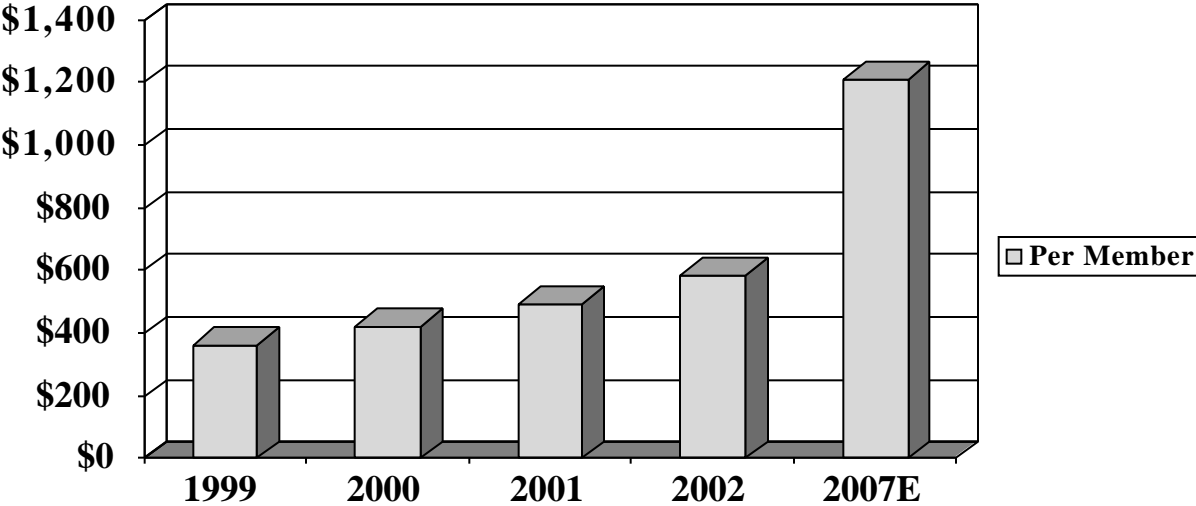
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# Industry Overview

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Per member drug spend is forecast for a 16% CAGR.

### Per Member Drug Spend



Source: 2002 Express Scripts Drug Trend Report

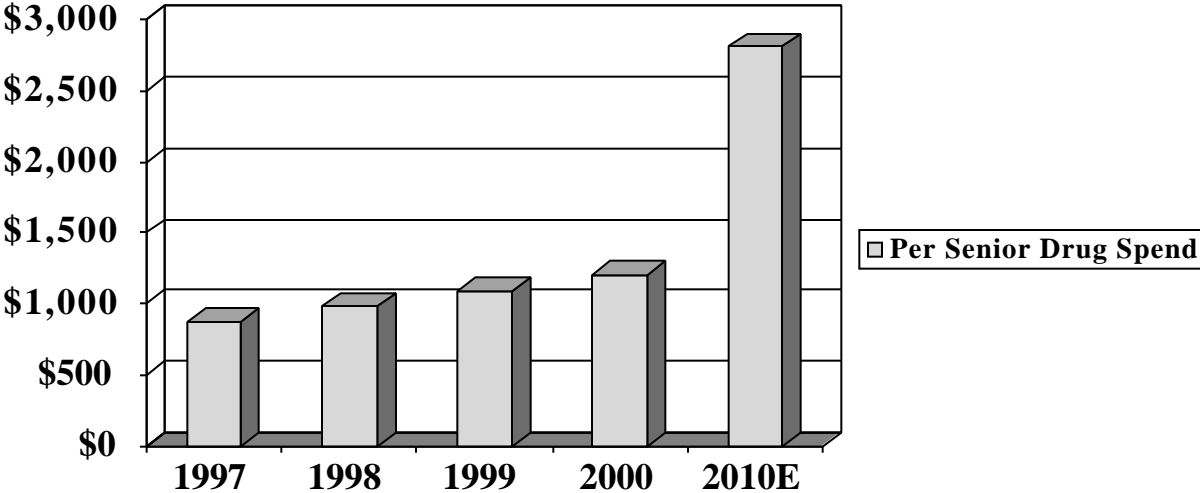
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# Industry Overview

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Per senior drug spend is forecast to grow rapidly.

### Per Senior Drug Spend



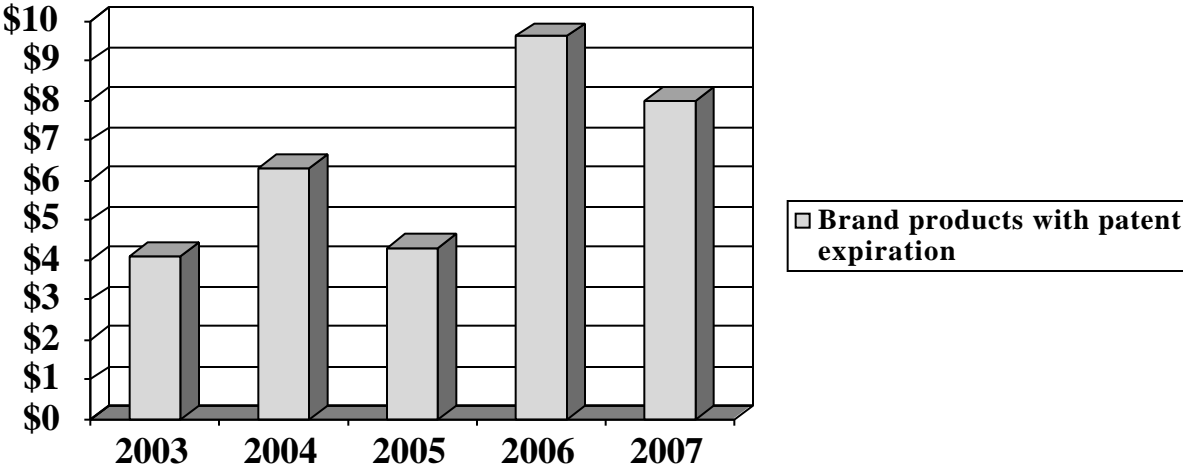
Source: PRIME Institute, University of Minnesota

# Industry Overview

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There is a growing generic opportunity.

**U.S. Sales for Brand Products with Patent Expiration from 2003-2007 (\$billions)**



Source: ESI Analysis

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## Industry Overview

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### **Industry trends include:**

- Total U.S. drug spend is growing at a rate of 14%, and is expected to account for 13% of U.S. healthcare expenditures by 2007.
- Increase in volume and price as well as a shift to higher cost drugs are driving drug spend growth.
- Large number of brand drugs losing patent protection in the future.
- Specialty disease drug spend is the fastest growing share of total drug spend: growing approximately 50% faster than the drug market as a whole; estimated biotech spending CAGR of 21% from 2000-2005; over 400 specialty disease products currently in pipeline.
- Patients representing less than 5% of the population have chronic diseases, but represent up to 50% of total medical costs.
- Sources: Caremark; equity research estimates; AdvancePCS Specialty Benefit Management Study.

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## Industry Overview

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### **Managing drug spend increases PBM performance ratings, according to the PBMI in its 2003 PBM Customer Satisfaction Report.**

- The 24% of employers who perceive their PBMs are helping them to keep their drug expenditure increases less than the expenditure increase of other companies gave their PBM's higher scores on a 10-point satisfaction rating scale.
- The nation's PBMs captured an overall performance and satisfaction rating of 7.7, similar to employer ratings in prior years. These findings are based on survey responses from 468 U.S. employers with more than 2,500 employees.
- In addition to over service and performance, employers rated PBMs on 14 other service functions in plan design and support, administration, network design and management, and clinical services.

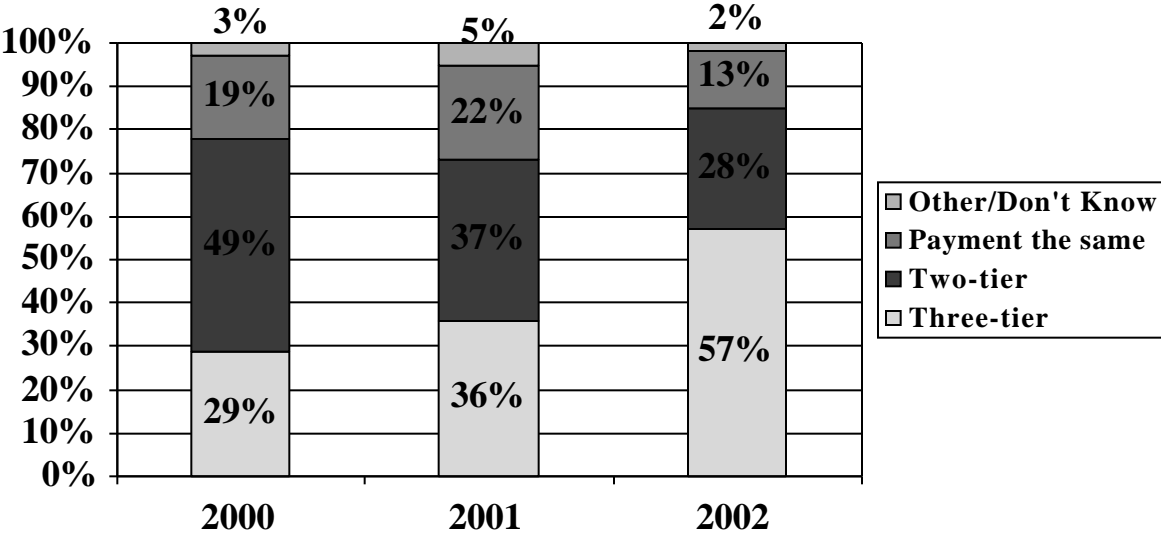
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# Industry Overview

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Employers are increasingly establishing three-tier prescription drug benefit plans for employees.

### Tiered Pharmacy Benefit Plans



Source: Kaiser/HRET Survey of Employer-Sponsored Health benefits 2000-2002

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## Industry Trends

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**PBM's tactics have been drawing increased scrutiny in 2003. The attacks against PBMs are coming from a variety of sources.**

- A Fort-Worth based organization of pharmacies and the National Community Pharmacists Association sued AdvancePCS and Medco Health, alleging anti-competitive practices that hurt consumers.
- Medco Health received preliminary approval for a \$42.5 million settlement to end a series of class action lawsuits in which clients claimed they did not get maximum savings from the PBM.
- The U.S. attorney in Philadelphia joined two whistleblower suits against Medco Health that allege that the company destroyed patients' mail-order prescriptions, changed prescriptions and induced physicians to switch to more expensive medications while pretending that the change would reduce costs.
- Glaser's Prescription Access Litigation project and a public service employees union sued AdvancePCS, Express Scripts, Medco Health and Caremark Rx, accusing them of cutting inside deals with drug makers and then pushing health insurers and consumers to use more costly drugs.
- West Virginia's attorney general sued Medco Health, alleging that the company steered public employees to Merck drugs, kept rebates from drug manufacturers that should have been passed on to the state and failed to meet savings targets.

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## Industry Trends

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**A federal report studying the prescription drug purchases of millions of federal employees revealed in January 2003 that generic drugs purchased through managed plans cost 50% less than what cash customers are paying over the counter at retail pharmacies.**

- The General Accounting Office concluded that Medco Health and two other companies that manage pharmacy benefits for surveyed federal employees played a pivotal role in reducing the cost of obtaining generic medications by 47% and branded medications by 18%, compared to the prices people would typically pay in cash purchases at retail pharmacies.
- The savings were even greater when patients obtained their medications by mail through home deliver pharmacies -- 53% below average cash prices for generics and 27% below on brands.
- In addition to negotiating preferred pricing with pharmacies, the report validated that companies such as Medco Health, commonly called PBMs, reduced total drug spending by the federal government by an additional 3% to 9% by negotiating rebates with pharmaceutical manufacturers.

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## Industry Overview

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**More health plans are considering switching from an outside PBM to an in-house one or not using a PBM at all in an effort to control their escalating prescription costs.**

- One group that is considering this strategy is the Southern Coalition, which includes representatives of the state governments of Alabama, Arkansas, Georgia, Louisiana, Maryland, North Carolina, South Carolina, and West Virginia. This initiative began because the cost of prescriptions for public employees has risen from 18% to 25% for the last several years.
- While the Southern Coalition is discussing working as a single purchasing group with two PBMs -- Medco Health and Express Scripts -- it is also exploring the notion of creating its own PBM. One of the questions raised was that preferred formularies often contain the pharmaceutical products that pay the highest rebate to the PBMs.
- Another state that has concerns about PBMs is Missouri. As part of the state budget, the governor favored using a PBM to manage the Medicaid prescription benefit. By lobbying the state legislature, the Missouri Pharmacy Association managed to get a bill passed that prohibits the use of a PBM by the state for Medicaid patients for this fiscal year.

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## Industry Overview

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**Nine states and the District of Columbia, in January 2003, were organizing a nonprofit group to purchase medicines so they can eliminate the corporate middlemen they allege inflate drug prices and drive up health care costs.**

- The National Legislative Association on Prescription Drugs hopes to have the nonprofit operational by 2004 to buy drugs for both state employees and Medicaid patients. The move is the latest in a series of efforts by states to curb health care costs.
- Some states use PBMs to purchase drugs. Critics charge that PBMs do not pass enough of savings they negotiate with drug companies onto clients, choosing instead to increase their own profits. The attorney generals of Connecticut and Maine are leading a group of 20+ states who are investigating whether PBMs' practices violated antitrust laws.
- Some states maintain it is just easier to extract tougher deals from PBMs instead of trying to beat them at their own game. In 2002, WV, NM, MO, and DE reached an agreement with Express Scripts to manage their pharmaceutical purchases for their state employees. The deal requires Express Scripts to pass on any rebates from drug companies to the states.

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## Industry Trends

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### **A 2003 GAO Report found PBM-administered drug discount cards provide consumers significant savings and broad access to drugs.**

- According to a General Accounting Office Report, prescription drug discount cards administered by PBMs provide consumers -- including Medicare beneficiaries -- comprehensive access to medications and significant savings, as much as 44% less than what consumers would otherwise pay at the retail counter without a discount card, the Pharmaceutical Care Management Association (PCMA) announced.
- This report is the second report issued in 2003 by the GAO detailing the savings provided by PBMs. In January 2003, GAO issued an analysis examining PBMs participating in the FEHBP and concluded that PBMs negotiated savings of up to 53% below what consumers would have otherwise paid on average at retail pharmacies and/or through home-delivery services.
- GAO examined the median retail drug-discount care price charged to consumers on nine prescriptions versus the median retail price charged to consumers with no drug card at pharmacies in Washington, DC area, California and North Dakota.

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## Industry Trends

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### **The movement in Congress in 2003 to add prescription drug coverage to Medicare could produce a windfall for PBMs.**

- At the same time, the Medicare legislation could also pose a powerful threat to the way many such large PBMs do business. Both the Senate and House bills in conference committee in July 2003 would force the companies to disclose details of the deals they make with drug manufacturers to promote the sales of expensive new drugs.
- Under the Medicare bills passed by Congress in June 2003, PBMs would administer drug benefits for people on Medicare, starting in 2006, and they could also issue drug discount cards for Medicare beneficiaries in 2004 and 2005. Analysts estimate that a Medicare drug benefit could add at least 25%, or \$30 billion, to the companies' revenues in 2006.
- PBMs have closely guarded this information, arguing that fully disclosing their financial arrangements would weaken their ability to negotiate discounts and rebates that, they contend, result in lower drug prices over all.
- Critics argue that the arrangements -- which are the subject of federal and state investigations and numerous private lawsuits -- add to overall spending by employers and health plans by favoring expensive products over less-costly drugs that are equally effective.

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**Medco Health, in 2003, reviewed the prescription drug therapies of more than 650,000 senior patients aged 65 or older in conjunction with its 2003 Drug Trend Report and found:**

- One in four seniors sees four or more physicians, however, nearly one in 10 seniors was prescribed medications by six or more different doctors in 2002.
- One in three used four or more different pharmacies and one in seven seniors used five or more pharmacies to fill prescriptions last year.
- One in four seniors took a narcotic for more than 30 days, and nearly one in 10 took more than three different narcotics in 2002.
- On average, the amount of money spent yearly on prescription medications for one senior is equivalent to the amount spent on a typical family of four.

