IBISWorld

WHERE KNOWLEDGE IS POWER

Fast relief: Industry revenue has grown as generic medications have become more popular

IBISWorld Industry Report 44611
Pharmacies & Drug Stores in the US

September 2018

Christopher Lombardo

About this Industry

Industry Definition

Pharmacies and drug stores retail a range of prescription and over-the-counter medications, health and beauty items, toiletries and consumable goods directly to consumers on a walk-in basis. Industry companies may also provide basic health and photo processing services. The industry excludes mail-order retailers, hospitals and clinics.

Main Activities

The primary activities of this industry are

- Preparing and selling prescription and nonprescription drugs and medicines
- Retailing basic consumable goods
- Advising customers on the use of both prescription and over-the-counter drugs
- Selling other miscellaneous items, such as candy, cosmetics, magazines and light refreshments

The major products and services in this industry are

- Branded prescription drugs
- Cosmetics
- Generic drugs
- Groceries and food items
- Nonprescription medicines
- Personal health supplies
- Vitamins, minerals and dietary supplements
- Other

Similar Industries

32541a Brand Name Pharmaceutical Manufacturing in the US
Industry operators make biological and medicinal products and botanical drugs and herbs.

32541b Generic Pharmaceutical Manufacturing in the US
Industry operators make biological and medicinal products and botanical drugs and herbs.

44619 Health Stores in the US
Industry operators retail food supplement products, such as vitamins, nutrition supplements and body-enhancing supplements.

62211 Hospitals in the US
Industry operators provide medical, diagnostic and treatment services.

45411a E-Commerce & Online Auctions in the US
Industry operators retail goods via electronic home shopping, mail order or direct sale.

45411b Mail Order in the US
Industry operators sell goods via electronic home shopping, mail order or direct sale.

About this Industry

Additional Resources

For additional information on this industry

www.pharmacist.com
American Pharmacists Association

www.aspl.org
American Society for Pharmacy Law

www.cms.gov
Centers for Medicare & Medicaid Services

www.chaindrugreview.com
Chain Drug Review

www.drugstorenews.com
Drug Store News

www.drugtopics.com
Drug Topics

Industry at a Glance

Pharmacies & Drug Stores in 2018

Key Statistics Snapshot

Revenue	Annual Growth 13–18	Annual Growth 18–23
$290.6bn	2.6%	2.4%
Profit	**Wages**	**Businesses**
$16.9bn	$29.2bn	29,999

Market Share

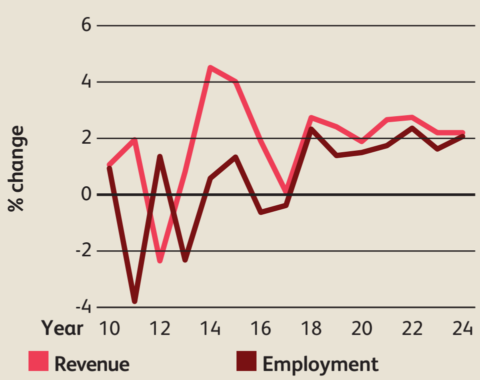
Walgreens Boots Alliance Inc. 33.7%

CVS Health Corporation 28.9%

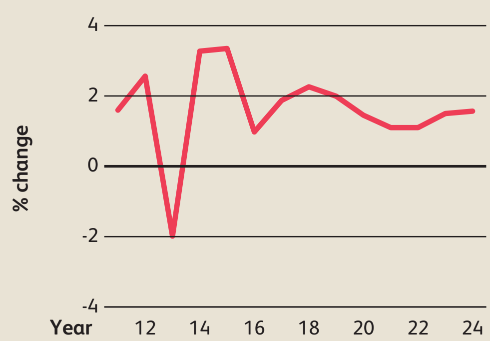
Rite Aid Corporation 5.3%

p. 28

Revenue vs. employment growth



Per capita disposable income



SOURCE: WWW.IBISWORLD.COM

Key External Drivers

Per capita disposable income

Number of people with private health insurance

Number of physician visits

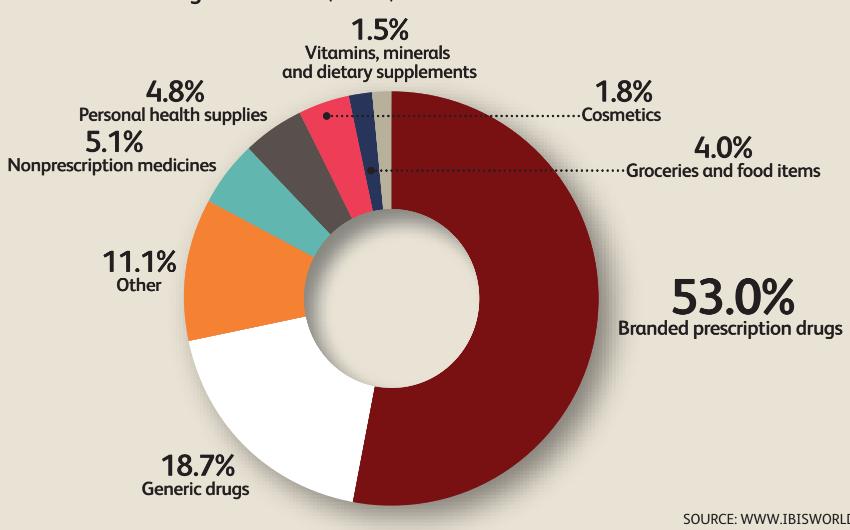
Number of adults aged 65 and older

External competition for the Pharmacies and Drug Stores industry

Federal funding for Medicare and Medicaid

p. 5

Products and services segmentation (2018)



SOURCE: WWW.IBISWORLD.COM

Industry Structure

Life Cycle Stage	Mature	Regulation Level	Medium
Revenue Volatility	Low	Technology Change	Medium
Capital Intensity	Low	Barriers to Entry	Medium
Industry Assistance	Low	Industry Globalization	Low
Concentration Level	Medium	Competition Level	High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 39

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

The Pharmacies and Drug Stores industry is comprised of operators that retail a range of prescription and over-the-counter medications, health and beauty items, toiletries and consumable goods directly to consumers on a walk-in basis. Over the five years to 2018, the industry exhibited growth despite some adverse side effects from the regulatory environment and growing external competition. Still, the rise in the number of individuals aged 65 and over, in tandem with increases in spending on prescription medication, is expected to lead to revenue growth. Thus, over the five years to 2018, industry revenue is expected to increase at an annualized rate of 2.6% to $290.6 billion, including estimated growth of 2.7% in 2018 alone. However, heightened competition from large retail stores with ancillary pharmaceutical services, such as Costco and Walmart, and the rising prevalence and convenience of mail-order and online pharmaceuticals will continue to threaten the industry.

The industry has benefited from more patients being able to afford prescriptions

Nevertheless, the patent cliff, which caused many blockbuster drugs to lose their patent exclusivity, has bolstered industry revenue over the past five years; new generic drugs typically provide high profit margins for pharmacies and drug stores due to their bulk purchasing and the pricing power they wield. To cut healthcare costs, many third-party payers, including Medicare, Medicaid and private health insurance providers, have implemented formulary tiers that favor generics over brand-name medications. For example, generic drugs are typically tier-one drugs, which translates to low copayment costs for consumers. As a result of formulary tiers stimulating generic drug utilization, pharmacies and drug stores have benefited from more patients being able to afford their prescriptions.

Over the five years to 2023, the industry is expected to continue its upward trajectory, despite expected increases in external competition. Over the next five years, revenue is anticipated to increase at an annualized rate of 2.4% to $326.9 billion. This expected growth can be tied to the expected increase in the elderly population, along with rising per capita disposable income. Additionally, more operators are expected to incorporate additional preventative care options and clinic services to attract a wider customer base, and many operators will attempt to further revenue gains by offering a larger product portfolio of high-margin biologic drugs.

Key External Drivers

Per capita disposable income

The level of household income determines consumers' ability to purchase industry products. Although need-based demand for prescription drugs is typically less susceptible to changes in consumers' discretionary income, sales of nonessential, front-end goods are influenced by fluctuations in disposable income. Per capita disposable income is expected to increase in 2018, representing a potential opportunity for the industry.

