Drive Health System Financial Growth with Specialty Pharmacy

A real-world economic assessment

Specialty pharmacy can be your financial lifeline

In today's post-pandemic environment, health systems face significant financial challenges. Many hospitals are still trying to recoup losses from forced shutdowns, elective procedure postponements, and reduced outpatient visits. All told, these factors have contributed to billions in lost revenue, leaving many of America's health systems with negative operating margins.

At the same time, 50% of the U.S. population suffers from chronic disease, accounting for 86% of all healthcare costs.[1] Many of these diseases require increased access to specialty medical services and medications. With the continued and accelerated rise of specialty drugs, investing in specialty pharmacy is an ideal way for health systems to generate new revenue.

Specialty medications currently account for *more than 50% of overall drug spending* and are expected to grow to 65% — or $316 billion annually — by 2025.[2]

[1] Holman, Halsted R., The Relation of the Chronic Disease Epidemic to the Health Care Crisis, Feb. 2020
[2] IQVIA Institute, March 2022, The Use of Medicines in the U.S.: Usage and Spending Trends and Outlook to 2026

Overcome specialty pharmacy barriers to improve revenue and patient care

Clearly, there is money to be made in specialty pharmacy, but several barriers stand in the way of health systems maximizing their share of this opportunity. For instance, numerous pharmaceutical manufacturers have recently imposed 340B restrictions on the contract pharmacies many health systems work with to fulfill specialty prescriptions for their patients. These actions have limited the 340B discounts covered entities have been able to receive from the sale of 340B-eligible specialty medications.

Manufacturer contract pharmacy restrictions equate to $2.2 million in median annualized losses for health systems.[3]

Moreover, these restrictions often lead to extended medication turnaround times and delays that negatively impact patients.

75% of hospitals reported that 340B restrictions delayed access to a needed drug.[3]

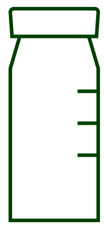
These patient-facing challenges can contribute to leakage or treatment abandonment, negatively impacting patient outcomes while eliminating any revenue a health system could anticipate earning from a specialty prescription.

[3] 340B Health, Contract Pharmacy Restrictions Represent Growing Threat to 340B Hospitals and Patients, May 2022

Optimize capture rate with a well-balanced specialty pharmacy approach

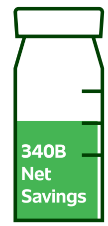
Figure A

A Leading Asthma Inhaler



Failure to Capture Script

$0 Revenue per dose

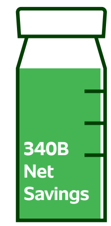


Value
340B TPA at Contract Pharmacy

$826 Revenue per dose

Dose Economics

NDC1	
Revenue	$1,292
Reference Discount Price	**292**
Dispense Fee	**174**
Net Revenue	$826
COGS	1.66
Profit	**$824**



Value
CE-Owned Specialty Retail Pharmacy

$1,292 Revenue per dose

Dose Economics

NDC1	
Revenue	$1,292
Reference Discount Price	**-**
Dispense Fee	**-**
Net Revenue	$1,292
COGS	1.66
Profit	**$1,290**

Maximizing your specialty pharmacy revenue begins by optimizing your prescription capture rate. The best way to accomplish this goal is with a well-balanced approach that supplements your existing network of contract pharmacies with an entity-owned specialty pharmacy. This comprehensive strategy allows you to maximize specialty drug access, reduce turnaround times, and prevent patient leakage through improved network visibility and control.

An entity-owned specialty pharmacy will enable your health system to treat patients holistically while offsetting the contract pharmacy restrictions levied by pharmaceutical manufacturers. Revenue is also optimized through elimination of inflated drug reference prices and dispensing fees.

Figures A and B outline the actual revenue gains that can be realized on two common medications by filling these prescriptions via an entity-owned specialty pharmacy.