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**The 2003 Drug Trend Report reveals some notable and interesting shifts in drug trend drivers across all demographic groups.**

- Drug price inflation increased 33% in 2002 over 2001, contributing the largest portion of drug trend in 2002 and outpacing traditional trend drivers including drug mix, increase in the number of people taking medications and the increase in days of therapy. The unit cost accounted for approximately 64% of drug trend in 2002, up from approximately 41% in 2001.
- Spending on specialty pharmacy drugs increased by roughly 40% in 2002. If specialty drugs represented a specific category of medication, it would represent the fifth largest category of drug spend in 2002, and the third largest driver of drug trend.
- As the diabetic epidemic continues to grow, costs for therapy and supplies may rise significantly; the latest insulins are approximately 42% more expensive on a cost-per-day basis.
- For the second consecutive year, the children's age category, 0-19, had the highest overall drug trend increase at 16.4%, with seniors 65 and older next in line at 14.8%. Children still rank lowest in drug spend at approximately \$12 per member per month, with seniors highest at approximately \$118 per member per month.

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## Overview

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**Medco Health serves approximately 60 million Americans , manages \$33 billion in drug spending, and filled 549 million prescriptions in 2002.**

- Medco Health Solutions                      100 Parsons Pond Drive                      Franklin Lakes, NJ 07417
- 201-269-2400                                      [www.Medco Health.com](http://www.Medco Health.com)
- Medco Health Solutions (Medco Health) is the nation's largest PBM based on its 2002 net revenues. Medco Health provides sophisticated programs and services for its clients and the members of their pharmacy plans, as well as for the physicians and pharmacies the members use.
- Medco Health actively pursues initiatives to reduce the rate of increase in its clients' drug expenditures (drug trend), to save members money and to improve the services it provides both its clients and their members.
- In 2002, Medco Health's national network of home delivery pharmacies filled approximately 82 million prescriptions, representing about 30% more than the number of prescriptions filled by the mail service operations of its three largest competitors combined.
- Medco Health officially spun-off from Merck in August 2003, creating the largest independent PBM.

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**Medco Health seeks to contain costs for its clients and their members by encouraging the prescribing of drugs on a plan's approved list of drugs, and the use of medically appropriate generic drugs through its generic education and substitution programs.**

- Medco Health's advanced technology and cost containment initiatives enabled the company to limit the average drug trend for plans that include both retail and home delivery to 14% in each of 2000 and 2001 and 12.9% in 2002, compared to the national average of 17.3% in 2000, 15.7% in 2001 and an estimated 14.3% in 2002 as reported by the CMS.
- Medco Health has a large number of clients in each of the major industry segments, including Blue Cross/Blue Shield plans, managed care organizations, insurance carriers, third-party benefit plan administrators, employers, federal, state and local government agencies, and union-sponsored benefit plans.
- As of June 2003, the plans Medco Health administered for its clients covered 190 of the Fortune 500, including 52 of the Fortune 100, 12 of the country's Blue Cross/Blue Shield plans and several large managed care organizations.
- In addition, Medco Health's Systemed subsidiary capitalizes on its extensive PBM capabilities to meet the specific needs of small to mid-size clients. Over the last three years, Medco Health's aggregate revenue from small to mid-size clients increased an average of approximately 39% per year, excusing the impact of acquisitions, to approximately \$1.6 billion in 2002.

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## **Overview**

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**Medco Health's net revenues from 1998 to 2002 increased on average approximately 26% per year.**

- In 2002, Medco Health filled or processed approximately 548 million prescriptions, had net revenues of approximately \$33 billion and net income of more than \$360 million, and had EBITDA of approximately \$886 million.
- Medco Health's net income is driven by its ability to earn rebates and negotiate favorable discounts on prescription drugs from pharmaceutical manufacturers, obtain competitive discounts from retail pharmacies, negotiate competitive client pricing, including rebate sharing terms, shift dispensing volumes from retail to home delivery and provide services in a cost-efficient manner.

## Overview

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### **Medco Health has grown internally and through acquisitions and alliances.**

- Medco Health established Systemed as a separate PBM subsidiary in 1998. The Systemed subsidiary provides benefit plans with a complement of services to those with 10,000 or fewer members: continued access to the resources and services of Medco Health, coupled with the specialized plan reporting and management services that mid-sized benefit plans require.
- Medco Health formed a strategic alliance with insurance broker Accordia Inc. to provide a customized discount program for its clients. Under the alliance, Accordia and Medco Health have created scriptSMART, a private-label prescription benefit program will be marketed and administered by Accordion.
- Medco Health teamed up with The Reader's Digest Association to create YOURxPLAN, an easy-to-use prescription savings plan for people who pay out of their own pockets for prescription drugs. YOURxPLAN offers discounts on virtually all prescription medicines obtained at more than 40,000 participating drug stores, and even greater savings when people order their prescriptions by mail or the Internet for convenient home delivery. Under the terms of the agreement, Reader's Digest will provide marketing for YOURxPLAN. Medco Health will also provide marketing and administer the program, handle product sourcing, fulfillment, customer service, and clinical oversight.

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## Overview

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**Medco Health adopted policies to ensure that it operated independently of Merck & Co. in designing and implementing its programs.**

- Medco Health's policies include: maintain its own clinical staff and outside, independent medical consultants; rely on the expertise of its internal staff, its independent P&T committee, and other independent clinical advisory boards; make decisions on the therapeutic aspects of its program without substantive influence from Merck & Co.; treat Merck products no differently from those of any other drug manufacturer, observing the same procedures for independent clinical review as it does for drugs of any other manufacturer.
- Medco Health has approximately 920 drugs made by more than 60 companies on its Preferred Prescriptions Formulary. There are 28 single-source Merck products on Medco Health's formulary. Medco Health's standard generic, or brand to brand formulary management programs, currently encompass 204 products, of which 140 are generic and 64 are branded. Of the 64 branded products for which there are brand to brand formulary programs, nine are Merck products.
- After the distribution of Medco Health's IPO, Merck will not own any shares. However, Medco Health and Merck entered into a number of agreements that will govern its spin-off and future relationship. Under its managed care contract with Merck, Merck provides Medco Health with rebates based, in part, on whether Merck products are included in the formularies it offers clients and whether Merck products achieved specified market share targets under plans for which Medco Health provides PBM services.

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## Overview

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**Medco Health announced, in January 2002, that it planned to establish Medco Health as a separate, publicly traded company.**

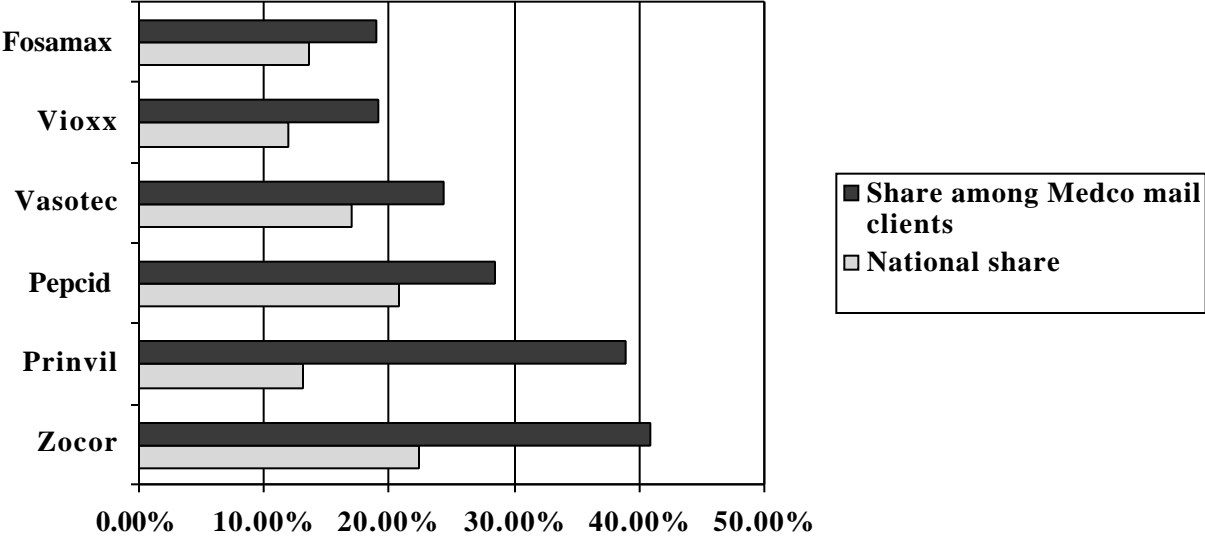
- Merck planned an initial public offering of a portion of the new company by mid-2002, subject to market conditions. Alternatives for the distribution of the remaining shares in the new company are under evaluation by Merck. The full separation of Medco Health was expected to be completed within 12 months of the initial public offering, subject to a receipt by the IRS ruling that such an event would be tax-free to shareholders and to other customary conditions.
- Going forward, Merck expected its core pharmaceutical business to deliver double-digit earnings per share growth in 2003 driven by accelerating top-line growth. For 2002, Merck's outlook for the operating earnings of its core pharmaceutical business was unchanged as a result of this transaction.
- Merck plans to file applications for or win approval of 11 new medications and vaccines over the next five years. Merck plans to continue to pursue licensing agreements on compounds and targeted acquisitions.
- Merck's need for Medco is not as strong as it was nearly 10 years ago. If Merck can get \$5 billion for Medco, they would be able to invest that money for drug discovery. Also, Medco has been increasing the use of generics and that's not what Merck wants to see. Additionally, although Medco Health generated more than half of Merck's revenues, but its razor-thin margins contributed very little to Merck's bottom line.

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# Overview

Merck changed its plan for a mid-year 2003 Medco IPO. Documents showed that Merck used Medco to sharply increase the market share of Merck drugs among Medco clients.

Market Share of Merck Products (%)



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## Overview

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**The New York Times reported in March 2003 that Medco Health was paid more than \$3 billion in rebates in the late 1990s from drug makers seeking to promote sales of certain drugs.**

- According to documents filed in a long-running class-action lawsuit, Medco health received the rebates as incentive to promote some of the world's most expensive drugs. Medco Health then persuaded doctors to persuade those drugs to patients at the expense of similar medicines that often cost less.
- Medco Health promoted Merck's own drugs especially vigorously, the documents state. The Merck-Medco Health records are cited in documents that have been under court seal and heavily edited at Medco Health's request.
- Medco Health retained most of a total of \$3.56 billion in rebates from the drug companies in 1997, 1998, 1999, according to Daniel Fischel's statement and other court documents. The plaintiffs also say that Medco health did not inform most of its customers about the rebates that it kept.

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## Overview

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**Medco Health, as part of its successful IPO, is party to a number of agreements with Merck that govern its spin-off and future relationship.**

- Under its managed care agreement with Merck, Merck provides Medco Health with rebates based, in part, on whether Merck products are included in the formularies it offers its clients and whether Merck products achieve specified market share targets under the plans for which it provides PBM services.
- Under other agreements, Medco Health will provide Merck with various services and information. These agreements have been and will be entered into with Merck in the context of its relationship as a wholly owned subsidiary. Accordingly, some of the terms and provisions of these agreements may be less favorable to Medco Health than terms and provisions it could have obtained in arm's length negotiations with unaffiliated third parties.
- Under its managed care agreement, Medco Health may have to pay substantial liquidated damages if it fails to achieve specified market share levels.

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**Medco Health, in 2003, announced an exclusive marketing and service agreement with Ancillary Care Management.**

- Medco Health and Ancillary Care Management, the leading specialty pharmacy and infusion benefits management company, announced an exclusive strategic agreement to provide comprehensive specialty pharmacy management solutions for health plans.
- Medco Health analysis of payor data shows that as much as 50% or more of specialty pharmacy expenses are processed under the major medical benefit, through an antiquated paper-based system that is costly and does not allow for safety checking of medication dose and interactions. The analysis also shows that specialty pharmacy claims and administration costs are significantly higher when processed under the major medical benefit.
- Together, Medco Health and ACM will transform the process to an integrated web-based system that for the first time will allow major medical and pharmacy data to move seamlessly between systems. The relationship combines Medco Health's expertise in managing, processing and dispensing specialty drugs through the pharmacy benefit with ACM's focus on web-based specialty drug management through the major medical benefit channel.

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**The U.S. Attorney's lawsuit in 2003 against Medco Health alleges that the company routinely violated pharmacy practice acts. Allegations include the following:**

- Prescriptions were destroyed, falsified, canceled so Medco Health could avoid penalties for not meeting shipping deadlines spelled out in contracts.
- Pharmacy technicians performed functions that must by law be performed by pharmacists or under a pharmacist's direct supervision.
- Working under the pressure of an hourly quota system to review scripts, pharmacists avoided prescriptions that had issues requiring professional judgment and analysis.
- Pharmacists were intimidated to discourage calls to physicians on unclear prescriptions and failed to refer questionable scripts to the doctor call unit.
- In violation of the counseling mandate, pharmacists were not allowed to discuss drug switches with any patients.
- Nonpharmacist personnel were allowed to adjudicate, dispense or cancel prescriptions without review by a pharmacist.
- Nonpharmacist in both the doctor call unit and those in the drug utilization review unit fabricated telephone call records to maintain hourly quotas, completed physician calls without having a pharmacist verify the information, changed prescriptions without a pharmacist's intervention, and falsified records to show calls were made when they had not been placed.
- At a Tampa facility, the nonpharmacist director of pharmacy practice used the pharmacy computer operating system to alter prescription records after hours.

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**Medco Health was ranked the nation's number one PBM and mail service pharmacy for the third consecutive year in 2003.**

- For the third straight year, Medco Health was rated the number one PBM in customer satisfaction in a major national survey. It is the first time any company in the PBM industry has received the number one ranking in three consecutive years from WilsonRx.
- The ranking was based on independently collected research compiled in the 2003 WilsonRx Pharmacy Benefit Satisfaction Report released by Wilson Health Information. The third annual WilsonRx report results were based on a written questionnaire mailed to more than 25,000 households in the U.S.
- Medco Health was rated number one in member satisfaction for excellence in home delivery pharmacy, 24-hour pharmacy access and useful website services provided through [www.medcohealth.com](http://www.medcohealth.com).

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**Medco Health partnered with the Washington Business Group on Health in December 2001 to launch the Institute on Health Care Costs and Solutions.**

- Medco Health partnered with the Washington Business Group on Health to launch the Institute on Health Care Costs and Solutions, to address corporate America's rapid rise in health care costs. A unique collaboration of large employers and health care leaders, the Institute on Health Care Costs and Solutions is the first initiative to examine the situation from the point of view of corporate America.
- The Institute on Health Care Costs and Solutions identifies the most promising practices in health care, developing guiding principles and elevating the dialogue on cost containment measures in health care.
- In addition to Richard Clark, president of Medco Health, the Institute's Board of Directors are senior executives from major corporations and health care industry leaders, including 3M, Honeywell, PepsiCo, Starwood Hotels, AOL Time Warner, Verizon Communications, Blue Cross Blue Shield Association, Watson Wyatt Worldwide, Kaiser Foundation Health Plan, Lumenos, Definity Health, and UnitedHealth Group.
- The president of the Washington Business Group on Health, Helen Darling, will direct the Institute, which will be independently funded.