Number of people with private health insurance

Private health insurance coverage typically lowers the price of pharmaceutical products by reducing individuals' out-of-pocket health expenditures. As private health insurance coverage increases, more individuals will

Industry Performance

Key External Drivers continued

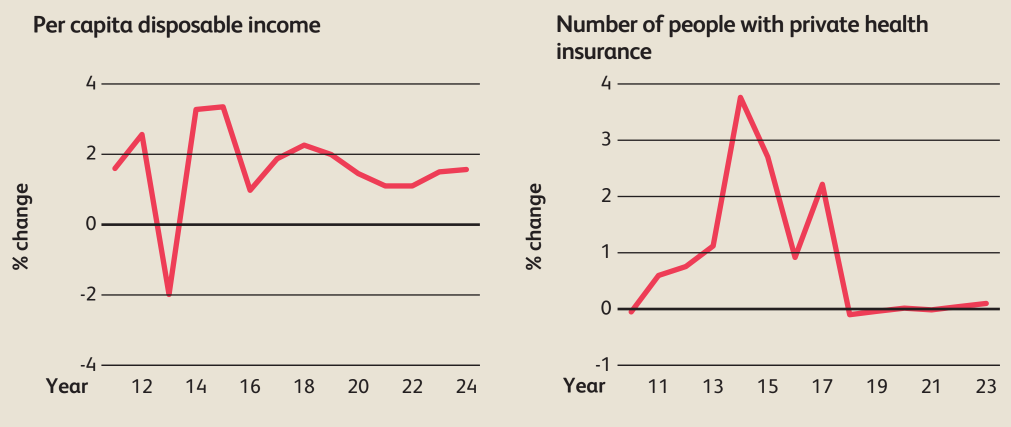
be able to afford their medications; however, managed-care organizations may place downward pricing pressure on drug reimbursement rates, thus cutting into industry revenue. The number of people with private health insurance is expected to decrease in 2018.

Number of physician visits
The number of physician visits generally rises as more individuals can afford healthcare services, particularly preventive care. As a result of consumers visiting their doctor more frequently, they become warier of their health issues, thus increasing demand for prescriptions. The number of physician visits is expected to increase in 2018.

Number of adults aged 65 and older
As the population ages, demand for pharmaceutical products to address health ailments, such as chronic illnesses, typically rises. According to data from the CDC (Centers for Disease Control and Prevention), an estimated 89.8% of individuals aged 65 and older used a prescription drug during a 30-day period between 2009 and 2012 (latest data available). As a result, the industry benefits from strong need-based demand for prescription drugs from this age demographic. In 2018, the number of adults aged 65 and older is expected to increase.

External competition for the Pharmacies and Drug Stores industry
Pharmacies and drug stores experience mounting competition from mass merchandisers (e.g. discount stores, supercenters and warehouse clubs), mail-order prescription providers, online pharmacies, convenience stores, wholesalers (e.g. Costco) and health clinics. Due to intensifying competition, the industry will contend with many external competitors cutting into consumer demand for industry products. External competition is expected to increase in 2018, posing a potential threat to the industry.

Federal funding for Medicare and Medicaid
Medicare and Medicaid programs assist seniors and lower-income consumers with affording prescription drugs. Due to healthcare reform, Medicare patients in the coverage gap will have some of their prescription costs subsidized, thus boosting demand for prescription drugs from pharmacies and drug stores. Federal funding for Medicare and Medicaid is expected to increase in 2018.



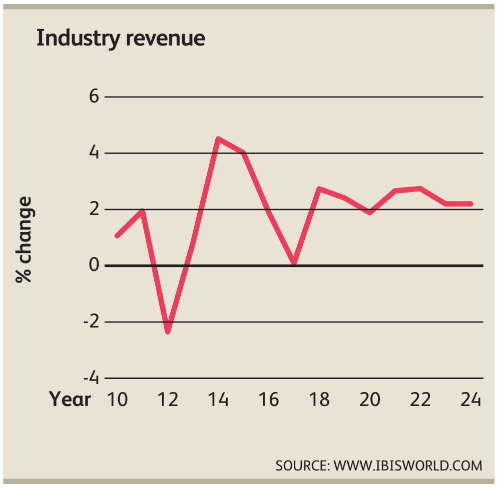
SOURCE: WWW.IBISWORLD.COM

Industry Performance

Current Performance

The Pharmacy and Drug Stores industry is comprised of operators that retail a range of prescription and over-the-counter (OTC) medications, health and beauty items, toiletries and consumable goods directly to consumers on a walk-in basis. Over the five years to 2018, industry revenue is expected to grow at an annualized rate of 2.6% to $290.6 billion, including estimated growth of 2.7% in 2018 alone. The growth of the industry can largely be attributed to the burgeoning elderly population requiring medications to address their chronic health ailments and the increase in spending on prescription medication.

Over the past five years, pharmacies and drug stores have included more preventive care services in their product portfolio, bolstering industry revenue. Many pharmacies and drug stores began including flu vaccines, immunizations and health screenings in their service offerings, as well as monitoring patients' chronic conditions. Furthermore, as more individuals obtained health insurance due to healthcare reform, more patients were able to afford visits to their healthcare providers. As a result, more individuals became aware of their health conditions, prompting higher prescription sales volumes and benefiting the industry.



Maintaining consumers

Over the five years to 2018, some budget-conscious consumers cut their prescription costs by taking lower dosages, differing refills or switching from brand-name prescriptions to generic drugs. According to a study by Consumer Reports, generic drug prices are subject to substantial price disparities, with some alternative retailers such as Costco offering the least-expensive options for prescriptions. Typically, prescriptions are about 10.0% more expensive at the drug store than at a traditional grocer or big-box retailer. To mitigate this trend and bolster front-end sales, many pharmacies and drug stores have offered discount products and discount rewards programs, evidenced by key player CVS Health Corporation's ExtraCare loyalty card program and Rite Aid Corporation's Wellness Plus loyalty program.

The industry derives an estimated 76.8% of total revenue from pharmaceuticals, including OTC and prescription drugs, which demonstrates the industry's reliance on prescription sales to generate revenue. Nevertheless, the patent cliff has changed the industry's landscape during the current five-year period. Just prior to the current period, many blockbuster drugs lost their patent exclusivity, permitting generic equivalents of the brand-name drugs to inundate the market. According to data from the Association for Accessible Medicines (AAM), 89.0% of prescriptions dispensed in the United States were generic in 2016 (latest available data), though generics are only expected to account for 18.7% of drug costs. Typically, new generic drugs are highly profitable for the industry, which has

Industry Performance

Maintaining consumers continued

provided a boon for pharmacies and drug stores during the period. As a result, industry profit margins have remained relatively steady at an estimated 5.8%. However, depending on an operator's size and relation with pharmacy benefit managers (PBMs), profit margins in the industry can vary from 3.0% to 8.0%.

In response to rising healthcare costs, many health insurance providers, as well as federal programs such as Medicare and Medicaid, have implemented incentives to increase generic drug utilization. For example, generic drug utilization has saved the US healthcare system an estimated $1.7 trillion from 2006 to 2016 (latest data available), according to an AAM report. By having reimbursement rates set into formulary tiers, third-party payers have increased generic drug utilization among patients in their network by setting low copayment costs for low-formulary tier generic drugs. As a result, the industry has benefited from more individuals being able to afford their medications during the period.

However, spikes in generic acquisition costs have caused reimbursement rates to lag, posing an issue for many industry players. According to a study by the National Community Pharmacists Association (NCPA), 76.0% of pharmacists reported 26 or more occurrences of a spike in generic drug acquisition price during a six-month period in 2014 (latest available data); similarly, in a 2013 NCPA survey, 86.0% of pharmacists reported that it took the PBM two to six months to update its reimbursement rate. As a result of this trend, the industry has grappled with reimbursement rates being slow to reflect acquisition costs, which, in some instances, has incited some pharmacies and drug stores to refrain from filling prescriptions altogether.