Figure B

The Leading Rheumatoid Arthritis Drug

Failure to Capture Script

$0 Revenue per dose

Value
340B TPA at
Contract Pharmacy

$4,400 Revenue per dose

Value
CE-Owned Specialty
Retail Pharmacy

$6,154 Revenue per dose

Dose Economics

	NDC1	NDC2
Revenue	$6,154	$6,154
Reference Discount Price	923	923
Dispense Fee	831	831
Net Revenue	$4,400	$4,400
COGS	26.23	0.10
Profit	**$1,777**	**$4,400**

Dose Economics

	NDC1	NDC2
Revenue	$6,154	$6,154
Reference Discount Price	–	–
Dispense Fee	–	–
Net Revenue	$6,154	$6,154
COGS	26.23	0.10
Profit	**$3,531**	**$6,154**

Entity-owned specialty pharmacies provide attractive monetary returns, but contract pharmacies are still a vital part of the equation. For example, you won't be able to capture every prescription through an entity-owned speciality pharmacy. There will inevitably be some specialty medications (orphan drugs, exclusive distribution drugs, certain cell and gene therapies, etc.) you won't have direct access to. Leveraging the right contract pharmacies in these instances is the ideal way to ensure the access necessary to best serve your patients and maximize your 340B-eligible script capture potential.

Why hasn't every health system invested in specialty pharmacy?

Market dynamics and compelling revenue possibilities have spurred an increased investment in entity-owned specialty pharmacies among health systems in recent years.

In 2019, 26% of hospitals owned a specialty pharmacy, compared with 20% in 2018 and less than 9% in 2015.[4]

However, most hospitals still haven't incorporated an entity-owned specialty pharmacy as part of their operations. The reason? It's a daunting prospect.

Most hospitals currently face significant labor shortages and don't have the human resources to commit to launching and managing a new business venture. Furthermore, running a specialty pharmacy involves a completely different set of operational dynamics than the inpatient pharmacies where hospitals have traditionally focused. Many health systems find they lack the internal infrastructure and expertise necessary to navigate the specialty pharmacy landscape and successfully operate an entity-owned facility.

Hospitals can make an entity-owned specialty pharmacy initiative much more attainable by teaming with a partner like Omnicell that can deliver the proven infrastructure, expertise, LDD and payor access, and dedicated services necessary to help efficiently launch, operate, and optimize an integrated specialty pharmacy program.

[4] ASHP National Survey of Pharmacy Practice in Hospital Settings: Prescribing and Transcribing – 2019, June 2020

An inside look at a specialty pharmacy financial assessment

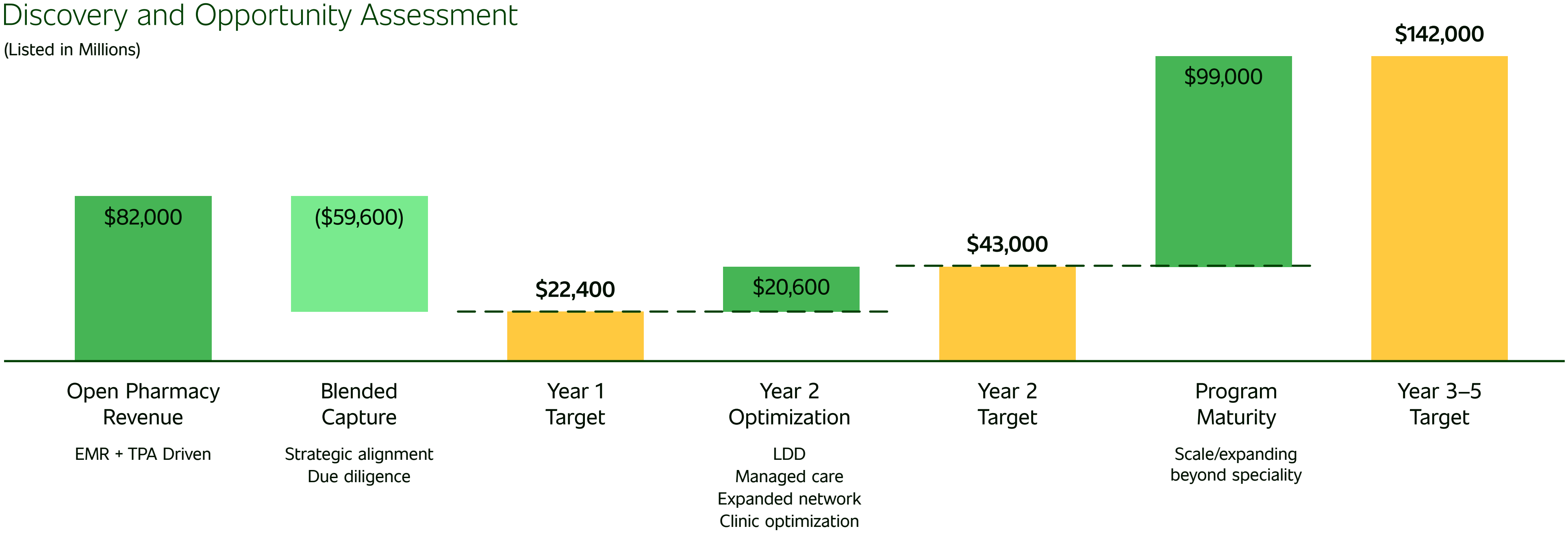
The best way to gain a clear idea of the financial benefit that can be realized by teaming with an expert partner to launch and manage an entity-owned specialty pharmacy is to review the actual financial forecast the Omnicell Specialty Pharmacy Services team prepared for a 600-bed health system that:

- Has no existing entity-owned specialty pharmacy capabilities
- Currently uses a preferred contract specialty pharmacy for its primary specialty referral source
- Utilizes a network of retail pharmacies as 340B contract pharmacies
- Has no formalized plan to expand outpatient pharmacy services

As mentioned earlier, maximizing specialty pharmacy revenue begins by optimizing prescription capture rate. Therefore, the first step of any financial assessment is a discovery process where prescribing data from the health system's electronic medical record (EMR) and contract pharmacy third-party administrator (TPA) systems are analyzed to reveal the number of specialty prescriptions filled compared to all that were written. This exercise allows the health system to determine its "uncaptured" rate and total new revenue opportunity.

Discovery and Opportunity Assessment

(Listed in Millions)



For this 600-bed health system, the total uncaptured pharmacy revenue was $82 million annually. This figure is substantial, but no in-house specialty pharmacy program will be able to capture all this open revenue out of the gate. The goal is to assess existing variables to determine a realistic portion of this open revenue that can be captured within the first year of establishing an entity-owned specialty pharmacy. A formalized plan can then be prepared to continuously improve these returns year over year.

By analyzing variables such as existing access to LDDs and established payor relationships and aligning this data with past performance history, Omnicell experts were able to calculate that this health system could realistically expect to capture $22.4 million of the available $82 million within its first year of implementing an entity-owned specialty pharmacy.

The estimated return would increase by another $20.6 million for a total revenue target of $43 million in Year 2 through increased access to LDDs, expanded payor networks, managed care support (including prior authorization management), and clinic and process optimization.

Years 3–5 would add another $99 million to the expected return for a total revenue target of $142 million (or an average of $47.3 million annually). These increases would be the result of the increased program scale to be realized from full ACHC and URAC accreditation and enhanced pull-through strategies with 340B-eligible specialist referral capture.

Accounting for costs to calculate a true specialty pharmacy ROI

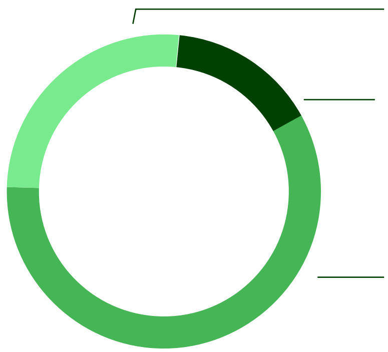
Figure C

Start Up Expense

Start-up Investment	Expense
Build-out	$295,300
Pre-Opening Expenses	$83,211
Month 1 Payables	–
Total At-Risk Investment	378,511
Max. Working Capital Year 1	135,889
Maxium Cash Outlay	**$514,400**

Return on Investment	Months to Payback	Notes
Total At-Risk Investment	4	Cash
Total At-Risk Investment	2	EBITDA

Start Up Investment Chart



Labor and expertise limitations aren't the only factors that deter some health systems from investing in an entity-owned specialty pharmacy. The initiative also requires start-up capital that, on the surface, may seem imprudent given the financial pressures currently facing many hospitals. However, the start-up expense of launching a specialty pharmacy is modest compared to other hospital profit centers, and costs can be further reduced with planning and orchestration support from an expert partner.

For example, Figure C outlines the projected start-up expense for our 600-bed hospital.

[4] ASHP National Survey of Pharmacy Practice in Hospital Settings: Prescribing and Transcribing – 2019, June 2020

There are a few key points to note in this estimate:

The hospital had open space that could be leveraged to accommodate the specialty pharmacy. This space simply required a build out/renovation. Construction of a net new facility was not needed.

The just-in-time dispensing environment in specialty pharmacy requires much less on-hand inventory, which helps keep working capital costs in check. The $133,889 working capital expense for this specialty pharmacy is budget-friendly compared to retail pharmacies that can have working capital costs into the millions.