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## Overview

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### **Medco Health's activities in 2002 include:**

- Medco Health was sued in June for improperly classifying a drug. The lawsuit, Kessler vs. Merck-Medco, was filed in the superior court of New Jersey. The suite alleges that Medco improperly classified Tamoxifen as a brand name drug, resulting in a higher co-payment and price.
- Medco Health fired the general manager of its Lower Allen Twp. prescription distribution center in June 2002 as a rumor circulated among the 700 employees there that the company might be planning to close one of its two Pennsylvania facilities.
- Medco Health received a letter from the U.S. Attorney's Office for the Eastern District of Pennsylvania relating to its ongoing investigation of the PBM industry.
- Medco Health was recognized as the Excellence in Pharmaceutical Care -- Outstanding Company of 2002 by the Pharmaceutical Care Management Association as a result of its development of its Willingboro, NJ automated pharmacy facility.
- Medco Health agreed to settle a series of ERISA-related class-action lawsuits in December 2002.
- Merck and Medco Health, in December 2002, agreed to pay \$42.4 million to settle litigation alleging that they overcharged clients.
- West Virginia's attorney general sued Merck and Medco Health in November 2002, charging that Merck and Medco steered state employees to high-priced drugs -- including Merck products -- and kept rebates from drug companies that should have been passed on to the state.
- Medco Health announced its business-to-business client website received the Platinum Award for Best Overall Internet Site - Business Improvement in the 2002 eHealthcare Leadership Awards.

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## Overview

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### **Medco Health's activities in 2003 include:**

- About 90 employees at Medco Health were told in October 2003 that their jobs were being cut as part of a restructuring of the company's information technology department.
- A group of 25 state attorney general said they have begun to look into the practices of Medco and PBMs in general.
- Medco Health is one of four PBMs that have been sued by the American Federation of State, County and Municipal Employees alleging the companies inflate prescription drug prices.
- Medco Health was awarded its first Rx Benefit Innovation Award by the PBMI for its program to increase the prescribing of generic drugs.
- Medco Health announced in August that a U.S. District Court Judge granted preliminary approval to an agreement to settle a series of ERISA-related class-action lawsuits.
- Medco Health, in August 2003, received notification of an unsolicited mini-tender offer being made by TRC Capital, a Toronto-based company, to purchase up to 4 million shares of Medco Health common stock, representing approximately 1.48% of Medco Health's outstanding shares, for a price of \$25.80 per share in cash. Medco Health did not recommend or endorse TRC's mini-tender offer.
- Two independent pharmacies filed suit against the nation's four biggest PBMs, including Medco Health, alleging use of anticompetitive practices against small operators.
- Federal prosecutors filed suit against Medco Health charging fraud, falsifying records and making false statements.

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## Corporate Strategy

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**Medco Health's vision is to be an effective force in controlling health care costs for its clients and supporting improved patient care through the appropriate use of prescription drugs.**

- Deliver high-quality client and member service - provide its clients with individualized prescription drug benefit plan solutions. Medco Health delivers customized plan design, clinical services, ongoing interactive monitoring and reporting, access to call center pharmacies and other services.
- Take advantage of the company's significant technology investments to drive growth, improve service and reduce costs - Medco Health's technology platform offers the opportunity to enhance productivity and reduce costs for itself and its clients, provides more convenience for clients and their members and, the company believes, improves overall patient care. The core elements of Medco Health's technology platform include its automated home delivery pharmacies, specialized call center pharmacies and user-friendly Internet applications.
- Actively pursue sources of growth from new clients and increased use of its value-added services, including its home delivery pharmacies - take advantage of a significant opportunity to promote additional cost management programs and services to many of its existing clients and to increase its home delivery service volume substantially.
- Selectively form strategic alliances and expand into complementary, adjacent markets - intend to continue to expand into new markets and may selectively form alliances and make targeted acquisitions to complement its internal growth.

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## **Corporate Strategy**

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**Medco Health believes it has several competitive advantages that enable the company to deliver enhanced services to its clients and their members while effectively managing drug trend for its clients.**

- Medco Health has a highly automated home delivery pharmacy service.
- Medco Health's investments in technology are reducing costs and providing enhanced client and member service.
- Medco Health offers extensive value-added programs and services to its clients and their members.
- Medco Health's generic substitution programs save its clients money.
- Medco Health has a deep and experienced management team.

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## Corporate Strategy

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**Medco Health has a highly automated home delivery pharmacy service.**

- Medco Health's pre-eminent home delivery service automates the prescription filling process using proprietary software, much of which it has developed in-house, and advanced robotics technology.
- In 2002, Medco Health's national network of home delivery pharmacies filled approximately 82 million prescriptions. These prescriptions represented only approximately 15% of the prescriptions the company filled or processed, and Medco Health believes there is a substantial opportunity to increase the use of its home delivery service.
- The cornerstones of Medco Health's home delivery service are its two automated dispensing pharmacies. The accuracy of prescriptions dispensed from these facilities, which use its patented technology, exceeds Six Sigma levels. During the first half of 2003, these two automated pharmacies collectively dispensed approximately 1.4 million prescriptions per week.

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## Corporate Strategy

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**Medco Health's investments in technology are reducing costs and providing enhanced client and member service. Medco Health's technology includes:**

- Specialized call center pharmacies - provide faster service and enhance the access its service representatives have to member information.
- Integrated voice-response phone system - allows members to enroll for home delivery service, submit a home delivery order for processing, track the status of their home delivery order, or locate an in-network retail pharmacy in their area.
- Online point-of-care technologies - encourages physicians to use to reduce costs for clients by improving the speed and accuracy of ordering prescriptions and increasing the effectiveness of drug utilization management services such as encouraging the prescribing of drugs on a plan's formulary and generic substitution.
- Client web-based applications - provides clients with sophisticated reporting, analytical and communications capabilities to enable them to more effectively control the cost and quality of the prescription drug benefits they provide.
- Member website - processed more than 10.8 million prescriptions, in 2002, a 51% increase over 2001.

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## Corporate Strategy

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**Medco Health offers extensive value-added programs and services to its clients and their members.**

- Provide customized plan designs to meet the specific objectives of clients.
- Enhance formulary compliance through physician, client and member communications and education programs, including therapeutic brand to brand interchange programs directed at physicians, the use of multi-tiered co-payment and other cost-sharing payment structures and home delivery pharmacy service.
- Effectively manage drug utilization through a wide range of drug trend management tools.
- Offer convenience to members through dedicated service representatives and pharmacists, member website and integrated voice-response phone system.
- Provide enhanced personalized service to members - Medco Health opened its Specialty Pharmacy Center of Excellence during the first quarter of 2003 within its Columbus, OH home delivery pharmacy. The Specialty Pharmacy provides more than 100 medications for 20 disease states, including hemophilia, rheumatoid arthritis, cancer, MS and Hepatitis C.

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## Strengths

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- Medco Health is the nation's largest PBM, based on its 2002 net revenues.
- Medco Health's national network of home delivery pharmacies filled approximately 82 million prescriptions in 2002, representing about 30% more than the number of prescriptions filled by the mail service operations of its three largest competitors combined.
- Medco Health's advanced technology and cost containment initiatives enabled it to limit the average drug trends for plans that include both retail and home delivery to 14% in each of 2000 and 2001 and 12.9% in 2002, compared to the national average of 17.3% in 2000, 15.7% in 2001 and an estimated 14.3% in 2002, as reported by the CMS.
- Medco Health serves a large number of clients in each of the major industry segments, including: 190 of the Fortune 500, including 52 of the Fortune 100, 12 of the country's 42 Blue Cross Blue Shield plans and several large managed care organizations.

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## Weaknesses

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- Medco Health would be required to record a material non-cash charge to income if its recorded goodwill of \$3.3 billion is impaired..
- Pending and threatened legal proceedings and investigations challenge some of Medco Health's important business practices.
- Medco Health's profitability is dependent upon its ability to continue to earn and retain rebates from manufacturers.
- Failure to retain key clients could result in significantly decreased revenues.
- Following the IPO distribution, Medco Health will have substantial debt obligations that could restrict its operations.
- Their PBM industry is heavily regulated and subject to a high level of scrutiny.

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## New Economy

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**Medcohealth.com, the world's largest online pharmacy, reached \$1.4 billion in sales in 2002, representing a 51% growth in its online business over 2001.**

- Medcohealth.com, in 2002, processed nearly 11 million prescriptions and currently processes more than 260,000 prescriptions a week. Since most prescriptions are for 90 days of medication, actual volume dispensed through the website is equivalent to more than 700,000 retail prescriptions per week.
- Medco Health processes more home delivery prescriptions through its automated capabilities alone than each of the three other largest PBMs process altogether. In addition, according to comScore Media Metrix Data, medcohealth.com claims more unique site visitors per month than the three other largest PBM's websites combined.
- Medco Health recently designed its website to make it even more convenient for members to manage their pharmacy benefit, order their prescription and OTC drugs, and get medication and treatment information online.

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## New Economy

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**Ten million prescription orders were placed on medcohealth.com during the first three quarters of 2003, up nearly 30% from the same period in 2002.**

- Online pharmacy represents a growing and significant part of Medco Health's overall home delivery service. In the first three quarters of 2003, nearly 17% of all Medco Health's home delivery prescriptions (including 25% of prescription refills) were ordered through medcohealth.com.
- On average, the site now handles more than 290,000 prescriptions a week. Medcohealth.com processes the same number of prescriptions in six minutes as an average retail pharmacy dispenses in an entire day.
- Medco Health's online pharmacy is central to the company's overall technological approach to home delivery prescription healthcare, which includes both the website and the company's Interactive Voice Response Unit. In the third quarter alone, more than 50% of the company's home delivery refills and renewals and almost 33% of all prescription orders were ordered through medcohealth.com, or the Interactive Voice Response Unit.

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## New Economy

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### **Medco Health introduced its Generic Medications Resource Center in 2003.**

- Medco Health is addressing consumers' needs for easily accessible generic drug information with the launch of its new web-based Generic Medications Resource Center. The new information repository, accessible to the general public, will centralize generic drug information available at [www.medcohealth.com](http://www.medcohealth.com).
- The Generics Resource Center, housed within the Drug Information section of the site, will provide additional comprehensive generic drug cost and efficacy information to promote the use of lower-cost generic medications when medically appropriate.
- The Generic Medications Resource center will feature a comprehensive and easily searchable database of brand-name drugs and their generic equivalents, allowing consumers to look up their brand name medications to see if a generic is available.

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## New Economy

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### **Merckmedco.com and CVS.com formed an alliance to provide one-stop shopping for consumers.**

- Medco Health and CVS initially formed a long-term strategic alliance in 1999 to collaborate on enhanced Internet, retail and specialty pharmacy services for Medco Health's health plan members. The agreement expanded the product offerings on merckmedco.com by enabling its members to purchase over-the-counter medicines and general health products on the site. The agreement also formalized an arrangement that made CVS.com the first and only online retail pharmacy to accept prescription orders from Medco Health members over the Internet for delivery either by Medco Health Rx Services or for pick-up at CVS stores.
- The agreement also made CVS's specialty pharmacy company, ProCare, the exclusive provider of specialty pharmacy mail order services for Medco Health plan members. ProCare focuses on supporting individuals requiring complex and expensive drug therapies.
- Merckmedco.com announced in 2000 that visitors to its site can now purchase over-the-counter medications, vitamins, herbal remedies, and health and beauty aids, exclusively through its alliance with CVS.com.

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## New Economy

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**The addition of nonprescription products is just one in a series of features designed to enhance the quality and scope of services available at medcohealth.com.**

- My Page - a personalized home page for each individual; designed specifically to provide messages about their pharmacy benefit plan, refill reminders, prescription information, health tips and other important information that is specific and relevant to each consumer's personal prescription history and benefit plan design.
- My Health - a health and wellness information center with resources and tools personalized for each individual based on his or her health interests.
- My Benefits - a service convenience area providing plan members with access to important, relevant information about their individual prescription benefit plan including prescription coverage and pricing comparisons for both brand and generic medications; pharmacy benefit plan highlights; a supply request feature; and other key tools designed to make it easy for members to manage their pharmacy benefit online, anytime.
- My Prescriptions - one-stop shopping and information designed specifically to meet member's prescription needs. Included is online status information, 12 months of integrated prescription history, important drug information, online ordering and coverage and pricing information designed to help members optimize their prescription benefit.

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## New Economy

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### **Medco Health continues to enter into partnerships and alliances.**

- Medco Health and ChannelHealth, a pioneer of personalized Internet services for the healthcare industry, announced a multi-year agreement to automate the complex processes associated with formulary management and prescription fulfillment at the point-of-care for Medco Health members. The agreement provides ChannelHealth customers with access to Medco Health's proprietary system and to unique information regarding patients and benefit plans. Medco Health is working with ChannelHealth to enhance the ChannelHealth MedWorks application, which is designed to proactively manage benefit plan compliance with online notification to the physician when a patient fails to refill prescriptions for chronic medications.
- Medco Health entered into a strategic educational partnership to promote lung health with the American Lung Association. This collaboration brings the Lung Association's educational resources in the area of respiratory care to Medco Health's 65 million members. The agreement calls for ALA's publications and other proprietary content to be displayed on merckmedco.com.
- Medco Health agreed with AHT Corporation to enable physicians who are registered users of AHT's Rx Internet prescription management service to manage prescriptions electronically and to connect with Medco Health through the Rx web site.
- Medco Health announced a collaboration with ParkStone Medical Information Systems, an innovative developer of palm-size, point-of-care data management systems, to pilot a hand-held electronic prescribing tool for physicians.

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## New Economy

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**Medco Health's objective is to offer additional services and content for its clients on its Web site.**

- Medco Health and adam.com, a leading source for online consumer health information, announced a co-branding arrangement in which adam.com provides Medco Health online consumers with specialized healthcare information on demand and customized for merckmedco.com.
- Medco Health and Physicians' Online announced that approximately 1,800 physicians are equipped with the tools to transmit new mail service prescriptions over the Internet. This service complements POL's existing suite of Internet applications designed to help physicians more efficiently manage the business and practice of medicine.
- Medco Health entered a strategic partnership with WellMed of Portland, OR, allowing its clients to access WellMed's Personal Health Manager at merckmedco.com. WellMed also agreed to work with Medco Health to build secure, online personal networks for members to allow them to store their prescription information and health records.
- Highmark and Medco Health created Highmark Blue Cross Blue Shield @ merckmedco.com for members with prescription drug benefits.
- A.D.A.M. announced a new three-year agreement in August 2001 to provide health information products to Medco Health via its website, merckmedco.com.
- Medco Health, UnitedHealth Group and Accenture launched Xceleron Health in 2001. Xceleron will provide consulting and business development services to new technology-based companies in the healthcare industry.

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## New Economy

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**Medco Health, in January 2003, launched Generics First E-education pilot program to provide physicians with easy access to generic drug information.**

- Medco Health announced that it invited more than 6,000 physicians nationwide to participate in its one-of-a-kind Generics First e-education program. This interactive education tool will provide physicians with timely clinical and cost information on generic drugs, emphasizing their value and efficacy, especially as brand name drugs come off patent.
- The Generics First on-line education program includes three 10-minute program modules on general generic drug information, and specifically covers generic drug products within the anti-hypertensive and anti-depressant therapies. The e-education modules feature animation, sound, and branching logic to enhance the learning experience.

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## New Economy

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**Medco Health announced several strategic alliances in December 2002 that bring point-of-care technology to the mainstream of the medical marketplace.**

- New point-of-care providers including Networking Technology, NextGen Healthcare Information Systems, PocketScript, Script-fast and Total eMed, join point-of-care partners that include AllScripts, Medix Resources and NaviMedix in Medco Health's industry-leading initiative to provide physicians access to relevant clinical information and electronic prescribing at the point of care, and to enhance communications between physician offices, pharmacies and pharmacy benefit providers.
- In 2001, more than 10,000 physicians were connected to Medco Health through its technology partners, and more than 1.3 million electronic prescriptions were written and dispensed using these systems. Each of the new strategic alliances will connect with Medco Health through RxHub.

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## New Economy

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**A Medco Health survey released in February 2003 shows that e-prescribing technology is catching on.**

- Medco Health's survey showed that Boston-area physicians are embracing the movement to replace the traditional written prescription system with electronic prescribing technology.
- While only 13% of the physicians surveyed currently use e-prescribing technology, 78% of them believe that within the next seven years, more than half of all medications being prescribed will be done through the use of e-prescribing technology.
- Seventy-five percent of physicians surveyed ranked reduced medication errors and time savings as the two most beneficial attributes of e-prescribing. Drug utilization review and access to complete patient prescription history ranked third (64%). Improved physician/patient relationship and reduced costs followed at 44% and 40% respectively.