PBMs expand their role in the sector

PBMs are third-party administrators of prescription drug programs and are responsible for processing and paying prescription drug claims. More than 260.0 million Americans nationwide receive drug benefits administered by PBMs. As PBMs have consolidated, their ability to negotiate low reimbursement prices has increased, hampering industry revenue. Over the past five years, many PBMs have strengthened their preferred pharmacy networks and forced industry operators to accept unfavorable reimbursement rates, with some reimbursement rates set below industry operators' costs. As a result, competition for operators is expected to intensify, with smaller players exiting the market altogether. Nevertheless, the number of industry enterprises is expected to increase at an annualized rate of 2.9% to 29,999 over the five years to 2018. Thus, the number of industry employees is expected to grow as well, albeit at a slower rate, increasing an annualized 0.6% to 729,907 workers during the same period. Some independent and small chain pharmacies and drug stores have entered the market to take advantage of a burgeoning elderly population, coupled with many pharmacies having robust front-store sales.

> As PBMs have consolidated, their ability to negotiate has increased

However, according to IQVIA (formerly IMS Health and Quintiles)'s 2017 "Medicines Use and Spending in the US" report, the number of prescriptions dispensed by chain stores grew from 2,751 in 2012 to 3,259 in 2016 (latest data

Industry Performance

PBMs expand their role in the sector continued

available). Comparatively, independent retail channels dispensed fewer prescriptions, while food and big-box stores, such as Walmart, have captured a larger share of the prescription market, contributing to the industry's dismal 0.1% revenue growth in 2017. In response to the growing threat, many larger players, in an attempt to stay ahead of the curve, have started offering online and mail prescription services to combat growing competition from outside the industry. However, any gains made from these services would not affect industry revenue figures and would instead be reflected in the E-Commerce and Online Auctions and Mail Order industries (IBISWorld reports 45411a and 45411b, respectively).

Industry Performance

Industry Outlook

The Pharmacies and Drug Stores industry is expected to continue growing over the five years to 2023, despite an anticipated increase in external competition. Over the five years to 2023, industry revenue is expected to increase at an annualized rate of 2.4% to $326.9 billion. This anticipated growth will follow many operators expanding their stores' services to include preventive care options and additional front-end offerings. Additionally, as the number of insured individuals is expected to remain relatively stagnant, individuals will continue to experience low out-of-pocket costs and easier access to prescription medications. This trend, coupled with rising per capita disposable income, will enable more individuals to be compliant with their prescription dosages and refills, thus benefiting the industry. Additionally, profit is expected to rise from 5.8% of industry revenue in 2018 to 5.9% in 2023, which can be attributed to the industry dispensing more high-margin drugs, including biologic drugs.

Patent cliff

According to data from EvaluatePharma, about $215.0 billion in brand-name pharmaceutical sales will be exposed to generic competition between 2015 and 2020. Nevertheless, the loss of patent exclusivity will occur at a lower rate than the previous period, causing fewer new drugs to enter the market. Low-cost generic equivalents will continue to inundate the market, benefiting the industry, as their low cost enables more consumers to comply with their medication dosage and refills. However, slight revenue constriction will occur as consolidation among generic manufacturers lower price-based competition among generic drug makers, thus causing the industry's generic acquisition cost, or the price of purchasing generic drugs from manufacturers, to rise during the coming five-year period.

While new generic drugs garnered high profit margins for the industry over the five years to 2018, a smaller patent cliff will result in fewer new generic drugs, thus causing the industry to contend with generics being less profitable. For example, according to Drug Channels, the most widely dispensed generic drug has an average prescription price below $10.00, which demonstrates how low margins are for generic drugs. According to the Association for Accessible Medicines (AAM), 89.0% of prescriptions dispensed in the United States were generic in 2016 (latest available data). While the generic dispensing rate is expected to rise from 2015 to 2023, its growth will likely taper, according to National Health Expenditure Data forecasts from the Centers for Medicare and Medicaid Services. Additionally, the industry will move toward bolstering revenue and profitability by offering a large product portfolio of high-margin biologic drugs. The industry will play a growing role in preventive healthcare by ensuring that individuals adhere to their therapeutic regimens. This is because many biologic drugs have different dosing schedules based on the specific disease being treated, the patient's side effects or the patient's radiation schedule. These parameters will prompt many pharmacists to provide an integral component in promoting patient prescription compliance and overall health.

A smaller patent cliff will result in fewer new generic drugs, making generics less profitable

Industry Performance

Competition and consolidation

Over the next five years, competition will intensify, particularly due to mass merchants and mail-order and online pharmacies, which compete with the industry for sales volumes and negatively impact industry sales prices. Additionally, pharmacy benefit managers (PBMs) will continue to consolidate, increasing their ability to negotiate low reimbursement rates with pharmacies and drug stores, as well as establish their preferred networks. In particular, PBMs with strong bargaining power will garner industry revenue for independent and small chain pharmacies, which do not have the leverage necessary to terminate unfavorable contracts. For example, PBMs can set stringent maximum allowable costs (MACs), which is a list of the maximum amounts a plan will pay for generic and brand-name drugs. Further limiting industry revenue growth, PBMs can choose the prescriptions on their MAC list, which will enable PBMs to set low reimbursement rates and charge high prices for MAC prescriptions. Moreover, big-box retailers, such as Walmart and Costco, are expected to continually siphon demand from industry operators as their economies of scale enable them to sell front-end goods at far lower prices and even prescription medications at slightly lower prices. Additionally, in 2018, Amazon announced plans to acquire online pharmacy PillPack. With more companies like Amazon planning on introducing online pharmacy services, operators will experience increased external competition in many forms over the next five years, threatening industry operations.

Due to high competition, many pharmacies and drug stores will consolidate

Due to the high and increasing level of competition expected, coupled with low reimbursement rates, many pharmacies and drug stores will consolidate. Over the next five years, large players will continue acquiring small chain and independent pharmacies and drug stores to strengthen their market share and have the leverage necessary to negotiate favorable rates with PBMs. Additionally, many established operators are expected to expand their geographical reach to strengthen their wellness service offerings. Thus, the number of industry establishments is expected to increase at an annualized rate of 2.1% to 63,767. To further combat external competition, more operators will move into the general healthcare sector to provide customers with a more comprehensive health management experience. Operators will seek to add more consultation and clinic services, requiring a larger and more diverse staff of not only pharmacists, but nurse practitioners and physician assistants as well. As a result, industry employment is expected to increase at an annualized rate of 1.7% to 794,928 employees.

