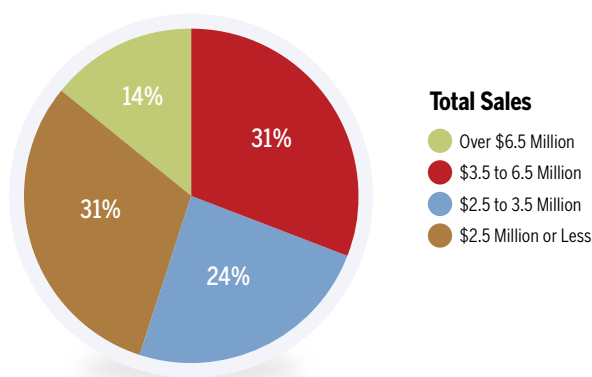


EXECUTIVE SUMMARY

The 2009 NCPA Digest, sponsored by Cardinal Health provides an annual overview of independent community pharmacy, including a comprehensive review of the financial operations of the nation's independent community pharmacies for 2008.

Independent community pharmacies are all pharmacist-owned, privately held businesses but vary in practice setting. They include not only single-store operations but other independent community pharmacist-owned operations such as chain, franchise, compounding, long-term care (LTC), specialty, and supermarket pharmacies. In 2008, 14 percent of participating pharmacies had total sales over \$6.5 million, 31 percent with sales between \$3.5 and \$6.5 million, 24 percent with sales between \$2.5 and \$3.5 million, and 31 percent with sales under \$2.5 million.

BREAKDOWN BY VOLUME OF SALES

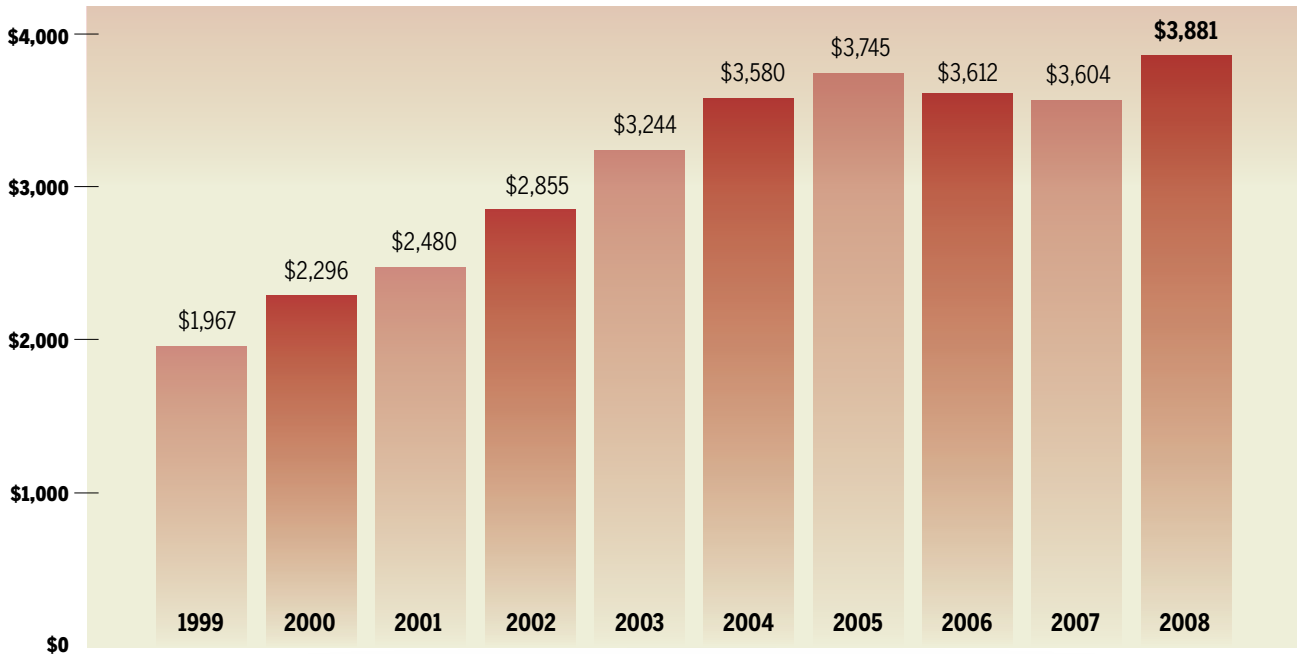


In 2008 independent community pharmacy represented an \$88 billion marketplace, with 93 percent of sales for independents derived from prescription drugs. Although many independents continue to face slim margins from private third-party contracts and government reimbursement programs, independents have strived to reduce their overhead costs by operating a more efficient business, investing in labor-saving technologies, and keeping payroll costs down. In 2008 there were 22,728 independent community pharmacies employing over 260,000 workers and providing high quality services and niche markets which are greatly valued by patients.