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## New Economy

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**Medco Health became a licensed BenefitPoint Premier Carrier Partner in July 2003.**

- Through BenefitPoint, Medco Health will offer registered healthcare benefit brokers and consultants the opportunity to access web-based marketing and educational materials and receive online bid proposals with increased speed, accuracy and efficiency.
- Through web-based technology, BenefitPoint provides licensed brokers and consultants with client management and customer service tools, streamlined RFP and renewal processes and reporting capabilities. As a Premier Carrier, Medco Health will use BenefitPoint to market and distribute standalone prescription benefit solutions to brokerage and consulting offices, representing thousands of employers nationwide.
- Larger clients, with more than 15,000 plan participants, will be managed directly by Medco Health, while clients with fewer than 15,000 members will be managed by Systemed.

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## New Economy

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**A Medco Health-TPI study in 2003 showed the use of six-sigma techniques leads to wider implementation of e-prescribing, cost reduction and time savings in a large cardiovascular practice.**

- The same quality processes and principles that enabled General Electric to build a more powerful, quieter jet engine have proven to reduce error rates and remove costs when doctors in large medical practices use handheld computers to prescribe medications for their patients.
- The study, *Use of Six-Sigma Techniques in Evaluating Readiness for and Impact of e-Prescribing Technology*, was conducted by Medco Health and TPI Health Systems, a management company for a 2,200 physician IPA in Kentucky; Cardiovascular Associates, a large cardiovascular practice in Louisville; and ProxyMed.
- The study investigated the use of quality principles known as Six-Sigma. The study demonstrated that e-prescribing can improve patient safety and significantly reduce the administrative costs and time associated with writing, filling, refilling and renewing prescriptions in a busy medical practice.

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## New Economy

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**Medco Health announced its first long-term partnership in 2001 with a handheld e-prescribing company, Allscripts.**

- The significance of the Medco Health/Allscripts partnership is that it marks the first long-term e-prescribing deal signed by Medco Health, which has had over 12 pilots with electronic prescription companies. The strategic deal is non-exclusive and is for five years.
- Allscripts will be paid by Medco Health on a three-tier transaction basis -- a small fee for displaying real-time formulary and eligibility information at the point-of-care and a higher fee (probably higher than \$1 per script) for prescriptions that go directly to mail order. In addition, Allscripts will be paid for other clinical messages, such as disease management, compliance, clinical trial and education programs.
- The available information -- formulary, generic recommendations, drug interaction warnings and other decision support information -- will ensure that physicians have the medication information they need to treat patients in a safe and cost-effective manner.
- According to Allscripts, it will target 50,000 high-prescribing physicians that overlap with its IDX user base, but it will take approximately six to eight months to integrate with Medco Health systems.

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## New Economy

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**Medco Health and NaviMedix announced a strategic, long-term agreement in May 2001 to deliver electronic prescription management to physician offices.**

- NaviMedix has completed integration with Medco Health's systems which enables Highmark Blue Cross Blue Shield affiliated healthcare providers to use the enhanced prescription management features incorporated in the NaviNet Web solution.
- The new features now available to physicians include online: verification of patient eligibility for drug benefits; patient drug histories; verification of a patient's specific drug formulary for a selected drug; and writing of new and renewal prescriptions.
- Additional prescription management functions will be implemented later this year, including online notification of drug interactions, transmission of prescriptions electronically to the patients' pharmacy of choice and patient renewal requests via the Internet.

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## New Economy

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**Medco Health and Medix Resources announced a strategic alliance in 2001 to provide physicians with point of care access to clinical information and electronic prescribing.**

- The strategic alliance will provide physicians with point of care access to clinical information and electronic prescribing through the Cymedix suite of pharmacy benefit management transaction services.
- Under the agreement, Medco Health transactions including eligibility verifications, patient-specific formulary checks, medication history and electronic prescribing will be executed by Medix through its Cymedix connectivity and transaction technology.
- Medix will earn revenue on a per prescription basis. Early in the first quarter of 2002, Medix and Medco Health will begin joint development of these services to Medco Health health plan customers and physicians.

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## New Economy

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**Medco Health and ePhysician announced a strategic alliance in 2001 to provide physicians with real-time access to relevant clinical and prescription information at the point of care.**

- The strategic alliance will focus and build on the next generation of electronic prescribing to deliver relevant clinical and benefit information to physicians at the point of care. The information --- formulary, generic recommendations, drug interaction warnings and other decision support information -- will ensure that physicians have timely access to the patient-specific information they need to treat their patients safely and effectively.
- Medco Health supports open electronic prescribing solutions that complement and enhance the needs of physicians and their patients with the strictest adherence to patient confidentiality.

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## New Economy

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**Medco Health and Cybear announced a strategic alliance in 2001 to provide physicians with real-time access to medication data at the point of care.**

- The strategic alliance will allow Medco Health to gain access to Cybear's Internet-enabled software and service systems, including the Physicians' Online Internet portal with more than 225,000 authenticated physician users, its Rx prescription management system, and Cybear's electronic prescribing technology covering the use of electronically transmitted prescriptions. The agreements call for the payment of licensing fees and ongoing fees associated with electronic prescriptions transactions.
- By using electronic prescribing technology, Medco Health and Cybear will deliver vital information to physicians at the point of care in an effort to improve the quality of patient care, while helping to reduce overall healthcare costs for employer groups and health plan sponsors.
- The information --- formulary, generic recommendations, drug interaction warnings and other decision support information --- will ensure that physicians have the medication information they need to treat patients in a safe and cost-effective manner.

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## New Economy

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### **Medco Health, AdvancePCS and Express Scripts formed RxHub in 2001.**

- RxHub is a new venture created to develop an electronic exchange enabling physicians who use electronic prescribing technology to link to pharmacies, PBMs, and health plans which their patients use. The company is designed to operate as a utility for the conduit of information between all parties. It is designed to help to increase patient safety and convenience and reduce costs.
- This new technology-based venture is designed to advance the accuracy and efficiency of the prescription writing and dispensing process, increasing safety and convenience for patients and reducing costs for employers and health plans. It will provide a single standardized channel of communication to link physicians through electronic prescribing software on their hand-held computer or practice management system to pharmacies, PBMs and health plans.
- Each of the founding partners will own one-third of RxHub, and each committed to invest up to \$20 million over the next five years, with approximately \$6 million anticipated for 2001.
- RxHub named James Bradley as its CEO. Formerly a senior business development executive of McKessonHBOC, Bradley also founded and served as chairman and CEO of Abaton.com. RxHub also announced that its corporate headquarters will be located in Saint Paul, MN.

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## New Economy

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**The Medco Health Client Website, created in March 2001, was recognized in 2002 as the best overall Internet site.**

- The Medco Health Client Website is a business-to-business website designed to provide greater control, flexibility and efficiency to clients. Helping to address the rising cost of prescription drug coverage and growing complexity of benefit administration, the Client Website will place the most comprehensive set of web-enabled services, tools and information at the fingertips of clients' pharmacy benefit teams.
- Medco Health announced its Client Website received the Platinum Award for Best Overall Internet Site - Business Improvement in the 2002 eHealthcare Leadership Awards. The annual competition is sponsored by eHealthcare Strategies & Trends.
- The website includes interactive capabilities to: update eligibility information; view specific claims data; determine drug coverage; administer coverage program reviews and appeals; generate customized reports and executive management analysis packages; and facilitate communications with account teams.

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## New Economy

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### **Medco Health's 2003 Internet activities include:**

- Medco Health was recognized with two awards from the Web Marketing Association in its 2003 WebAward Competition. Medco Health's member-based prescription management site received an Outstanding Website Award, while its Client Website received a Standard of Excellence recognition.

## Content

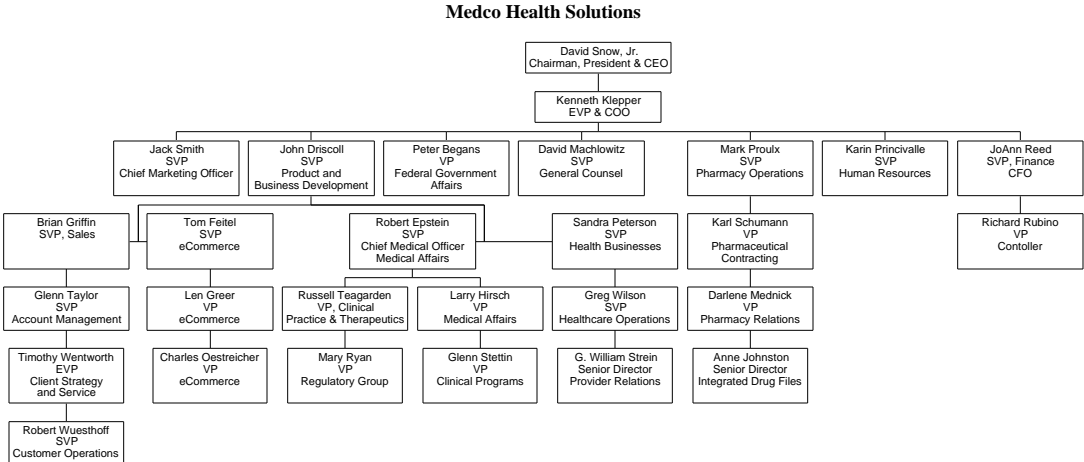
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# Medco Health executives

Medco Health named David Snow as president and CEO in 2003.



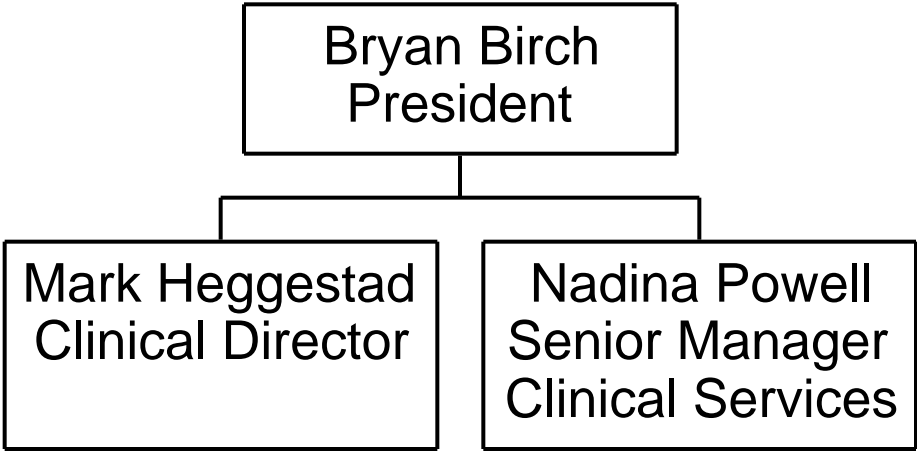
Organization charts do not necessarily identify reporting relationships, but are developed to provide an understanding of different functions and people within the organization. Information in Knowledge Source’s organization charts is dependent on the timeliness of the sources used.

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Systemed executives

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# Systemed



## Medco Health executives

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**David Snow was named president and CEO in 2003.**

- The move overcomes a major hurdle that Merck faced in trying to take Medco public. Medco Health had planned to go public in the summer of 2002. But potential investors were concerned, among other things, that Medco's CEO Richard Clark would leave after the IPO. The IPO was ultimately canceled amid a lackluster stock market.
- David Snow was previously president and COO of WellChoice (Empire BCBS), a New York-based health insurer with nearly 5 million members that recently went public. He was previously a senior executive at Oxford Health Plans.
- Mr. Snow sees parallels between the HMOs in the 1990s and PBMs today. The industry is being demonized under the mystery of the rebate. But he said the problem stems from a lack of understanding of how rebates work.

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## Board of Directors

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- David Snow, Jr. - Chairman, President and CEO of Medco Health.
- Howard Barker, Jr. - former partner of KPMG LLP.
- John Cassis - partner of Cross Atlantic Partners; Director of Nomos Corporation.
- Michael Goldstein - Chairman of Toys “R” Us Children’s Fund; Director of: 4Kids Entertainment, United Retail Group, Finlay Enterprises, and Gaylans Trading.
- Lawrence Lewin - former CEO of The Lewin Group; Director of CardioNet, and a trustee of InterMountain Healthcare.
- Edward Shortliffe - professor at Columbia University.
- Brian Strom - professor at the University of Pennsylvania School of Medicine and serves on the Drug Safety and Risk Management Committee for the FDA.
- Blenda Wilson - President and CEO of the Nellie Mae Education Foundation.

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## Financial Information

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**Medco Health continued to deliver strong sales growth in 2002.**

- Net revenues, reported on a standalone basis, reached \$33 billion, a 13% increase over 2001 as Medco Health managed 549 prescriptions during the year. In the fourth quarter, net revenues were \$8.5 billion, an 11% increase over the fourth quarter of 2001, and total prescriptions reached 138 million.
- Medco Health's home delivery service, which is the largest in the PBM industry, continued to expand throughout 2002. Home delivery prescriptions grew to 82 million in 2002, and now represent 15% of Medco Health's total prescription volume.
- Medco Health's home delivery service managed 21 million prescriptions in the fourth quarter of 2002. In 2002, Medco Health experienced a 51% increase over 2001 in the number of prescriptions processed through its member website.

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## Financial Information

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**Merck recorded \$12.4 billion in revenue from Medco Health over the past three years that the company never collected.**

- Medco Health included as part of its revenue the co-payments collected by pharmacies from patients, even though Medco Health does not receive those funds. Between 1999 and 2001, co-payments represented nearly 10% of Merck's overall reported revenue.
- Medco Health's revenue in question is the co-payment, \$10 to \$15 is typical in the industry, paid by consumers with a prescription drug card to their retail pharmacy to cover their portion of the cost of a drug under an insurance plan. The pharmacy keeps the entire amount of the co-payment.

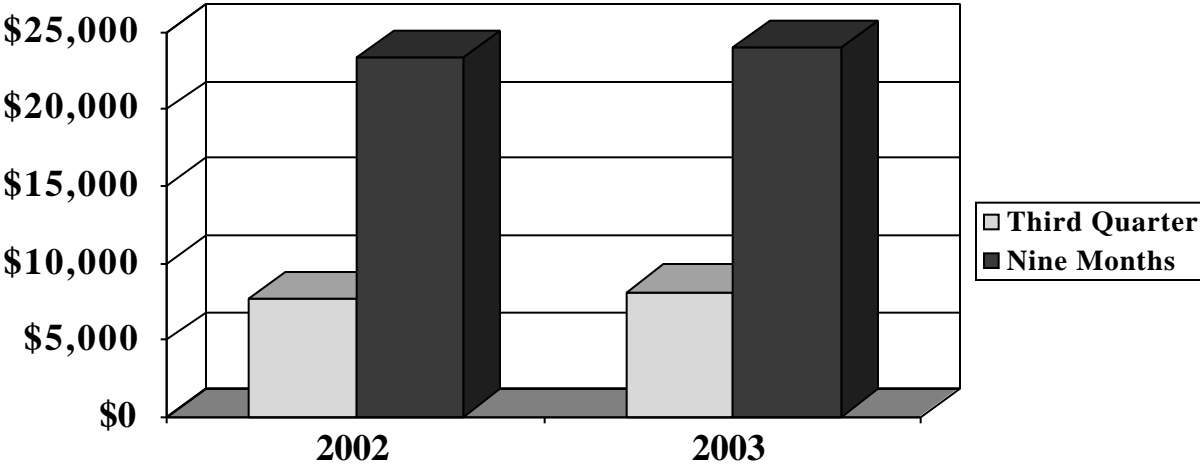
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# Financial Information

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Medco Health's third quarter and first nine months 2003 revenues increased slightly compared to the similar periods in 2002.