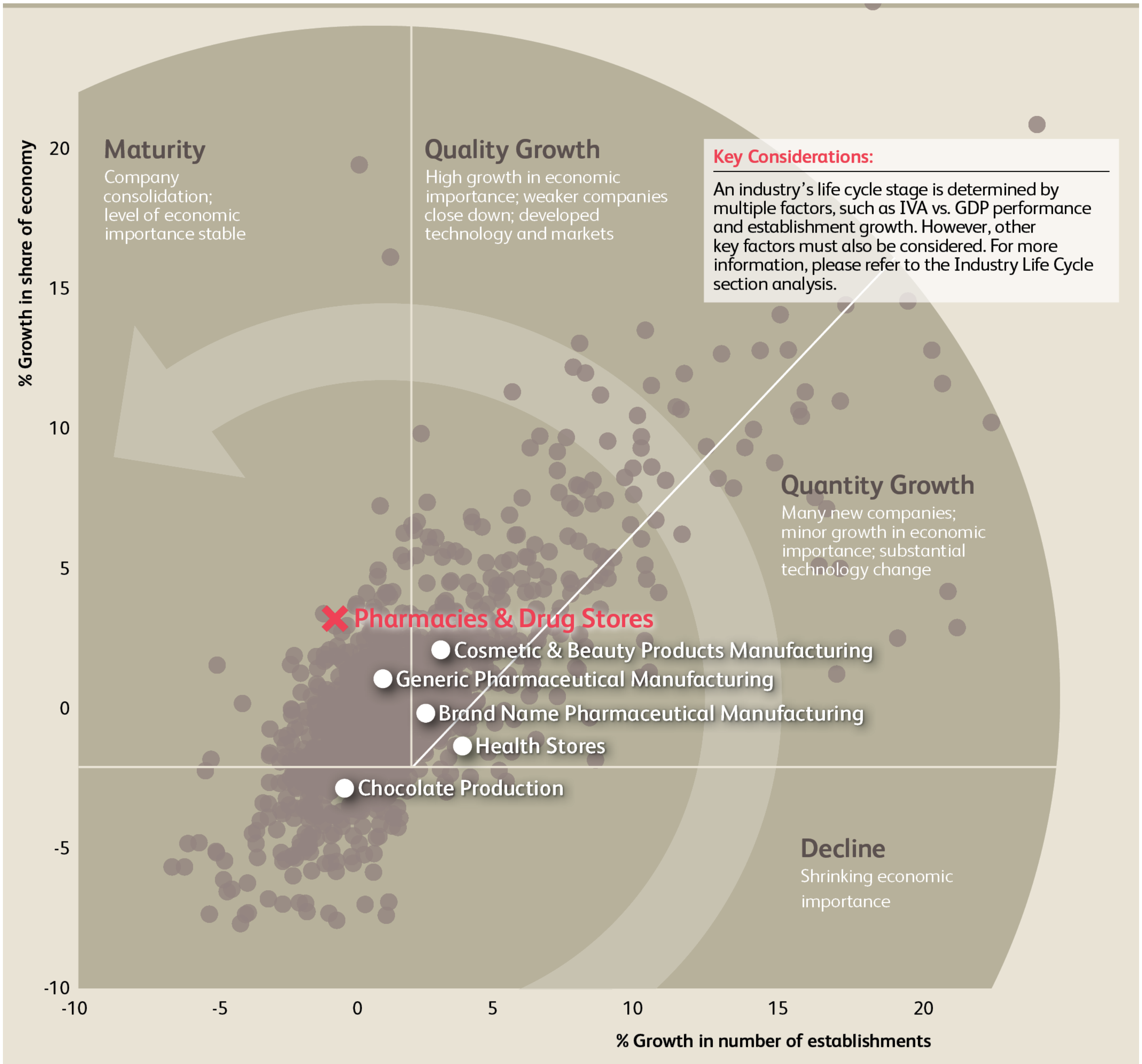
Industry Performance

Life Cycle Stage

Intense competition from supercenters, warehouse clubs and supermarkets is partly offsetting growth from new drugs

Industry value added has been only slightly above GDP growth

Consolidation represents geographic and product saturation



SOURCE: WWW.IBISWORLD.COM

Industry Performance

Industry Life Cycle

This industry is **Mature**

The Pharmacies and Drug Stores industry displays the traits characteristic of an industry in the mature stage of its life cycle. Over the 10 years to 2023, industry value added (IVA), which measures the industry's overall contribution to the economy, is anticipated to increase at an annualized rate of 1.9%. Comparatively, US GDP is forecast to grow at an annualized rate of 2.2% over the 10 years to 2023. IVA growth that is similar to GDP growth is a strong indication of an industry in the mature stage of its life cycle. Moreover, high competition, coupled with many industry players consolidating, are additional indicators of an industry in the mature stage of its life cycle.

New players are also deterred by the strong rivalry between the top two players, Walgreens Boots Alliance Inc. and CVS Health Corporation, which make up an estimated combined 62.6% of total industry revenue in 2018. Further indicative of an industry in the mature stage of its life cycle, the industry has been characterized by relatively stagnant profit margins. Although major players have started adding services to their product portfolio, such as flu shot immunization, many small chains and independent pharmacies and drug stores have failed to compete with external competitors, such as Walmart and Costco. In the mature drug store market, it has become increasingly challenging to generate new sales, partly because industry operators offer mature products. While drug innovations stimulate sales, retaining a strong customer base is still relatively arduous. In addition, front-end items, such as cosmetics, typically do not draw in new customers or offer competitive advantages, as many of the same external competitors offer a wider array of industry operators' front-end items and at lower price points.

Additionally, because drug stores are ubiquitous in the United States (nearly all Americans live within five miles of a pharmacy, according to The National Association of Chain Drug Stores), it is difficult to find unexplored markets. Product selection, service and store layout can provide marginal competitive advantages, but the most effective path to growth is through acquisitions, which can gain a company access to a new clientele.

Products & Markets

Supply Chain | Products and Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

99 **Consumers in the US**
Households are the main consumers of products sold by the industry.

KEY SELLING INDUSTRIES

31135 **Chocolate Production in the US**
Companies in this industry supply point of sale goods such as confectionery and chocolates to drug stores and pharmacies.

32541a **Brand Name Pharmaceutical Manufacturing in the US**
Brand name pharmaceutical manufacturers develop some of the prescription drugs that pharmacies sell.

32541b **Generic Pharmaceutical Manufacturing in the US**
Generic pharmaceutical manufacturers produce some of the prescription drugs that pharmacies sell.

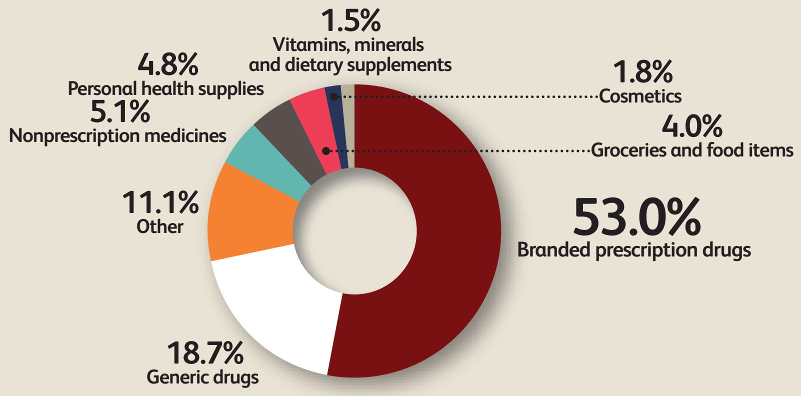
32562 **Cosmetic & Beauty Products Manufacturing in the US**
Companies in this industry supply toilet preparations, such as perfumes, shaving preparations, hair preparations, face creams, lotions (including sunscreens), and other cosmetic preparations to drug stores and pharmacies.

42341 **Camera & Film Wholesaling in the US**
Companies in this industry provide film and photo developing and finishing equipment to various drug stores and pharmacies.

42421 **Drug, Cosmetic & Toiletry Wholesaling in the US**
Companies that wholesale biological and medical products, botanical drugs and herbs and pharmaceutical products such as ampoules, tablets, capsules, vials, ointments, powders, solutions and suspensions are key suppliers to the industry.

Products and Services

Products and services segmentation (2018)



Total $290.6bn

SOURCE: WWW.IBISWORLD.COM

The Pharmacies and Drug Stores industry provides a range of products and services, the most important of which is the sale of prescription and nonprescription medicines (e.g. over-the-counter medications). These two product segments account for 71.7% of total revenue. Other products include over-

Products & Markets

Products and Services continued

the-counter (OTC) medications, toiletries, cosmetics, groceries and food items, stationery and housewares.

Prescription drugs

A prescription drug is a licensed medicine that requires a prescription from a physician or other medical practitioner before a consumer can purchase it. Sales of prescription drugs as a percentage of total industry revenue have increased over the five years to 2018, as drug stores have responded to competition from mass merchants by strengthening their core product areas. Over the past five years, generic drugs have increased their share of revenue within the prescription drugs product segment, while brand-name drugs have declined.

Brand-name drug sales in 2018 are expected to account for 53.0% of total industry revenue, with generic drugs (including both branded and nonbranded generics) accounting for 18.7% of total revenue. According to OptumRx, generics account for almost two-thirds of prescriptions filled across all retail channels, up from 30.0% in 1990. Generic drugs are typically between 30.0% and 80.0% less expensive than their branded equivalents, which has stimulated volume growth for generic drugs.

Nonprescription medicines

Nonprescription medicines, or OTC drugs, can be obtained without a prescription. In the United States, the Federal Food, Drug, and Cosmetic Act defines which drugs require a prescription. As a general rule, OTC drugs are used to treat conditions that do not necessarily require care from a professional and have been proven to meet higher safety standards for patient self-medication. Typically, a drug of lower strength will be approved for OTC use. For example, ibuprofen has been widely available as an OTC painkiller since the mid-1980s.

Sales of OTC medications primarily include cough and flu medicines, as many individuals feel pressured to come to work despite upper-respiratory illness, and are estimated to make up 5.1% of industry revenue in 2018. Demand for OTC drugs is expected to increase over the five years to 2023, as more time-strapped consumers purchase OTC drugs to mitigate numerous ailments, including the flu, and as more drugs become available over the counter.