In this instance, the new specialty pharmacy was projected to be cash-flow positive on the startup investment by month four.

Business Lines	Revenue	Rx Volume	Revenue/RX	Profit/Rx	GP%	% Year 1	GP
Autoimmunie (Rheum/Derm/GI)	$15,590,078	1,381	$11,281	$8,000	71%	71%	$11,048,077
Oncology	$4,204,276	3,805	$1,253	$1,045	83%	26%	$3,976,226
HIV	$1,800,346	635	$2,835	$450	16%	2%	$285,750
Diabetes	$807,983	716	$1,128	$295	26%	1%	$211,220
Year 1 Summary	**$22,402,675**	**6,573**	**$3,427**	**$2,374**	**69%**	**100%**	**$15,521,273**

Expenses can be further controlled through careful alignment of working capital with the unique specialty pharmacy environment that exists at each hospital or health system. Economic assessments from Omnicell Specialty Pharmacy Services analyze EMR and TPA data to determine the business lines and even the specific drugs that represent the largest specialty pharmacy revenue opportunity. Inventory and expertise can then be focused on these areas to maximize return.

In this scenario, there is a clear opportunity in the autoimmune space, followed by oncology.

Total Business	Year 1	Year 2	Year 3	Year 4	Year 5	Total 5 Years
Revenue	$22,402,675	$43,069,382	$45,053,161	$47,552,477	$49,410,986	$207,488,682
Gross Profit	$15,521,273	$30,057,049	$31,468,098	$33,165,294	$34,485,565	$144,697,278
Gross Profit %	69.3%	69.8%	69.8%	69.7%	69.8%	69.7%
Operating Expenses	$2,947,480	$4,791,089	$5,013,405	$5,219,212	$5,433,943	$23,405,129
Total EBITDA	**$12,573,792**	**$25,265,960**	**$26,454,693**	**$27,946,082**	**$29,051,622**	**$121,292,149**
+ Retained Contract Pharmacy Contribution to Entity	$8,127,855	$8,038,562	$8,038,639	$8,038,464	$8,038,220	$40,281,740
= Total Contribution to Entity	**$20,701,648**	**$33,304,522**	**$34,493,332**	**$35,984,546**	**$37,089,841**	**$161,573,888**

Ongoing anticipated operating costs are also tabulated and factored into the specialty pharmacy financial assessment, providing insight into total projected EBITDA. Retained existing contract pharmacy revenue is also added to the forecast, providing a comprehensive estimate of the total expected financial contribution of specialty pharmacy to the health system post implementation.

An investment of more than a half-million dollars in this economic climate is not insignificant. It will understandably be challenged and scrutinized by health system leadership. However, as evidenced by this thorough financial assessment, an upfront outlay of $514,000 will generate more than $12 million in new revenue in its first year, and more than $121 million over the course of five years. Can your health system really afford to pass up this type of ROI?

Take the next step to understanding your specialty pharmacy opportunity

The financial assessment reviewed in this document is just one example of the revenue that can be realized by investing in an entity-owned specialty pharmacy. Returns will vary based on the size, patient demographics, and specialty pharmacy dynamics of each hospital or health system.

The following is a list of some the variables that are considered and analyzed to determine the projected costs and returns from an entity-owned specialty pharmacy implementation:

Rx Capture Rates

- Start % new and refill captured
- Closing % new and refill captured
- Annualized capture rate

Rx Growth Rate

- Rx volume
- Average Rx price
- Average Rx gross profit
- Rx price inflation per year
- Rx price erosion per year

Inventory

- Deferred start-up inventory
- Paid start-up inventory
- Initial inventory days
- Initial inventory turns
- Handling/delivery/courier costs

Payroll Costs/Labor Headcount

- Pharmacist in charge
- Pharmacist
- Technician and reimbursement representative
- Clerk
- Regional Director
- Cost of benefits
- Salary/benefits inflation

Hours of Operation/Rent

- Days/Hours per week
- Square footage needed
- Cost per square foot
- Monthly rent

While the actual estimated costs and returns will vary from provider to provider, all the implementations Omnicell Specialty Pharmacy Services have conducted with hospitals and health systems to date have realized positive cash flow against the startup investment in less than four months.

Don't take our word for it. Allow us to analyze your data and prepare a customized specialty pharmacy financial assessment for your health system. Now's the time to tap into this attainable and lucrative revenue opportunity.

Contact Us for an Assessment Consultation →