**Medco Health Revenues  
Ended September 30**

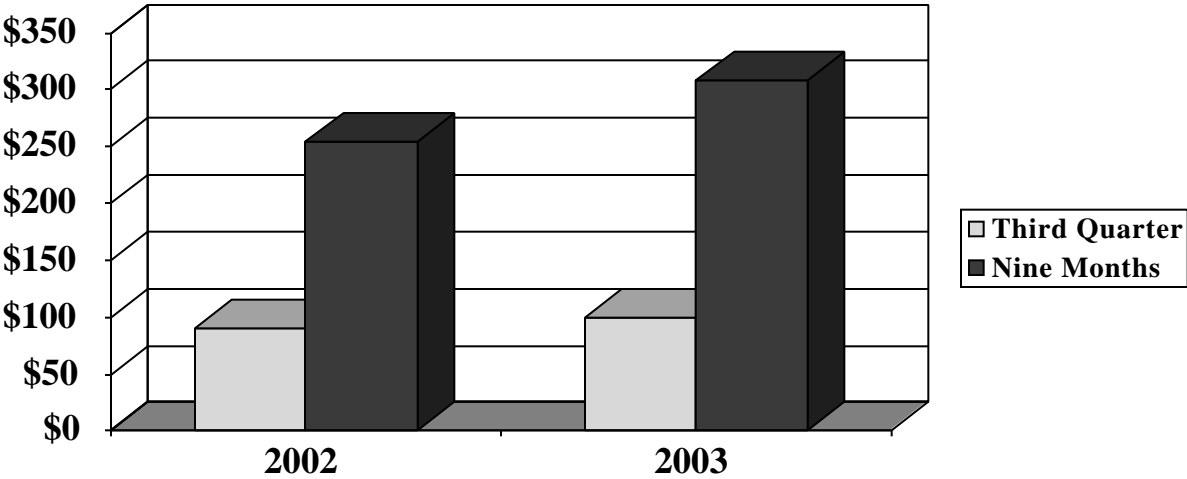


# Financial Information

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Medco Health's third quarter and first nine months 2003 net income increased compared to the similar period in 2002.

**Medco Health Net Income  
Ended September 30 (\$ millions)**



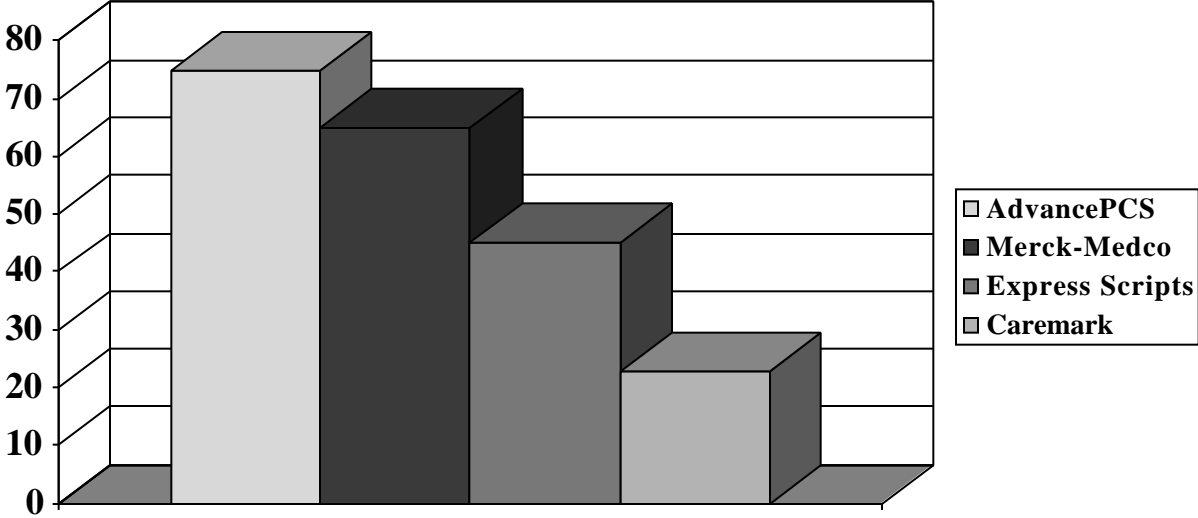
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# Statistical Information

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Medco Health covers approximately 62 million lives.

Covered Lives (millions)



Source: Company reports.

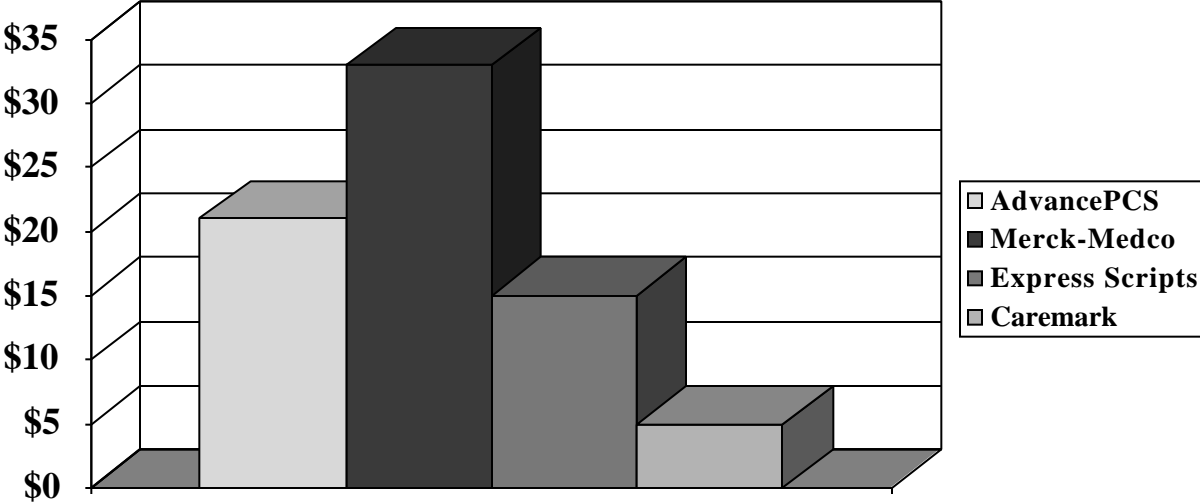
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# Statistical Information

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Medco Health manages \$33 billion in drug spending.

### Drug Spending (\$ billions)



Source: Company reports.

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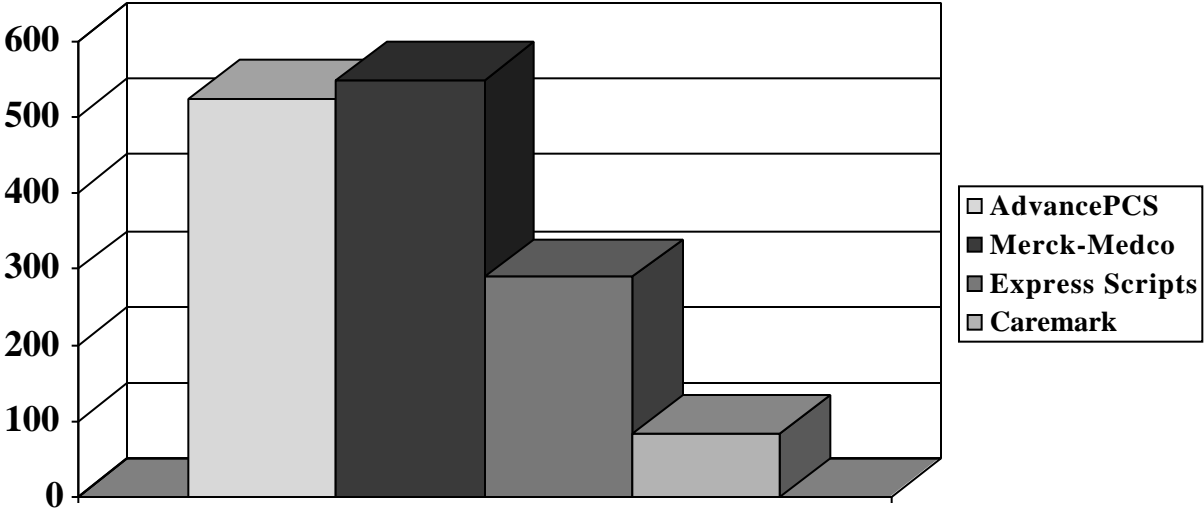
# Statistical Information

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**Medco Health processes nearly 550 million claims.**

Source: Company reports.

**Claims Processed (millions)**



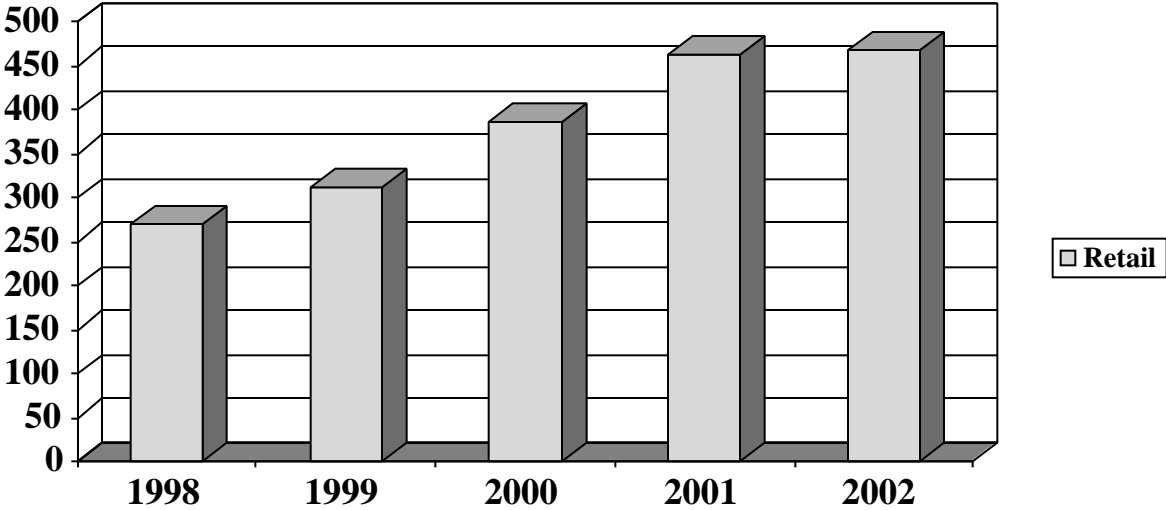
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# Statistical Information

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Medco Health filled more than 466 million retail prescriptions in 2002.

**Retail Prescriptions Filled (millions)**



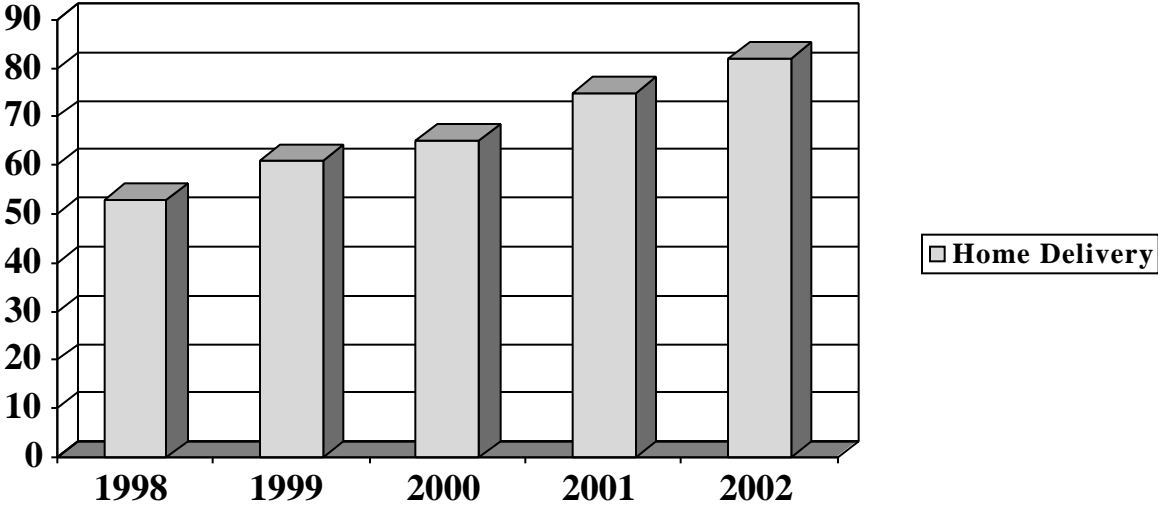
Source: Company reports.  
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# Statistical Information

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Medco Health filled nearly 82 million retail prescriptions in 2002.

**Home Delivery Prescriptions Filled (millions)**



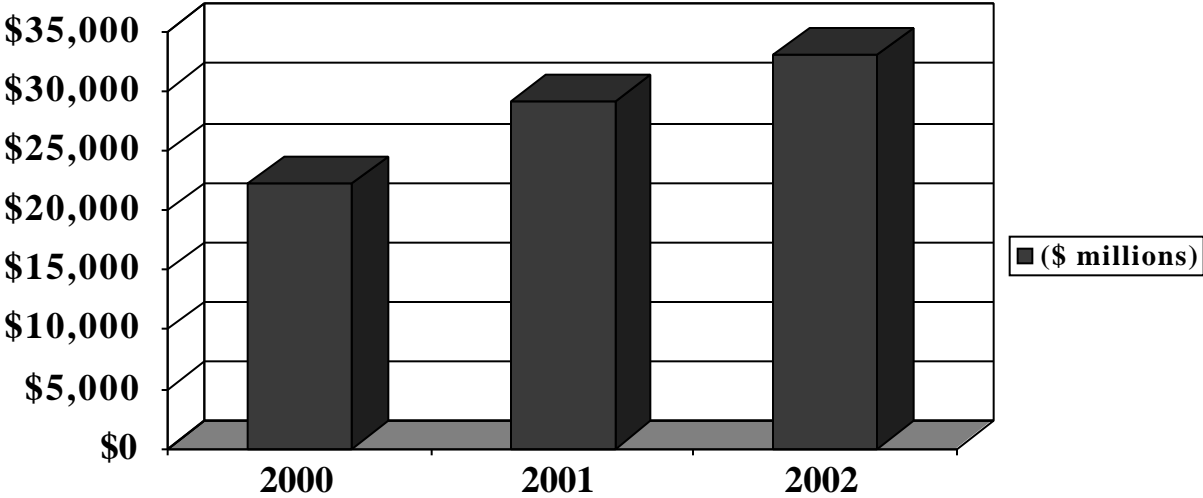
Source: Company reports.  
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# Financial Information

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Medco Health's sales in 2002 were approximately \$33 billion.

**Medco Health Revenues**

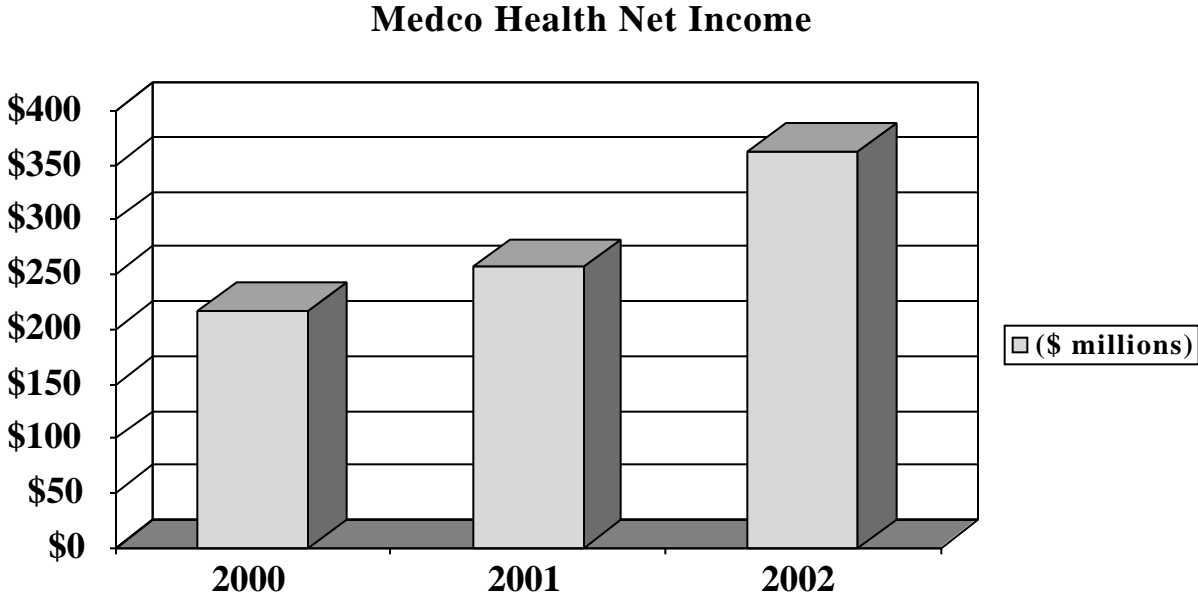


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# Financial Information

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Medco Health's net income in 2002 was approximately \$362 million.