Other products and services

In response to pressured profit of prescription drugs, pharmacies and drug stores have increasingly incorporated higher margin products and services, such as cosmetics, grocery, photocopying and facsimile services. Additionally, with revenue expected to increase an annualized 10.0% over the three years to 2021 according to Business Wire, the natural and organic market is one of the most opportune categories for pharmacies and drug stores. The strong demand is due to the rise in ethical purchasing and the mainstreaming of natural and organic products. Furthermore, industry players have been increasing their focus on front-end sales to increase customer traffic and purchases, with more visible and successful changes in the consumables category, which are the second-largest contributor to front-end sales. However, demand for front-end products is one of the biggest segments siphoned off by external competitors. As large online-retailers and big-box retailers continue to increase their offering of these types of products, and generally at a lower price point, operators will need to find ways to keep remain competitive.

Products & Markets

Demand Determinants

Demand for retail products is generally influenced by consumer sentiment, disposable income and consumer tastes and preferences. More specifically, the four main factors driving drug expenditures include changes in the health of the population, drug prices, government health policies and pharmaceutical use.

The economy shapes spending

Changes in disposable income and consumer sentiment affect the level of overall spending in the economy. Typically, prescriptions are recession-proof because they are a relatively necessary good for consumer health. However, some prescriptions are sensitive to average household income, such as noncritical drugs and herbal products. Although prescription drugs are relatively recession-proof, many consumers may refill their prescriptions less often, reduce their dosage or substitute brand-name prescriptions for generic to lower healthcare costs. Sales of other front-store items, such as cosmetics and personal care items, are subject to changing levels of disposable income and sentiment. Additionally, when disposable income is low, consumers are less likely to visit their physician, leading to slightly diminished demand for prescription medications.

Age, behavior and health

Consumer health affects prescription drug usage. Over the 10 years to 2018, prescription sales increased about six times faster than population growth, resulting in a dramatic increase in the average number of retail prescriptions per capita. The age structure of the population plays a major role in the rising use of drugs. In general, the senior population has higher demand for pharmaceutical and medicinal products. The 65 and older age group already accounts for roughly two-thirds of total US healthcare expenditures, with this proportion expected to increase over the five years to 2023. The aging US population is increasing demand for preventative drugs and medications that enable patients to take a more active role in sustaining their well-being.

Prices stabilize

The price of pharmaceutical products also influences demand. In particular, as more generic medicines are introduced into the market, industry products become accessible to a wider spectrum of consumers. Generic drugs are typically 30.0% to 80.0% less expensive than their branded equivalents, which generates greater volume growth for generic drugs. The pipeline of new generics was one of the most noteworthy influences on the Pharmacies and Drug Stores industry over the five years to 2018. As key branded prescriptions lose patent protection, more consumers are using generic drugs. Pharmacies and drug stores experience a profit boost from the introduction of generic drugs, particularly in the exclusivity and post-exclusivity life cycle stages.

The introduction of more generics has slowed the rapid progression of pharmaceutical price increases. The average brand-name prescription price in 2018 is expected to be more than three times the average generic price. Consequently, the rate of growth in drug market prices has slowed over the five years to 2018. This would normally stimulate demand within the Pharmacies and Drug Stores industry; however, the price decreases that mass merchants are imposing causes steep competition from the higher-priced pharmacy and drug stores. Therefore, though drug prices are moderating, not all parts of the industry are benefiting.

Government regulation

Demand for pharmaceuticals is always subject to changes made by the government. Consumers usually pay for a

Products & Markets

Demand Determinants continued

share of the cost of prescription drugs, and the government or private insurers pay for the remainder. Moreover, few industries are subject to as much regulation as the pharmaceutical industry due to safety concerns. The government designs cost-containment programs that can encourage consumption, and it also controls the drug approval process that can either raise supply (if more drugs are approved) or reduce it. If new drugs are introduced, demand can potentially increase.

Additionally, Medicare and Medicaid programs are an important element of government health policy. The Medicare Prescription Drug Improvement and Modernization Act of 2003 provided a voluntary discount card for Medicare beneficiaries from June 2004 onward and added prescription drug coverage, known as Medicare Part D, to Medicare from 2006 onward. These developments have resulted in lower prices paid by consumers and, in turn, increased use of pharmaceuticals.

Higher pharmaceutical usage stimulates demand

The type of drugs that are available can affect usage and, therefore, sales. For example, the increased availability of generic drugs due to expired patents can stimulate demand but lower total revenue if the sales volume increase does not outweigh the price difference. The declining number of new drugs approved by the Food and Drug Administration (FDA) in recent years has resulted in reduced pipeline productivity in the pharmaceutical industry, rendering generics an increasingly important product segment. Along the same lines, new drugs can increase overall drug sales if they are used in place of older, less expensive medications; if they supplement, rather than replace existing drugs treatments; or if they treat a condition that drug therapy did not previously treat.

Consumer preferences also change demand patterns; furthermore, advertising can influence prescription use and a consumer shift to use higher-priced drugs. Despite growth in advertising by the pharmaceutical industry, consumer preferences regarding the treatment of conditions and diseases have gradually shifted toward alternative medicines. According to the latest data available from the National Center for Health Statistics, about one-third of adults have used alternative medicine. The greater acceptance of Chinese medicine, naturopathy and other alternatives, such as changes in diet, exercise and meditation, influence the types of products in demand. Additionally, holistic medicine, such as acupuncture, is growing in popularity.

At the same time, the growing number of drugs becoming over-the-counter (OTC) adversely affects pharmacies and drug stores. For example, OTC drugs are widely available at competitor retailers, such as supermarkets, and are generally sold at a lower price point than at pharmacies and drug stores.

Major Markets

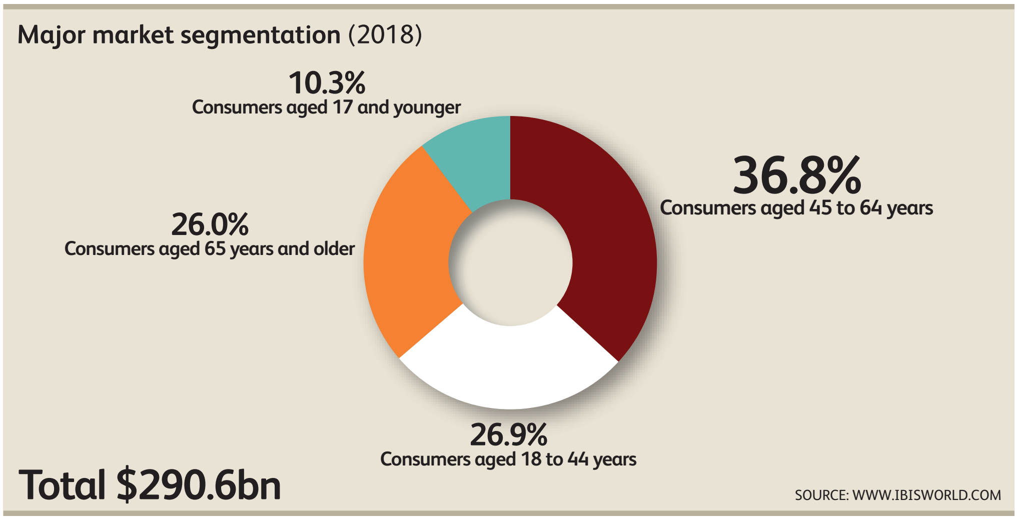
According to Chain Drug Review, a news publication for chain drug stores, pharmaceutical purchases are the main reason that consumers visit drug stores. According to IBISWorld estimates, in 2018, prescription medications are expected to account for 71.7% of total industry revenue. As a result, consumer demand for the Pharmacies and Drug Stores industry's products is largely influenced by overall demand for pharmaceuticals.

Individuals aged 17 and younger

In 2018, individuals aged 17 and younger are expected to make up 10.3% of total revenue. According to data from the

Products & Markets

Major Markets continued



Centers for Disease Control and Prevention (CDC), 21.5% of individuals in this age demographic used a prescription drug over a 30-day period from 2011 to 2014 (latest data available). Moreover, according to the CDC, 9.5% of individuals aged 3 to 17 have been diagnosed with Attention Deficit Hyperactivity Disorder (ADHD), spurring demand for prescription drugs. Additionally, 9.3% of children currently have asthma, thus increasing demand for medications if the individual has persistent asthma symptoms. Over the five years to 2018, this market segment has decreased marginally.