INDEPENDENT COMMUNITY PHARMACY AT-A-GLANCE

2008	
Average number of pharmacies in which each independent owner has ownership	1.46
Value of inventory as cost and as a percentage of sales	
Prescription inventory	\$242,621 6.3%
Other inventory	\$39,963 1.0%
Total inventory	\$282,584 7.3%
Annual rate of inventory turnover	10.4
Annual rate of prescription inventory turnover	11.7
Median sales per square foot	
Prescription sales per square foot	\$3,732
Other sales per square foot	\$85
Total sales per square foot	\$1,161
Number of prescriptions dispensed per pharmacy location	
New prescriptions	28,412 46%
Renewed prescriptions	33,967 54%
Total prescriptions	62,379 100%
Average prescription charge	\$58.02
Number of hours and days per week per location	
Hours open per week	55
Days open per week	6
Sales activity per hour open	
Prescription sales per hour	\$1,266
Other sales per hour	\$91
Number of prescriptions dispensed per hour	22
Percentage of total prescriptions covered by:	
Government programs (Medicaid or Medicare Part D)	44%
Other third-party programs	44%
Percentage of generic prescriptions dispensed	65%

FIGURE 1 • AVERAGE ANNUAL SALES (IN THOUSANDS) PER PHARMACY LOCATION



An overview of the average independent community pharmacy is provided in Table 1. In general, the average independent community pharmacy location dispensed 62,379 prescriptions (200 per day) in 2008, which is a slight increase from last year's prescription volume of 61,052. This trend is similar to what other indicators in the pharmacy marketplace are showing. Thus, the average independent community pharmacy is filling more prescriptions per day compared to last year. Given this, independent community pharmacists are looking for ways to create a more efficient pharmacy, often by implementing new technologies.

Independents continue to operate multiple pharmacies. Twenty-five percent of independent owners have ownership in two or more pharmacies and the average number

of pharmacies in which each independent owner has ownership is 1.46.

The *NCPA Digest*, sponsored by Cardinal Health data have been collected for over 75 years, providing an opportunity to look at long-term trends for independent community pharmacies. (Go to www.ncpanet.org for the history of the *Digest*.) Gross margins fell in the 1990s and since 1999 have remained relatively flat at 22 to 24 percent. Alternatively, average sales per pharmacy location have increased 97 percent since 1999.

- Average sales per location for 2008 was \$3,880,802, slightly up from 2007. This is most likely correlated with an increase in prescription volume and an increase in average prescription charge.

TABLE 1 • AVERAGES OF PHARMACY OPERATIONS

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of goods sold	76%	76.7%	77%	76.5%	76%	77.9%	76.4%	77.2%	76.8%	76.8%
Gross profit	24%	23.3%	23%	23.5%	24%	22.1%	23.6%	22.8%	23.2%	23.2%
Payroll expenses	12.8%	12.2%	12.5%	13.1	13.2%	12.2%	13.4%	13.6%	13.7%	13.5%
Other operating expenses	7.6%	7.9%	6.9%	6.6%	6.8%	6.3%	6.5%	6.4%	6.5%	6.5%
Total expenses	20.4%	20.1%	19.4%	19.7%	20%	18.5%	19.9%	20%	20.2%	20%
Net operating income	3.6%	3.2%	3.6%	3.8%	4%	3.6%	3.7%	2.8%	3.0%	3.2%

- Gross margin remained constant as in 2007 at 23.2 percent.
- Payroll expenses, as a percentage of sales, decreased by 0.2 percentage points in 2008 to 13.5 percent. The number of employees also decreased which allowed payroll expenses to decrease. As prescription volume increased, pharmacists were challenged with becoming more efficient; thereby filling more prescriptions with less staff.
- All other operating expenses remained at 6.5 percent.
- Through attempts by independents to lower their payroll expenses and control operating expenses, the average net operating income increased to 3.2 percent. However, the net operating income dollars before tax remained similar to 2007.

It is important to note that this year's *Digest* data reflect the marketplace in 2008, the third year for the Medicare Part D prescription drug benefit. In 2008, 30 percent of prescriptions in independent community pharmacies were covered by Medicare Part D, a 4 percentage point increase from last year. Thus, the role of government programs such as Medicare Part D and Medicaid continues to increase while private third-party plans have been declining since 2005.

VIABILITY OF INDEPENDENT COMMUNITY PHARMACY

Independent community pharmacies are working hard to improve their financial position. Historically, before the

implementation of Medicare Part D in 2006, an average of 12.4 percent of independent community pharmacies operated at a loss between 2001 and 2005. In 2006 the profitability of pharmacy took a strong hit, 22.9 percent of independent community pharmacies operated at a loss for the fiscal year in 2006 while over 1,100 pharmacies ended up closing their doors. In 2007 independent community pharmacy saw a slight improvement compared to the previous year, with 19.2 percent of pharmacies operating at a loss for the fiscal year 2007.

VIABILITY OF INDEPENDENT PHARMACY		
Net Profit as a Percent of Sales	Percentage of Pharmacies	Accumulated Percentages
Operating at a loss	14.7%	14.7%
Less than 2%	28.9%	43.6%
2 to 4%	21.8%	65.4%
4% to 6%	12.8%	78.2%
6% to 8%	10%	88.2%
8% and over	11.8%	100%

In 2008, 14.7 percent of independent community pharmacies operated at a loss. Independent community pharmacists are finding ways to remain financially viable. For example, independents this year reduced their payroll expenses, increased the use of technology, and obtained revenue for medication therapy management (MTM) services provided.

DISTRIBUTION OF PHARMACIES OVER TIME BY NET PROFIT