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# Medco Health Claims Detail

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• (millions)	<b>Quarter Ended</b>		
•	<b>9/27/03</b>	<b>6/28/03</b>	<b>3/29/03</b>
• Prescriptions Administered			
• - Home Delivery	19.4	19.1	19.9
• - Retail	110.1	112.3	113.5
•	<b>12/28/02</b>	<b>9/28/02</b>	<b>6/29/02</b>
• Prescriptions Administered			
• - Home Delivery 20.8	20.2	20.6	
• - Retail	116.9	110.1	118.8

## Contents

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- Industry Trends/Overview
- Company Overview
- Corporate Strategy
- New Economy
- Executives
- Financial and Statistical Information
- Lines of Business
- Customers/Partners
- Sources

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## Lines of Business

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**Medco Health's innovative and flexible programs and services have enabled it to deliver effective drug trend management for its clients, while, improving the quality of life for its members. Its services focus on:**

- Providing customized plan design. Medco Health also offers ongoing consulting services and model clinical and financial outcomes for clients based on plan design and formulary choices.
- Enhancing formulary compliance through physician, client and member communications and education programs, including therapeutic brand to brand interchange programs aimed at physicians. The use of multi-tiered co payment and other cost-sharing payment structures and increased use of its home delivery service further enhance formulary compliance.
- Effectively managing drug utilization through a wide range of trend management tools, including drug utilization review programs and rules governing the conditions under which drugs are covered.

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## Lines of Business

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**Medco Health offers a wide range of programs and services that help manage the cost, quality and administration of the prescription drug benefits that its clients offer to their members. Medco Health's key plan design elements include:**

- Formulary choice - Medco Health's independent Pharmacy and Therapeutics Committee reviews drugs for formulary inclusion and exclusion based on clinical considerations.
- Generic options - generic equivalents can be an important part of Medco Health's plan design.
- Pharmacy networks - clients can realize plan savings by carefully selecting a retail pharmacy network and making use of Medco Health's Home Delivery Pharmacy Service.
- Coverage rules - in concert with Medco Health's clinical experts, a client may set up a combination of coverage conditions establishing the quantity, dose and number of days' supply of medication, the length of time for a therapy, and particular medical conditions that the plan will or will not cover.
- Cost-share decisions - also are aligned with a client's benefit philosophy and govern the relative share of a drug therapy's cost that is paid by the member.
- Plan limitations and exclusions - clinical experts work with clients to determine appropriate limitations and exclusions on coverage of some medications.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health capitalizes on its clinical expertise and advanced information technology infrastructure to help reduce client costs in a medically appropriate way, while striving to improve safety and quality of care for members.**

- Medco Health's Department of Medical Affairs tracks prescription drugs while they are still in the research and development phase, as well as the timing of patient expirations for brand name drugs.
- Once a new prescription drug enters the market, Medco Health's physicians and pharmacists use modeling software to provide clients with projections of drug spending under different scenarios. To help clients manage drug trend, it has clinically based programs that identify drug claims on the basis of clinical rules that its clients use for coverage criteria.
- Medco Health's innovative programs include its proprietary RationalMed service, an advanced software tool designed to reduce unnecessary drug-induced illness and hospitalizations and reduce overall health care expenses. The RationalMed service is offered to Medco Health's PBM clients and to other health care providers.
- Medco Health's drug utilization reviews help clients identify and address overuse, underuse, and misuse of prescription drugs.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health's RationalMed system uses integrated medical and pharmaceutical data to help prevent unnecessary hospitalizations and drug-induced illnesses.**

- Medco Health's RationalMed Intervention System is designed to lower health risks and limit medical expenses by providing physicians with patient-specific information to ensure individuals receive the most effective prescription-drug therapies. The RationalMed system integrates medical and pharmaceutical data to create a patient-specific record.
- Once generated, these records are filtered, sorted and rank-ordered identifying those patients most at risk. This information is then compared to a set of peer-reviewed, expert clinical rules. The treating physicians are provided with an alert on those patients who may be at risk of adverse drug reactions due to the overuse, underused, or misuse of therapies.
- Health data and communications surrounding patient records are handled in compliance with the patient privacy regulations mandated by the federal government.

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## Lines of Business

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**Medco Health offers an array of formulary programs to help clients meet their cost and access objectives.**

- Preferred Prescriptions - includes more than 900 drugs, providing members with access to a broad range of medications.
- Rx Selections - offers a more narrow content including more than 700 drugs designed for clients seeking a more aggressive approach to reducing drug spend while maintaining the quality of care.
- Universal Formulary - includes more than 1,000 drugs, providing access to ambulatory prescription drug products subject to the determination of an Independent Pharmacy and Therapeutics Committee.

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## Lines of Business

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### **PAID Prescriptions is Medco Health's retail pharmacy network subsidiary.**

- PAID Prescriptions enables Medco Health patients to conveniently fill prescriptions through its nationwide Coordinated Care Network of 60,000 participating retail pharmacies. Patients using the Coordinated Care Network benefit from convenience and low out-of-pocket costs.
- Medco Health uses its clinical expertise and state-of-the-art information management systems to link information about prescriptions provided to patients through Coordinated Care Network pharmacies as well as information from the company's mail service pharmacies.
- PAID Prescriptions' pharmacists are able to check a patient's medical history and pharmaceutical record at any place at any time. Patients and plan sponsors are provided with unified customer service and account management support for every part of their plan.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health introduced a new look for their PAID Prescriptions member ID cards in January 2002.**

- Beginning in January 2002, the Medco Health name began to appear along with the PAID name and/or logo on newly issued ID cards as part of an expanded corporate branding initiative.
- For participating retail pharmacies, the changes are only cosmetic, the new ID card featuring the Medco Health name and/or logotype should be handled in the same manner as cards that only feature the PAID Prescriptions name and/or logo. PAID Prescriptions remains the corporate entity that contracts with its pharmacy network.

## Lines of Business

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**Medco Health 's home delivery infrastructure currently consist of 11 home delivery pharmacies, nine of which contain prescription processing centers and five of which engage in home delivery dispensing activities.**

- In its prescription processing centers, Medco Health pharmacists focus on front-end pharmacy activities such as reviewing, recording and interpreting incoming prescriptions, screening for interactions based on each patient's drug history and medical profile, resolving benefit and clinical issues with plan sponsors and physicians and then approving and routing the prescriptions to one of the company's five home delivery dispensing pharmacies.
- In the five dispensing pharmacies, including its automated pharmacies in Las Vegas, Nevada and Willingboro, Medco Health focuses on back-end dispensing processes such as dispensing the medication and then presorting for shipment to patients by mail or courier.
- Medco Health operates seven call center pharmacies each of which is licensed as a pharmacy in the state in which it is located and is staffed by service representatives and pharmacists.

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## Lines of Business

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### **Medco Health launched its new home-delivery pharmacy in Willingboro, NJ, in November 2001.**

- Medco Health unveiled its new \$85 million automated home-delivery pharmacy in Willingboro, NJ, on November 12, 2001. The 280,000 square-foot pharmacy was designed to dispense approximately 8,000 prescriptions every hour using the company's proprietary automation technology.
- Medco Health's new Burlington County facility on Route 130 was built at a site formerly occupied by the Willingboro Plaza shopping center. The pharmacy initially employed 200 workers and the company expected that number to reach 400 by the end of the year. When operating at full capacity by 2003, Medco Health expects to employ more than 800 people at the site.
- Medco Health's new Willingboro pharmacy displaced the company's automated pharmacy in Nevada as the most technologically advanced pharmacy in the world. Medco Health's Nevada pharmacy -- dispenses more than 5,000 prescriptions per hour and more than 600,000 prescriptions per week. In 2000, the pharmacy dispensed about 28 million prescriptions.

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## Lines of Business

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**Medco Health's Willingboro pharmacy is only one element of the company's comprehensive plan for delivering the Pharmacy of the Future.**

- Medco Health's Pharmacy for the Future includes:
  - - enhancing technology that allows a physician to instantly review the patient's pharmacy history and benefits information, and then electronically write and transmit prescriptions directly to the patient's pharmacy of choice -- without the risk of handwriting errors or lost paper prescriptions.
  - - Medco Health's advanced prescription-processing centers, where prescriptions are validated and screened for potential harmful drug interactions.
  - - automated dispensing pharmacies, where prescriptions are filled for home delivery.
  - - and around the clock care centers, where patients can immediately reach pharmacists by phone if they have questions about their medicines.
- Another key element of the Pharmacy of the Future is [merckmedco.com](http://merckmedco.com).

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health's Willingboro pharmacy is the world's largest and most advanced automated pharmacy. It celebrated its one-year anniversary in November 2002 and the recent dispensing of its 20th million prescription.**

- Medco Health's Willingboro pharmacy, and its sister pharmacy in Nevada, work in concert with and are connected by technology to processing pharmacies, call center pharmacies and the world's largest Internet pharmacy to create an integrated and proprietary service platform for processing prescriptions and providing round-the-clock patient care by hundreds of licensed pharmacists.
- The high volume of drug purchasing and dispensing at the Willingboro pharmacy translates into lower costs to the patient and his/her health plan provider by leveraging greater discounts and effecting higher rates of generic substitution, as well as formulary compliance.
- The 280,000 square-foot Willingboro facility has the capacity to fill 780,000 prescriptions each week.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health has announced cost-cutting moves at a couple of its mail order facilities.**

- Medco Health announced in January 2002 that it planned to cut 500 jobs at its facility in Wilmington, MA. Medco Health said the decision to close the plant was based on circumstances specific to that facility. Medco Health opened its sixth pharmacy customer call center in December 2001 in the Hidden River Business Park in Tampa, FL.
- Medco Health, in February 2003, announced that approximately 600 employees at its facility in Lower Allen Township, near Harrisburg-PA, will lose their jobs when the facility closes in April 2003. Employees were told the closing was the result of the facility's lease expiring at the end of the year, an impending loss of a Department of Defense contract, and the loss of a national account. Employees at the facility entered data to process prescriptions, dispensed and mailed prescriptions that could not be processed at an automated pharmacy, and handled physician questions.
- Medco Health, in October 2003, said it will close a 400-employee mail order pharmacy by year-end. Some 200 jobs will be eliminated in Sabal Park. Most of those cut will be warehouse employees, support staff and technicians. The remaining 200 Medco employees at Sabal Park will transfer to the company's processing center in Tampa. Medco also plans to hire 50 pharmacists as part of the center's increased responsibilities.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**About 650 employees in Medco Health's Las Vegas operations may lose their jobs by year-end 2003 as part of the company's decision to move front-end pharmacy operations.**

- Medco Health operates a Las Vegas automated pharmacy that receives, fills and distributes prescriptions and a call center pharmacy in Henderson. The call center employs about 800 workers, while the pharmacy employs 1,100. Medco Health announced that the job cuts could happen around December 12.
- The Las Vegas job cuts could include pharmacist, managers and clerical workers, although it is undecided how many of each would face possible layoffs. Medco health employs approximately 240 pharmacists in Las Vegas.
- Medco Health would move the front-end processing operations from Las Vegas to elsewhere in its network, perhaps Tampa or Columbus.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health's pharmacists play a key role in encouraging physicians to change prescriptions.**

- Medco Health's Prescribers Choice Program delivers savings to clients because Medco Health pharmacists encourage physicians to prescribe the most cost-effective drugs when possible. Medco Health's Formulary Management Program lists alternative drugs that have been carefully selected for their clinical efficiency and cost effectiveness.
- Medco Health encourages pharmacists to telephone physicians to change prescriptions to lower cost drugs to save benefit plan sponsors money through its Prescribers Choice program. Medco Health pharmacists help clients achieve discounts by selecting specified drugs for switching among drug classes with several comparable substitutes.
- Medco Health's Prudent Prescribing Programs and drug utilization reviews enable its pharmacists to help doctors make prudent prescribing decisions before the prescription is written, at the time of dispensing and after dispensing, by looking at the effects of prescribing over time.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health offers Optimal Outcomes health management programs designed to help clients improve care for patients with high-risk, high-cost conditions.**

- Optimal Outcomes serves patients in its health management programs for asthma, congestive heart failure, depression, diabetes, gastrointestinal diseases, high cholesterol, hypertension, and smoking cessation.
- Optimal Health Inspirations Asthma Management Program helps people ages six and above with mild, moderate and severe asthma manage the less common but costly events that can occur as a result of the disease. The program aims to educate asthma patients about their condition and environmental triggers, and to promote guided self-management skills.
- Making Sense: A Multiple Sclerosis Patient Support Program incorporates guidance and materials from the National Multiple Sclerosis Society, is an MS program that provides intensive counseling to increase patient compliance with drug therapies that have been proven effective in managing the condition.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health released a study in 2003 stating that new patients treated for multiple sclerosis who are enrolled in an information and education program are more likely to stay on their treatment regimens.**

- The outcomes study revealed that multiple sclerosis patients who are new to MS therapy were significantly more adherent to their doctor's recommended medication therapy and remained on their treatment program longer than a control group of patients not participating in the program.
- The study, which examined the persistency and compliance rates of 5,676 people new to MS therapies, found: the persistency at the end of a 12-month period for program participants was 87%, a 10% greater persistency rate for program participants than a control group; program participants continued taking their therapies an average of 38 days longer than the non-program participants; and new program participants were adherent about their doctor-ordered therapies 91% of the time within 12 months after starting therapy.
- Currently, more than 15,000 people suffering from MS are enrolled in Medco health's Positive Approaches Multiple Sclerosis Program.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Motivating physicians to prescribe more cost-effective medications is a key objective of a number of its initiatives.**

- Physician Service Center - provides a single toll-free number for physicians and office staff to call one of Medco Health's pharmacists and service reps who can answer questions relating to patients and their prescription drug benefits. The center is further supported by physicians in its Department of Medical Affairs. The center assists in improving physicians' understanding of formularies, generics and utilization management.
- Integrated Generics Strategy - seeks to reduce its clients' drug spend by increasing the use of generic medications, when clinically appropriate, in place of more expensive, brand name medications.
- Physician Practice Summary Program - Medco Health is able to track physician prescribing histories and report summary and comparative data to both physicians and clients.
- Point-of-Care Online Connectivity Program - more than 10,000 physicians use Medco Health's point-of-care electronic prescribing program. During 2002, these physicians submitted more than 1.6 million prescriptions using electronic prescription writing tools.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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### **Medco Health's Diabetes Health Management program was awarded Full patient Accreditation by the NCQA in 2003.**

- Positive Approaches' diabetes management program is one of the largest offered by a PBM with over 500,000 enrolled members. After thorough review, Medco Health achieved a score of over 100% in all accreditation categories including program content, patient service, clinical systems, measurement and quality improvement and program operations.
- The Positive Approaches diabetes program has demonstrated significant outcomes among enrolled patients that include: over a 97% satisfaction rate; up to a 8% increase in patient compliance with their medication; a 50% reduction in the median time for patients to refill their diabetes medication; up to a 9% increase in patient refills of diabetes medication; an 18% increase in patient awareness of the A1c; a 10% increase in the number of newly diagnosed members who check their blood for glucose.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health has significantly updated systems, processes and administrative procedures to comply with the HIPAA requirements. Medco Health has:**

- Established the HIPAA Strategic Council, a senior level group overseeing HIPAA compliance efforts.
- Identified operations and administration requirements for HIPAA compliance and completed a HIPAA comprehensive compliance plan, which is currently being executed.
- Appointed a Chief Privacy Officer and established a Privacy Office.