Individuals aged 18 to 44

Individuals aged 18 to 44 are anticipated to comprise 26.9% of total revenue in 2018. According to CDC data, 37.1% of individuals aged 18 to 44 have used a prescription drug over a 30-day period from 2011 to 2014. Over the five years to 2018, this market segment has steadily grown, partly due to the rising incidence of younger individuals that have diabetes, hypertension and other ailments, which has spurred demand for prescription drugs from this market segment.

Individuals aged 45 to 64

This age demographic is expected to generate 36.8% of total revenue in 2018. Over a 30-day period from 2011 to 2014, 69.0% of individuals aged 45 to 64 have used a prescription drug, according to the CDC. Consumers within this age demographic purchased prescription drugs to address common health ailments, including hypertension, arthritis, orthopedic impairments and heart disease, according to the National Academy on an Aging Society. Over the five years to 2023, demand for industry services from this market segment is anticipated to rise, as more individuals have their chronic ailments, among other illnesses, addressed by industry operators, due to more pharmacies and drug stores offering preventive health services.

Individuals aged 65 and older

Individuals aged 65 and older are forecast to account for 26.0% of total revenue in 2018. According to the CDC, this age demographic has the highest drug utilization rate, with 90.6% of these individuals having used a prescription drug in the past 30 days. According to data from IMS Health, individuals aged 65 to 79 used about five times the number of drugs as adults aged 19 to 25. While this demographic is more likely to use prescription drugs, compared with individuals aged 45 to 64, it still accounts

Products & Markets

Major Markets continued

for a smaller share of total revenue. This can be attributed to this age demographic making up the smallest share of the total population. Nevertheless, this age demographic typically has high demand for prescription drugs, due to elderly individuals having a high incidence rate of chronic illness. Over the five years to 2023, the growing elderly population is expected to stimulate demand for prescription drugs from this market segment.

International Trade

The Pharmacies and Drug Stores industry operates domestically. Although some of the industry's products are manufactured abroad, trade is not recorded at the retail level; instead, it is evaluated at the wholesale level.

Products & Markets

Business Locations 2018

SOURCE: WWW.IBISWORLD.COM

Products & Markets

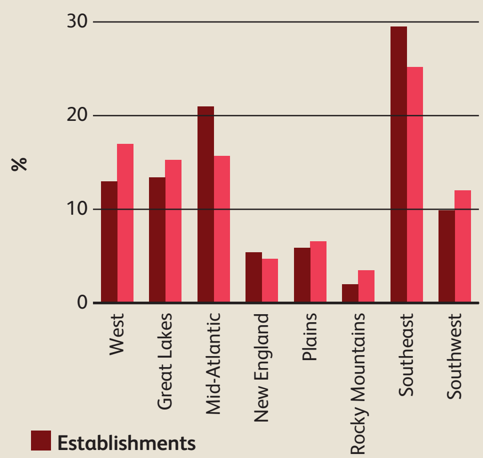
Business Locations

The Pharmacies and Drug Stores industry requires chain stores and independently operated stores to have a widespread geographic presence of conveniently located stores to be competitive. Chain drug stores with a broad geographic presence typically have an advantage over independent stores. As many Americans use pharmacies as a primary healthcare source, these stores are more capable of negotiating low prescription prices with large insurance and pharmaceutical companies.

As with most other retail establishments, convenience has become a key to success. A company's location and the ability to provide one-stop shopping are significant marketing factors. Some drug stores aim to increase sales by locating in a strip mall near hardware stores, restaurants, liquor stores, dry cleaning and laundromat facilities. It has become increasingly difficult for a drug store to remain profitable in a stand-alone site unless it is near a great deal of healthcare-related business, such as a hospital, nursing home or healthcare complex.

The Pharmacies and Drug Store industry is characterized by a combination of chain and independent pharmacies that are generally dispersed according to economic and sociodemographic variables. Chain drug stores are more concentrated in urban areas, whereas independent pharmacies are more common in rural areas. Rural pharmacies have declined over the five years up to 2018, reflecting both the growth of urban areas and a continuing decline in independent pharmacies.

Distribution of establishments vs. population



SOURCE: WWW.IBISWORLD.COM

The Southeast (29.5% of establishments), Mid-Atlantic (21.0%), Great Lakes (13.4%) and West (13.0%) regions capture the greatest share of industry establishments. On the state level, California accounts for 9.9% of industry establishments in 2018, primarily due to a higher than average population. Similarly, New York is home to 9.6% of industry establishments. Florida also has a high share of establishments (7.5%), with people aged 65 and older accounting for 18.0% of the state's population, which is higher than any other state.

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in this industry is **Medium**

In 2018, the top three players in the Pharmacies and Drug Stores industry are expected to generate 67.9% of industry revenue. The industry has a moderate-to-high level of market share concentration and primarily reflects an evolving duopoly, with Walgreens Boots Alliance Inc. and CVS Health Corporation dominating the industry. The industry is expected to continue its consolidating trend over the five years to 2023, with consolidation primarily occurring among independently operated pharmacies and drug stores as well as small chains. As a result, key industry players will strengthen their market share or diversify their product and service offering to operate in the healthcare industry at a wider level. Furthermore, rising Medicaid and Medicare prescription reimbursement rate pressures will create an increasingly competitive industry landscape for many pharmacies and drug stores.

In response to consolidation, many key industry players will have larger operations by acquiring independent retailers or small chains to expand their geographical reach. As a result, small stores will grapple with competing against key players' brand recognition. Many key players will move toward lowering their costs by combining distribution networks, negotiating lower purchase costs and streamlining their management. As major players continue to expand their market presence by acquiring other players, the share of small players within the industry is expected to decline. However, surviving independent pharmacies have started expanding in terms of revenue and volume per location, and they continue to receive the highest marks for customer satisfaction, based on surveys by J.D. Power and Associates. Typically, independent community pharmacies are pharmacist-owned and privately held, with there being more than 22,000 independent pharmacies, according to the latest data available from the National Community Pharmacists Association.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Ability to control stock on hand
Stock controls must be used to manage ideal inventory levels and increase sales. Inventory management can help retailers track the items customers are demanding and ensure these goods are available for purchase.

Superior financial management and debt management
Financial management in any retail store can be a sign of a company's health. Understanding and monitoring cash flow can enable a business owner to anticipate future needs and evaluate growth options.

Easy access for clients
Convenience is the most cited reason for shopping at a particular drug store. For this reason, industry owners focus on locations and merchandising that will save consumers time without an unreasonable price penalty.

Proximity to key markets
Drug stores should be located close to consumers (to reduce travel times) and to other stores or service providers (e.g. hospitals) to increase foot traffic.

Participation in pharmacy benefit management (PBM) networks
A PBM is a third-party administrator of prescription drug programs. It is responsible for contracting with pharmacies and directing clients to certain stores. Industry companies must operate within PBM networks to gain customers.

Experienced work force
Successful operators must staff employees with the accreditation to give

Competitive Landscape

Key Success Factors continued

medication advice to consumers. A knowledgeable front-end staff is also essential to provide efficient transactions and consumer product advice.

Cost Structure Benchmarks

Profit

In 2018, profit, measured as earnings before interest and taxes, is expected to account for 5.8% of revenue for the Pharmacies and Drug Stores industry, a slight decline from 6.0% in 2013. However, profit margins typically vary from 3.0% to as high as 8.0%, depending on the size of the operator. Due to the patent cliff, which caused several blockbuster or brand-name pharmaceuticals to lose their patent protection, many consumers have responded to the inundation of generic drugs by shifting from branded to generic prescriptions. Generic drugs are highly profitable depending on the drug's lifecycle. For example, generic drugs are profitable during the exclusivity period, when FDA approval permits only a few manufacturers to sell the generic drug, and the post-exclusivity period, when other generic manufacturers can enter the market. During the maturity period, profitability declines as several generic manufacturers can sell the product, thus lowering prescription prices. As a result, a new generic prescription stimulates industry profit, with profit being about two to three times higher compared with the brand-name drug equivalent.