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## Lines of Business

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**Medco Health and Orchid BioSciences formed a partnership in 2002 to conduct a study of asthma patients in a managed care setting.**

- The study will focus on assessing the impact of a relatively common genetic variation on clinical outcomes and health care resource use in 2,000 patients taking drugs commonly employed to manage asthma.
- The results of the study are expected to provide preliminary data indicating whether physicians should consider alternative regimens to better manage those asthma patients having the genetic variation.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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### **Medco Health's interactive computer assisted method of reviewing, analyzing, and prescribing a patient one or more medications using a computer includes:**

- Pre-selecting patients to obtain a preliminary set of patients eligible for interactive computer assisted method responsive to first predetermined criteria.
- Filtering the first set of patients to identify and form a secondary set of patients for the preliminary set of patients having a greater likelihood of benefiting from interactive computer assisted method.
- Enrolling at least one patient from the secondary set of patients.
- Communicating, by the user with at least one patient to obtain information to assist the user in determining whether at least one of therapy and medication changes are appropriate.
- Preliminarily evaluating, by the user, whether at least one therapy and medication changes are appropriate responsive to the information.
- Communicating, by the user, to a physician, at least one of the therapy and medication changes and the information.

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## Lines of Business

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### **Medco Health's interactive computer assisted method of reviewing, analyzing, and prescribing a patient one or more medications using a computer includes:**

- Determining, by the physician, whether the at least one of the therapy and medication changes are appropriate responsive to the information, and prescribing at least one of therapy and medication changes, at least one other therapy and medication changes, and no therapy and medication changes for at least one patient.
- Confirming, by the user, the prescribing by the physician with the pharmacist for at least one of the therapy and medication changes, at least one of the other therapy and medication changes, and no therapy and medication changes for the at least one patient, and receiving comments from the pharmacist relating to it.
- Communicating, by the user, to the physician, the comments received from the pharmacist at least when the comments include a pharmacist opinion with respect to the at least one of therapy and medication changes and the information determined by the physician.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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### **Medco Health offers a complete line of comprehensive health management programs.**

- Medco Health teamed with the American College of Gastroenterology to improve care for its members who suffer from digestive health conditions, and to raise awareness of gastrointestinal diseases through Medco Health's Digestive Health Solutions health management program.
- Medco Health and Partners Community HealthCare of Eastern Massachusetts announced two jointly-developed health management programs focusing on the treatment of coronary artery disease and gastrointestinal disorders. The two programs have been implemented in PCHI's physician network and provide an opportunity to measure the clinical and economic impact of health management programs for individual patients as well as on the overall delivery of healthcare services.
- Medco Health joined forces with the American Liver Foundation to help improve awareness and treatment of hepatitis C in conjunction with Medco Health's hepatitis C health management program, Raising Awareness Through Education.
- Medco Health and Medicine Shoppe International launched a retail-based disease management program designed to provide a comprehensive evaluation for patients with stomach conditions, or gastrointestinal disorders. The program began in Dayton, OH, and then expanded throughout Ohio and Kentucky.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health clients spent approximately \$1.3 billion (from January 2002 through November 2002) on non-sedating antihistamines, including more than \$600 million on Claritin.**

- The FDA's approval in November 2002 allowing marketing of the non-sedating antihistamine Claritin for OTC use provides an opportunity for health plans and employers to save millions in drug spend, according to Medco Health.
- Medco Health's education programs alerting patients and physicians to the availability of this OTC allergy product will help its clients save up to 30% in drug spend in this category by effectively leveraging the availability of Claritin OTC, savings which could top \$500 million in the first year of availability.
- In order to fully leverage the savings potential of the announcement, Medco Health has developed a communication strategy to accelerate and encourage OTC adoption by members. The company expects this effort to help lower NSA costs up to 30%.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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### **Medco Health launched the Generics First program in the U.S.**

- The initiative promotes the use of generic prescription drugs through a sampling and education program and by providing physicians with consumer education materials to help promote physician-patient dialogue about generic drugs. The Generics First program initially is promoting the use of generic versions of anti-hypertension agents, anti-infective products, gastrointestinal drugs, and nonsteroidal anti-inflammatory drugs.
- A team of Medco Health pharmacists is meeting with physicians who belong to large group practices in select cities to discuss the availability of underused, high-quality generic drugs. The pharmacists are providing the most recent information about the status of brand-name medicines and the availability of new generic drugs. In addition, physicians will be given access to free samples of commonly prescribed generic medications through a mail order system.
- In its launch phase, the Generics First program conducted face-to-face physician visits in the following cities: Los Angeles; Detroit/Flint; Dayton; Columbus; Cleveland; Wilmington; Charlotte; Raleigh-Durham; St. Louis; Houston; Providence; and Seattle.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health with BCBS of Michigan, DaimlerChrysler, Ford and General Motors promote generic medications through education and generic samples.**

- All four Michigan-based companies collaborated with Maisa Haddad, a clinical specialist with Medco Health, as part of Generics First. The program generated an average of nearly \$1 million in drug spend savings from physician office visits in 2001 in each of its markets, including Michigan. In addition, participating physicians demonstrated a 22% jump in their generic prescribing rates over prescribing rates of a comparison group of physicians.
- During the pilot, Haddad made multiple visits to over 400 physicians in the Detroit and Flint areas, to discuss the availability, clinical benefits, and economic value of various generic medications and to encourage their use as first-line therapy and to provide access to generic drug samples. An additional 1,000 physicians had access to these generic drug samples through a direct mail component.
- Through this effort, participating physicians in Michigan ordered 92,000 generic samples, which amounted to over 570,000 days of therapy.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health planned, in November 2002, to expand Generics First into eight markets, including Northern New Jersey.**

- The number of physicians, generally primary care physicians, who will receive visits from Medco pharmacists is expected to double to 3,400. Including mailing and Internet components, 20,000 physicians in the next year will receive information through Generics First.
- As part of the expanded program, Medco Health plans to also invite 4,500 physicians nationwide to participate in an innovative e-education supplement that will provide online Generics First clinical and cost education. Many of these physicians will also have access to free samples of generic medications.

## Lines of Business

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**Medco Health, in January 2002, announced that physicians participating in Generics First dramatically increased their year-over-year prescribing rate for generic drugs of 22%.**

- Marking its one-year anniversary, in January 2002, of providing 1,700 physicians access to generic samples in four therapeutic categories, as well as one-on-one meetings with clinical pharmacists, Medco Health reported a 22% increase in generic prescribing rates versus that of a comparison group of like physicians. In addition, the generic substitution rate of these same 1,700 physicians jumped 57% versus the comparison group.
- The analysis, based on the first six months of data from 2001, also showed that physicians who participated in generic therapy discussions with the clinical pharmacists and ordered generic drug samples had nearly double the generic prescribing impact as those who only participated in the clinical discussions. Moreover, greater than 86% of the 1,700 physicians have ordered generic samples, and the vast majority of these physicians continue to reorder.
- Translated into dollars, the change in prescribing patterns for these 1,700 physicians alone has yielded a \$3.5 million drug savings to Medco Health health plan sponsors and patients in the four targeted therapeutic categories -- NSAIDS, gastrointestinal, anti-infectives and antihypertensives -- in just a six-month period. The savings will benefit from a significant multiplier effect, as most patients are on long-term maintenance medications and will refill their prescriptions many times.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**The Generics First program had dispensed, as of January 1, 2002, more than 600,000 generic drug samples representing more than 4 million days of medication therapy. Medco Health had introduced Generics First in 12 markets by March 2002.**

- The direct mail component of Generics First had garnered more than a 23% physician response rate through January 2002. Initially, the Generics First program targeted four of the largest therapeutic categories -- antihypertensives, anti-infectives, gastrointestinal, and non-steroidal anti-inflammatory drugs.
- Antidepressants became a fifth category when Prozac's patent expired in August 2001 and the generic equivalent, fluoxetine, quickly joined the lineup. Currently, six of the 10 generic products available through the program are among the top 15 generic drugs dispensed in 2000 (excluding controlled substances) according to the Scott-Levin Prescription Audit.
- A majority of the program's 7,700 physicians are at larger group practices, so it is estimated that the Generics First message is reaching more than 15,000 community-based physicians and more than 25 million patients. The program is designed to reach all patients, not only those covered by a Medco Health serviced plan.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health and Highmark announced milestones in the Generics First program in January 2002.**

- One-year results from the Generics First program, which promotes the use of generic prescription drugs and helps combat the rising cost of medication, reveal that nearly 600 physicians in Western Pennsylvania ordered more than 65,000 generic drug samples. This figure represents about 419,000 days of drug therapy for their patients.
- Results from the first year of the program for the rest of Pennsylvania show that more than 250 physicians who participated in the program ordered approximately 28,000 generic samples, representing about 155,000 days of drug therapy using generic drugs.
- Currently, generic drugs account form 42% of all prescription medications used by Highmark members. In addition, members under age 65 use about nine prescriptions annually, while that number jumps to 24 for members age 65 and older.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health announced in January 2002 it is bringing its Generics First program to Salt Lake City-area physicians.**

- Deseret Mutual Benefit Administrators, Intermountain Health Care and Public Employees are partnering with Medco Health to bring the nation's first generics sampling and education program to more than 50 physicians in Utah.
- Physicians selected for the program will be visited bi-monthly by a Medco Health clinical pharmacist. During the meetings the pharmacist, supported with educational material that incorporates nationally recognized prescribing guidelines, publications and clinical research, will discuss the benefits of clinically appropriate therapies with available generic medications.
- In addition, the physicians will have access to generic samples in four therapeutic categories -- NSAIDS, gastrointestinal, antihypertensives and antidepressants, through a simple fax/mail order form operated by a third-party fulfillment house.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health joined with Premera Blue Cross in March 2002 to introduce its Generics First program to Premera members.**

- In the first year after the Generics First program was introduced by Premera Blue Cross in Washington, 140 physicians in the Puget Sound area ordered more than 30,000 generic samples representing more than 200,000 days of therapy. Participating physicians in Washington and across the country increased their prescribing rate by 22% in the first six months of the program.
- Medco Health and Premera, in March 2002, are expanding the program statewide. With input from Premera, Medco Health will offer the service by mail to more than 175 more physicians throughout Washington state, including at least 50 physicians in eastern Washington. The mail service will offer access to generic samples and patient educational materials on a bi-monthly basis.
- About one-third of Premera Members' prescription drug costs are linked to four major conditions --- depression, gastrointestinal disorders, high cholesterol and high blood pressure. About 85% of the drugs dispensed for these conditions are heavily advertised brand-name drugs.

**Another BusIntell Report from Knowledge Source, Inc.**

## Lines of Business

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**Medco Health's Generics First program saved the state of Ohio millions in drug spending in 2001.**

- In 2001, the program achieved a 22% jump in generic prescribing rates, compared to a group of physicians not in the program. Each pharmacist saved an average of \$1 million in drug spending by switching to generics.
- Joe Hunt, the Medco pharmacist assigned to the Cincinnati area, made 770 physician visits in the Tri-State to encourage use of generics. In Ohio, 3,000 physicians were reached through this program. Generics First's success means an expansion in Ohio to include another 700 doctors.

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## Lines of Business

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**Medco Health expected to save its clients and members more than \$500 million by August 2003 for three new generic prescription drugs.**

- Medco Health expects to save its clients and members more than \$100 million over the next 12 months as generic alternatives to Prinivil/Zestril become available. In the first two weeks of availability through its home delivery pharmacies, Medco Health achieved nearly a 91% generic substitution rate for lisinopril, the generic for Prinivil/Zestril.
- It is the latest in a series of major patent expirations on brand name medications and part of a comprehensive Medco Health initiative to drive acceptance and use of generic medications to moderate the cost of prescription healthcare, while maintaining high quality care for patients.
- The other two major patent expirations were Prozac and Glucophage. Through rapid deployment of clinical programs and advanced technology, Medco Health's generic substitution rates at both home delivery and retail pharmacies have generated cost savings for its clients and members of more than \$138 million for fluoxetine and savings of \$36 million for metformin, through May 2002. Annualized, adding Lisinopril to the lineup will bring cost savings to more than \$500 million.

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## Lines of Business

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**Medco Health expanded the Generics First program in 2003 to include OTC medications from two leading therapeutic categories.**

- In June 2003, the OTC pain medication Advil was introduced into the Generics First program and the new OTC non-sedating antihistamine Alavert was to be introduced in September 2003. The two OTCs, manufactured by Wyeth Consumer Healthcare, join a comprehensive suite of generic medications from six high utilization drug categories that are currently included in the Generics First program.
- Including OTCs in the Generics First program provides Medco health further opportunity to significantly reduce drug spend by encouraging physicians to take a step-therapy approach to prescribing drugs without sacrificing the health of the patient. Medco Health clients alone spent more than \$1.1 billion on COX-2s in 2002. Medco Health clients spent \$1.3 billion in 2002 on non-sedating prescription antihistamines.
- Medco Health, in September 2003, expanded the Generics First program to include 20,000 physicians, increased the number of Generic First pharmacists by 33% and expanded its reach into 15 states. The number of physicians receiving visits from Generics First pharmacists has doubled to 3,400. Generics First was awarded the PBMI's 2003 Rx Benefit Innovation Award.

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## Lines of Business

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**Partners for Healthy Aging is a fully integrated program designed to improve the quality of medication use for older Americans by educating seniors and healthcare professionals about safe prescription drug utilization.**

- Comprised of educational, clinical and customer service components that are specifically designed for the needs of older adults, caregivers and healthcare professionals, Partners for Healthy Aging combines information from the nation's leading specialists in generic care with Medco Health's advanced information technology and specialized patient and provider programs. The hallmarks of the initiative are its educational elements.
- The newest element, the Medication Guidebook for Healthy Aging, is a comprehensive reference book featuring information about more than 20 common medical conditions affecting older adults, prescription and over-the-counter drugs used to treat those conditions, potential drug interactions and adverse effects.
- The basis of the Partners for Healthy Aging program is its clinical elements including the Seniors Concurrent and Retrospective drug utilization review program, which tracks patient prescriptions and dosages, and alerts physicians and pharmacists to potential medication problems that might harm older patients.

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## Lines of Business

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**Partners for Healthy Aging is supported by both patient and provider-specific components including:**

- Preferred Prescriptions Pocket Guide - a formulary guide that contains warnings about potentially unsafe drugs and dosing information for patients 65 years and over.
- Senior Sensitivity Training - an educational program for Medco Health Call Service Representatives to offer special training in servicing elderly patients who may have visual, auditory or ambulatory impairment.
- Gatekeeper Program - Medco Health Call Service Representatives are trained to detect any signs of distress from a caller -- disorientation, lack of food, shelter or depression. The caller is then transferred to a Gatekeeper specialist who works with a host community-based organization to obtain assistance for the caller.

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## Lines of Business

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**The Partners for Healthy Aging's nationwide Gatekeeper Program links senior patients in need of extra care with community support and services.**

- Medco Health requires that all customer service representatives -- who handle more than 20 million telephone contacts with plan members each year -- are trained to be Gatekeepers. The Gatekeeper Program is designed to identify vulnerable senior patients in need of special care or extra assistance. These coordinators arrange for community and social services for Medco Health plan members through contact with local and state offices on aging.
- The Gatekeeper Program provides patients ranging from age 50 to 90 with options to help improve their quality of life and care, including the assignment of homemakers, nursing aides, transportation services, financial planners, Meals on Wheels, or volunteers who run errands or drive seniors to and from doctor appointments. In some cases, members are introduced to senior citizen groups as a valuable social outlet and source of moral support.

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## Lines of Business

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**The number of senior citizens subjected to a potentially over-medication has more than doubled since 1999, according to Medco Health.**

- In 2002, approximately 7.9 million medication alerts -- including millions of cases of over dosing -- were flagged by Medco health's targeted senior drug utilization review system, more than twice the approximately 3.4 million alerts detected in 1999 for the more than 6.3 million seniors covered by Medco health who filled prescriptions.
- Of the 7.9 million alerts in 2002, roughly 2.2 million situations exceeding the clinically recommended dose for a senior age 65 and older, and approximately 2.4 million involved prescribing a drug that is clinically inappropriate in the elderly and may lead to harm. More than 3 million other situations involved interactions between two or more medications.

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## Lines of Business

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### **Medco Health launched a new community service program in 2003 -- Ask the Pharmacist.**

- Medco Health's new Ask the Pharmacist community service program helps to guide senior and community organizations on the safe use of their medications. The program is being offered in Columbus, OH, in partnership with the Central Ohio Area Agency on Aging.
- Medco Health's licensed pharmacists will host open forums for community groups and answer questions individuals may have about their prescription medications and safe prescribing practices.
- The program is being offered without cost to senior, civic, church and community groups in the Central Ohio area. During the year, COAAA and Medco Health expects to conduct 9 sessions at senior housing facilities and with local community organizations.
- Medco Health launched the program in Mercer and Burlington counties in July 2003, with plans to expand into other New Jersey counties and Southeastern Pennsylvania. Registered pharmacists from Medco Health's Willingboro Dispensing Center were to conduct the forums.

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## Lines of Business

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**Medco Health introduced a specialized medication guidebook offering senior education and safety in 2001.**

- With the number of Americans taking prescription and OTC medications increasing upwards in excess of 83 million, and 77 million baby boomers entering a higher utilization age demographic, Medco Health introduced its new guidebook to address the medication safety and compliance of this audience.
- This comprehensive large-print reference guide is designed to educate older adults and those that care for them, about various aspects of prevalent health conditions and treatments they may face as they age. The Guidebook offers a look at 20 of the most common medical conditions facing older adults, the prescription and OTC medications most often used to treat those conditions, and detailed information on how these medications may act differently in older adults as a result of changes in the aging body.

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## Lines of Business

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**Medco Health offers its Positive Approaches health education management programs to members.**

- Medco Health's Positive Approaches' programs help improve patients' health by providing patients and physicians with resources and tools to better manage both prescribed medications and lifestyle associated with chronic conditions, such as asthma, depression, diabetes, multiple sclerosis, cardiovascular disease, digestive health and hepatitis C -- conditions affecting more than 125 million Americans.

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## Lines of Business

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**Medco Health's YOURxPLAN is a comprehensive program to provide more affordable prescriptions to Americans lacking adequate drug coverage and to help them better manage their prescription drug use and their health.**

- YOURxPLAN provides immediate relief to people struggling with the rising costs of prescription drugs, especially older Americans, who consume medication at a rate two and a half times that of the rest of the population.
- YOURxPLAN is not an insurance program. YOURxPLAN participants can purchase any medication their physician prescribes -- brand name or generic -- and all prescribing decisions remain between the doctor and patient.
- YOURxPLAN can be used to purchase prescriptions at more than 40,000 participating pharmacies nationwide, or through the program's Home Delivery Pharmacy which can be accessed through [merckmedco.com](http://merckmedco.com). Members can also submit new prescriptions through the mail, and can refill and renew prescriptions through the mail, by phone or the Internet.

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## Lines of Business

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### **Medco Health's pharmacy residency program received national accreditation in 2001.**

- Medco Health's program, launched in 1997, received the accreditation jointly from the American Society of Health-System Pharmacists and the Academy of Managed Care Pharmacy following a rigorous review of the program, including a three-day, on-site review. The accreditation extends through 2004, when it will be subject to renewal, and is retroactive to 2000, when the company's application was first filed.
- The residency program provides one year of specialized post-doctoral training that exposes the candidate to a broad base of disciplines, ranging from the regulatory environment, to health management program development to finance and marketing.
- Medco Health employs more than 2,500 pharmacists in a variety of roles and areas at its pharmacies nationwide, including a state-of-art central fulfillment pharmacy operation in Las Vegas.

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## Lines of Business

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**Medco Health, Harvard Medical School and Robert Wood Johnson Foundation teamed up to study the health and economic impact of pharmaceutical co-pays in 2001.**

- An experienced team of health services researchers from Medco Health and Harvard Medical School will examine the medical and pharmacy claims data of two managed care organizations to compare and analyze plans that adopted incentive formularies to those that did not.
- The team will focus on the impact incentive formularies have on compliance, total medical costs including drug, outpatient and hospital spending, and quality of care for common chronic conditions such as cardiovascular disease and depression.
- The study will specifically explore the effect of three-tier co-pays. Funded by the Robert Wood Johnson Foundation, the study will be completed in 2003.

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## Lines of Business

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**Medco Health's principal facilities include.**

<b>Location</b>	<b>Square Footage</b>	<b>Type</b>
• Franklin Lakes, NJ	652,000	Corporate headquarters
• Willingboro, NJ	271,000	Automated dispensing pharmacy
• Las Vegas, NV	215,000	Automated pharmacy, call center
• Fair Lawn, NJ	77,000	Data center
• Parsippany, NJ	178,000	Prescription processing, call center
• Tampa, FL	143,000	Prescription processing
• Columbus, OH	136,000	Prescription processing
• Fairfield, OH	100,000	Prescription processing
• Liberty Lake, WA	25,000	Prescription processing
• Fort Worth, TX	83,000	Prescription processing
• Tampa, FL	48,000	Dispensing pharmacy
• N. Versailles, PA	39,000	Prescription processing

• Call centers in: Richmond, Tampa, Dublin (OH), Columbus, Irving (TX), and Las Vegas.

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## Customers

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**Medco Health announced in October 2003 that large new accounts and a high contract-renewal rate have it net positive in business signed for 2004.**

- Medco Health announced it is losing two large clients, including Blue Cross Blue Shield of Louisiana and Trigon Healthcare, but has signed 11 large new accounts and numerous middle market customers for 2004. Medco Health also retained 96% of business up for renewal in 2004.
- The large new accounts include American International Group and Cendant Corporation. BellSouth also remains a customer, with the status of its contract unchanged.
- Medco Health also signed several new clients in 2003, their business amounting to \$1.2 billion, and renewed 198 customers with combined drug spending of nearly \$10 billion this year.
- The company has had success with increasing the length of the contracts. In 2003, the average length of Medco Health's top 10 customers increased to four years from three.

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## Customers

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**Medco Health has a large number of clients in each of the major industry segments.**

- Medco Health administered plans for its clients, as of June 30, 2003, for 190 of the Fortune 500, including 52 of the Fortune 100; 12 of the country's 42 Blue Cross/Blue Shield plans; and several large managed care organizations.
- In addition, its Systemed subsidiary capitalizes on the company's extensive PBM capabilities to meet the specific needs of its small to mid-size clients. Over the last three years, Medco Health's aggregate revenue from small to mid-sized clients increased an average of 39% per year, excluding the impact of acquisitions, to approximately \$1.6 billion in 2002.
- For the fiscal year ended December 28, 2002, Medco Health's ten largest clients based on revenue accounted for approximately 42% of the company's net revenues, including UnitedHealth Group, its largest client, which represented approximately \$5.3 billion, or 16% of its net revenues.

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## Customers

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### **General Motors signed a five-year agreement with Medco Health in August 2002.**

- Medco Health announced that GM had signed a five-year agreement covering more than 800,000 GM employees, retirees and family members. GM is the largest private purchaser of health care in the U.S. It provides health care benefits to 1.2 million employees, retirees and their dependents. Last year, GM spent more than \$900 million on prescription drugs.
- Since the companies began collaborating in 1988, GM has been at the forefront in embracing programs, such as Medco Health's Generics First. In 2000, Medco Health, with the assistance of GM, developed a dose optimization program that takes full advantage of instances where, for instance, a single higher-strength dose of a medicine is an approved substitute for lower-strength multiple doses, delivering an equivalent therapeutic effect for a much lower cost, while also providing greater convenience for the patient.
- GM also encourages the use of Medco Health's home delivery services. Home delivery lowers the cost for patients who take prescriptions for over longer periods of time, and is participating in electronic prescribing initiatives designed to reduce prescribing errors and streamline the process of dispensing medicines.

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## Customers

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### **Oxford selected Medco Health as its pharmacy benefit manager in 2001.**

- Medco Health announced a five-year agreement to provide pharmacy care services to the more than 1.5 million members of Oxford, the leading managed health care organization in the New York metropolitan area. Oxford will be among Medco Health's largest accounts in terms of members and drug spend. The agreement is effective January 1, 2002.
- Oxford's agreement with Medco Health, replaces one the company had with Express Scripts. Express Scripts said it would challenge Oxford's decision because it has an exclusive five-year agreement to provide mail-order drug services to members of Oxford that was signed in 1999.
- Medco Health's willingness to offer risk-sharing agreements on prescription drugs may be one of the reasons Oxford chose Medco Health. Oxford was Express Scripts' largest client after the contract with 10.5 million member United Healthcare expired in 2000. United Healthcare also went to Medco Health.
- Express Scripts said that although Oxford is now a Medco Health client, the health plan will continue to pay Express Scripts a substantial amount of money through the end of 2005 when the contract would have expired.
- Medco Health replaces Express Scripts in managing the benefit through drugs stores and Caremark Rx for mail order prescriptions.

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## Customers

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**Three emerging plans that are challenging the traditional health care paradigm have selected Medco Health to provide prescription drug coverage for their inaugural members.**

- Definity Health Corp., Lumenos Inc., and HealthMarket are three different Internet-enabled health care plans that are built around the consumer. One common aspect setting these plans apart from traditional health care is a pre-tax personal health care savings account enabling members to purchase and manage online health care, pharmacy and other benefits.
- With these new health plans, members can use the Internet to customize their benefit programs to meet their needs and budgets. They rely on superior technology and innovation to maximize the customer experience and create a more engaged consumer.
- While the Internet is recognized for helping to reduce administrative costs and improve the member experience by placing information online, the consumer-centered health plan is an advanced concept, in which the consumer manages his or her own health and prescription drug benefits. Consumers benefit because they are able to choose when, where and how to receive health care.

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## Customers

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**Definity Health teamed with Medco Health and Evolution Benefits in 2003 to launch a new consumer-driven pharmacy benefit program.**

- Under the Definity Health pharmacy benefit, members will pay for pharmacy services out of a Personal Care Account which is funded by their employers at a set amount each year. Benefit dollars left in the member's PCA at year-end roll over for use by the member for future pharmacy needs. If an employee's annual pharmacy costs exceed the PCA benefit dollars, pharmacy health coverage is provided once a deductible is met.
- Medco Health will provide nationwide retail pharmacy network access, home delivery prescription services and a customer call center with 24-hour, toll-free access to pharmacists.

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## Customers

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### **Medco Health's Blue Cross Blue Shield customers include:**

- Medical Mutual, in 2003, is introducing Medco Health's RationalMed, intended to prevent unnecessary hospitalizations and drug-induced illnesses.
- Medco Health renewed an agreement in June 2001 as the exclusive mail service provider to the BlueCross BlueShield Association Federal Employee Program. Medco Health will provide mail service pharmacy benefits to more than 4 million members under the exclusive three-year agreement. Last year Medco Health filled more than 11 million prescriptions for FEP members. FEP, one of Medco Health's most prestigious and long-standing accounts since 187, is the nation's largest fee-for-service health plans. More than 46% of the nation's federal workers and retirees are enrolled in the FEP plan. The renewal begins on January 1, 2002.
- Blue Cross & Blue Shield of Florida has become more involved in pharmacy benefit planning and uses Medco Health as a consultant. While the plan develops its own formulary, Medco Health successfully promotes the use of generics, as it does for client companies, and provides real-time utilization data to prevent inappropriate drug use, drug interactions and incorrect dosing.

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## Customers

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### **Medco Health's Blue Cross Blue Shield customers include:**

- Blue Cross Blue Shield of Alaska.
- Blue Cross and Blue Shield of Louisiana.
- Blue Cross Blue Shield of Michigan - Medco Health provides mail-order pharmacy services and some retail pharmacy network, claims processing and clinical services.
- Blue Cross and Blue Shield of North Carolina.
- Highmark.
- Independence Blue Cross.
- Anthem Blue Cross Blue Shield of Virginia.
- Premera Blue Cross.
- Mountain State BlueCross BlueShield.

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## Customers

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- Medco Health was selected by United Airlines to provide pharmacy care services for its 80,000 domestic employees and manage its estimated annual drug spend of nearly \$80 million. Under the four-year agreement, which was effective January 1, 2002, Medco Health will manage the prescription care for United Airlines' U.S.-based employees through Medco Health's 13 home delivery pharmacies, complemented by a network of more than 55,000 retail pharmacies.
- The Teacher Retirement System of Texas selected Medco Health in 2002 to provide pharmacy care services for TRS-ActiveCare, Texas' first statewide health care program for public education employees. TRS-ActiveCare will go into effect on September 1, 2002, and is expected to have more than 140,000 eligible participants. Under the agreement, which runs through August 31, 2004, Medco Health will manage the prescription care for TRS' public education employees through Medco Health's 13 home delivery pharmacies, completed by its network of more than 55,000 retail pharmacies.
- Medco Health, in 2002, which managed drug benefits for Passaic County without a written contract for nearly four years, agreed to increase its rebates under a new contract after an insurance consulting firm solicited competing proposals from other companies.
- Medco Health announced, in August 2002, that the Oklahoma State and Education Employees Group Insurance Board signed a three-year agreement covering more than 160,000 state government and education employees, retirees and family members. Medco Health will begin providing pharmacy benefits on January 1, 2003. This year, the Insurance Board projects that it will invest more than \$200 million in prescription medications for its covered employees.

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## Customers

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### **Medco Health is working with The Chrysler Group on a National Supplier Pharmacy Buy Partnership.**

- The Chrysler Group, in November 2001, developed a new program for its supplier partners which allows participants to purchase prescription drugs at substantially reduced costs. Called the National Supplier Pharmacy Buy partnership program, the new initiative will help enrolled supplier companies realize annual cost savings of up to 10% by decreasing the cost of pharmaceuticals through group volume purchasing. Suppliers who are eligible to join the National Supplier Pharmacy Buy Partnership program must be a current member of Chrysler Group's supply chain and have a minimum of 5,000 combined employees and retirees in the U.S.
- However, Chrysler Group, in conjunction with its PBM, Medco Health, will also implement a program to allow suppliers with less than 5,000 employees to participate in the plan by January 2002. Medco Health will implement the program. In addition to group volume purchasing, the program permits flexibility between Medco Health and the enrolled supplier company by allowing the supplier to determine its own pharmacy plan design, pharmacy network and co-pay structure.
- Over 300,000 supplier employees and retirees are expected to enroll by the second quarter of 2002. ArvinMeritor, Union Pacific, Overnite Transportation, Exide Corporation, and Yazaki North America are a few of the companies participating in the program.

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## Partners

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**Medco Health has developed partnerships with pharmaceutical companies other than Merck over the years.**

- Entered a joint venture with Wyeth-Ayerst to concentrate on women's health in the areas of prenatal care, menopause, osteoporosis, and family planning. Medco Health and Wyeth-Ayerst have worked to: develop programs for additional categories such as arthritis, and cardiac arrhythmias; form an executive committee from both companies; and market all programs developed by the joint venture to its own managed care and other customers.
- Entered into a long-term agreement with Eli Lilly concentrating on insulin-taking diabetic patients and high-risk, non-insulin taking diabetic patients whose current care regimen many not be adequately managing their diabetes and related health conditions. Medco Health made the programs available to its plan sponsor clients, and Lilly provides the program to its customers.

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