The pipeline for generic drugs is expected to continue to revitalize through 2018, when several best-selling brand-name drugs lose their patent exclusivity. However, profitability may be adversely affected by the consolidation among generic manufacturers, which may lower price-based competition among generic drug makers. As a result, many generic drug makers may raise drug acquisition costs for pharmacies, which may cut into industry profitability.

However, several factors may threaten profit margins moving forward. More individuals are using government reimbursement programs, such as Medicare or Medicaid, and changes in reimbursement rates can negatively affect operators' profitability. Healthcare reform may reduce federal spending by revising the Medicaid reimbursement formula (AMP) for generic drugs, which could lead to decreasing Medicaid reimbursements. Furthermore, consolidation among pharmacy benefit managers (PBMs) can give them greater bargaining power, leading to further price pressure on industry products and services. Also, pharmacies and drug stores garner lower profit margins from selling nonprescription products.

Purchases

In 2018, purchases are expected to make up 61.6% of the average industry operator's revenue. As large industry operators continue to expand retail pharmacy operations, despite overall industry consolidation, drug stores are increasingly depending on front-end goods, which generate lower profit margins than prescription and over-the-counter drugs. Additionally, to attempt to compete with large supercenters offering pharmaceutical services, many industry operators are increasing their front-end offerings, attempting to entice customers with the convenience of shopping for multiple items in one location. However, industry operators are unable to price match many of the supercenters they are attempting to compete with. As a result,

Competitive Landscape

Cost Structure Benchmarks continued

purchase costs are expected to continue increasing over the five years to 2018. Additionally, drug costs are contributing to purchase costs, as drugs make up a significant portion of total products sold.

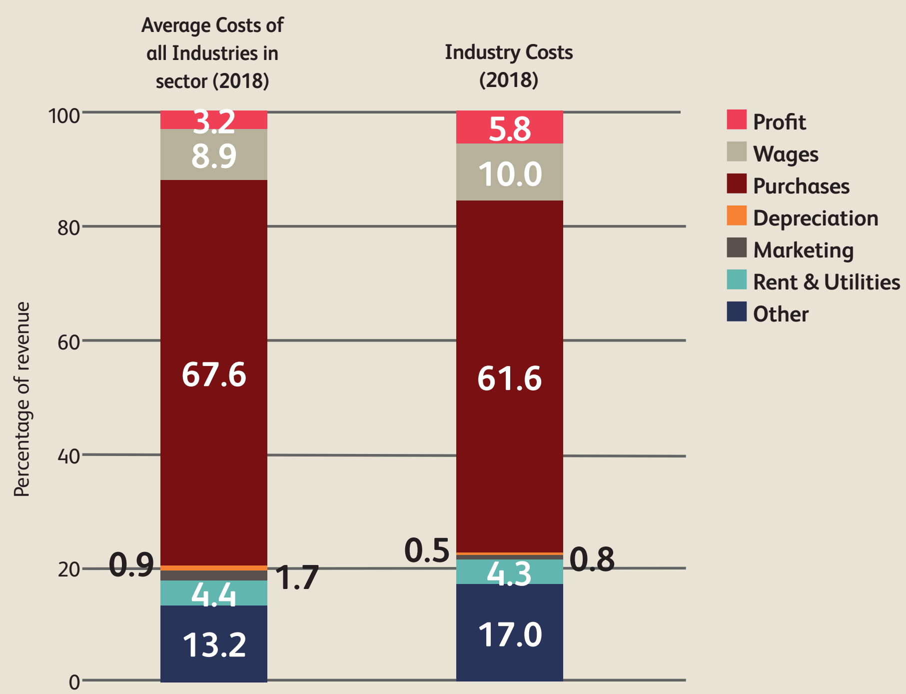
Wages

Wages are anticipated to account for 10.0% of industry revenue in 2018, representing a slight decline from 10.7% in 2013. According to the Pharmacy Manpower Project, Inc., it is forecasted that there will be a shortage of about 165,000 pharmacists by 2020. While operators may raise the average wage over the five years to 2023 to offset this shortage, operators must contend with high wage expenses in an industry that is already labor intensive. Nonetheless, demand for pharmacists is expected to increase in future years as a growing elderly population and the increasing incidence of chronic illness boosts demand for primary and preventive health services. In addition to qualified pharmacists, most drug stores are hiring more pharmacy technicians and front-store retail employees as many operators conduct larger operations, while larger operators that are offering clinic services in their locations are beginning to hire nurse practitioners and physician assistants.

Other

Drug store capital expenditures, though a relatively small portion of total costs, are expected to rise despite the decline in new store openings over the five years to 2018. Rising capital expenditures can be partly attributed to the higher cost of construction. In some cases, franchise fees will be applicable and are included in the other costs category. Advertising and promotional costs (0.8%) are also included.

Sector vs. Industry Costs



SOURCE: WWW.IBISWORLD.COM

Competitive Landscape

Basis of Competition

Level & Trend
Competition in this industry is **High** and the trend is **Increasing**

Competition within the Pharmacies and Drug Stores industry is high and anticipated to continue rising, as many industry operators aim to benefit from the growing elderly population's strong demand for prescriptions. As a result of the population aging, which translates to the rising prevalence of multiple chronic illnesses, the volume of drugs being prescribed by doctors is increasing. Due to this trend, industry operators are struggling to remain competitive and provide prescription dispensing services for this customer base.

The industry is also exposed to external competitors, such as supermarket chains, mass merchandisers, online retailers and mail-order pharmacies. Operators compete on the basis of price and convenience; however, as more retailers sell pharmaceuticals, offering a diverse front-store product mix and developing customer loyalty is becoming more prevalent. Traditional drug store chains have also become more reliant on seasonally-specific merchandise. In particular, Halloween and Christmas are vital selling periods for drug chains, ranking similarly to the flu and allergy seasons, according to the National Association of Chain Drug Stores.

Internal competition

In response to high competition within the industry, many pharmacies and drug stores have consolidated. Many key players are acquiring small stores, thus causing the number of independent and small industry operators to decline. Consolidation will enable key players to have larger operations, increase their purchasing power to leverage low-cost pharmaceuticals from brand-name and generic drug makers and have stronger advertising abilities. In particular, the industry is dominated by two chains, Walgreen Boots Alliance Inc. and CVS Health Corporation, which are anticipated to comprise 62.6% of revenue in 2018. However, small and independent pharmacies and drug stores are trying to compete on the basis of convenient locations, full operational hours or private-label merchandise to attract a niche market.

The industry is highly price competitive, especially for general product categories and consumables, such as aspirin and bandages. Operators' profitability also depends on their ability to negotiate favorable discounts from drug manufacturers. Due to the standardized nature of the industry's products and services, pharmacies and drug stores compete on the basis of price and product selection.

Location is another key competitive factor; stores located near other retailers, such as grocery stores or shopping mall stores, which can increase their foot traffic on the basis of convenience. Additionally, customer service plays a role in competition. For example, having highly trained and experienced staff that can provide quality advice on a range of ailments and products is a particularly valuable tool. High quality service garners customer loyalty and will be vital as pharmacies and drug stores provide a wider range of services, such as flu shots, health risk assessments and additional healthcare services.

External competition

External competition is blurring as many industry operators and competitor retailers offer similar products. For example, competitor retailers, such as supermarkets, supercenters and warehouses, increasingly offer over-the-counter (OTC) drugs and prescriptions. Drug stores and pharmacies also offer additional products, such as milk, frozen foods and other consumable, items to attract time-strapped consumers. Due to many operators consolidating, competition from external operators,

Competitive Landscape

Basis of Competition continued

such as supercenters, has intensified. In particular, Walmart is the most competitive drug retailer, because the company sells more than 360 generic drugs for only $4.00 per prescription. Unfortunately for industry operators, Walmart's price is significantly lower than the price a typical pharmacy can offer and still cover costs, thus cutting into consumer demand for the industry's pharmaceuticals. In addition, Walmart's strategy has also adversely affected the industry's higher margin front-stores sales, which are heavily dependent on the industry's foot traffic of customers that purchase prescriptions.

As the unemployment rate declines, which causes more consumers to be time strapped, mail-order pharmacies are becoming more prevalent and proving to be a source of competition for industry operators. To attract time-strapped consumers, many operators are offering better service, customer-friendly refund policies, knowledgeable staff, product advice and free home delivery. Additionally, many larger operators have begun offering mail-order services as a way to capture the growing number of consumer attracted to the service's convenience. However, this may prove to be a difficult route for smaller operators to follow, as the service is an expensive venture. As mail-order prescriptions become more common, industry operators will also contend with growing import competition from websites in Canada, for example, that ship relatively discounted products to customers. Moreover, in 2018, Amazon announced plans to acquire online pharmacy PillPack. Over the years, as the online retailer increased its offerings of general front-end goods, industry operators have experienced a dip in front-end sales. As Amazon increases its presence in the healthcare field, operators will need to find new ways to entice customers and lower prices to remain competitive.

Barriers to Entry

Level & Trend
Barriers to Entry in this industry are **Medium** and **Increasing**

The Pharmacies and Drug Stores industry is typified by moderate barriers to entry; however, barriers to entry are increasing. Due to industry consolidation, which enables larger players to develop large networks and favorable supply-side contracts with pharmaceutical manufacturers, the industry is expected to have more barriers to entry over the five years to 2023. Further offsetting potential industry entrants, the industry is subject to federal and state laws that make retailing certain products subject to stringent regulations.

Barriers to Entry checklist

Competition	High
Concentration	Medium
Life Cycle Stage	Mature
Capital Intensity	Low
Technology Change	Medium
Regulation and Policy	Medium
Industry Assistance	Low

SOURCE: WWW.IBISWORLD.COM

Market concentration raises barriers

Large drug store chains dominate the market; however, no single operator has control over pricing, advertising, distribution or customer loyalty. Potential industry entrants will contend with current pharmacies and drug stores having a range of locations, which will cause potential industry entrants to struggle to develop a market presence in an already saturated market.

Large industry players have developed favorable supply contracts with wholesale

Competitive Landscape

Barriers to Entry continued

distributors. As large operators negotiate low prices with distributors, they can pass these cost savings to customers, which expands their market share in line with lower cost prescription prices. Due to many key players using their leverage to secure favorable purchase and distribution costs, potential industry entrants will grapple with developing low-cost purchase contracts and distribution networks as well as generating brand awareness.

Other possible barriers to entry

The level of product differentiation among operators in this industry is relatively low, as most players tend to stock similar products and brands. Furthermore, the majority of products sold by this industry may be purchased from other retailers, such as supermarkets, supercenters and online merchandisers. Additionally, another barrier to entry is the trend of prescription drugs becoming increasingly over-the-counter (OTC). While OTC drugs generate large sales volumes, OTC drugs typically command low prices and many consumers purchase OTC products at supermarkets and other competitor retailers. As a result, potential industry entrants deal with rising competition from other retailers also selling prescriptions and OTC drugs.

While this industry is not highly technical, considerable levels of capital are required to establish a new store or purchase an existing location. In particular, establishing a pharmacy or drug store in areas of high foot traffic is costly. Industry operators compete for locations near high levels of shopping traffic, which drives up rental costs or real estate values. Additionally, capital costs include acquiring and maintaining merchandise inventory. Many participants provide drive-through services, which generally require more space than a strip-mall store.

Industry Globalization

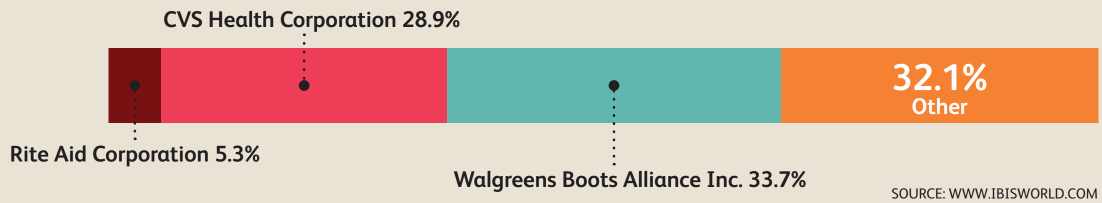
Level & Trend
Globalization in this industry is **Low** and the trend is **Increasing**

Retailers in the Pharmacies and Drug Stores industry are US-owned and derive most of their revenue from the US retail consumer market. IBISWorld expects that the international expansion of the major players will continue over the five years to 2023 as domestic opportunities decline due to increased competition.

Major Companies

Walgreens Boots Alliance Inc. | CVS Health Corporation
Rite Aid Corporation | Other Companies

Major Players
(Market Share)



SOURCE: WWW.IBISWORLD.COM

Player Performance

Walgreens Boots Alliance Inc.
Market Share: 33.7 %

Walgreens Boots Alliance Inc. (Walgreens) began as a neighborhood drug store in 1901, growing over the years to become the largest operator in the industry. Headquartered in Deerfield, IL, Walgreens provides multichannel access to consumer goods and services, as well as pharmacy, health and wellness services to communities across the world. Walgreens employs more than 385,000 people and operates more than 12,800 stores in 11 countries, with about 9,800 locations in the United States. Additionally, the company has more than 289 pharmaceutical distribution centers, delivering to pharmacies, doctors and hospitals in more than 20 countries. In fiscal 2017 (year-end August, latest available data), the company generated $118.2 billion in total revenue. Walgreens offers its products and services through drug stores, mail, telephone and the internet. The company sells prescription and nonprescription drugs and general merchandise, including household products, convenience foods and personal care and beauty items. The company's pharmaceutical services include retail, specialty, infusion, medical facilities, long-term care, mail and respiratory services.

Walgreens operates under the following segments: retail pharmacy USA, retail pharmacy international and pharmaceutical wholesale. Retail pharmacy USA is the only industry-relevant segment. In fiscal 2017, pharmaceuticals comprised an estimated 69.4% of the retail pharmacy USA segment's sales, with generic prescriptions accounting for about two-thirds of sales; the remaining 30.6% of sales were derived from nonprescription drug revenue and

Walgreens Boots Alliance Inc. (US industry-specific segment) - financial Performance*

Year**	Revenue ($ million)	(% change)	Operating Income ($ million)	(% change)
2012-13	72,217.0	N/C	4,092	N/C
2013-14	76,392.0	5.8	4,194	2.5
2014-15	80,974.0	6.0	3,890	-7.2
2015-16	83,802.0	3.5	4,405	13.2
2016-17	87,302.0	4.2	4,195	-4.8
2017-18	97,899.6	12.1	4,672	11.4

*Estimates; **Year-end August

SOURCE: ANNUAL REPORT

Major Companies

Player Performance continued

general merchandise sales, including cosmetics, toiletries, food, beverages and tobacco products. Unlike its top competitor, CVS Health Corporation, Walgreens no longer operates a pharmacy benefit management (PBM) business. PBMs administer drug benefits for employers and health plans.

In March 2011, Catalyst Health Solutions Inc. acquired Walgreens' PBM business, Walgreens' Health Initiatives Inc., reflecting Walgreens' intentions to focus more on its pharmacy services. Also, in 2012, Walgreens acquired BioScrip's community specialty pharmacies and mail-service pharmacy business to diversify the company's product portfolio and include specialty pharmaceuticals. In 2013, the company acquired Kerr Drug, which included 76 retail drugstores, a specialty pharmacy business and a distribution center. Also in 2013, the company, along with Alliance Boots and AmerisourceBergen Corporation, announced a 10-year pharmaceutical distribution agreement that will require the company to source all branded and generic pharmaceuticals from AmerisourceBergen. In March 2017, Walgreens and Prime Therapeutics LLC formed AllianceRx Walgreens Prime, a specialty pharmacy and mail-service company, as part of a strategic alliance. In September 2017, after more than two years of unsuccessful merger attempts, Walgreens completed its purchase of 1,932 Rite Aid stores and three distribution centers. Ownership of the stores has been gradually handed over, with the full transfer completed in spring 2018.

Financial performance

Over the five years to fiscal 2018, Walgreens' industry-relevant revenue increased at an annualized rate of 6.3% to $97.9 billion. Over the past five years, the company has experienced steady revenue growth, starting off the period strong, as Walgreens entered its agreement with Alliance Boots and AmerisourceBergen Corporation. This alliance makes Walgreens one of the largest global purchasers of prescription drugs, which enables the company to secure low prices and pass on these low costs to consumers in the form of marked down prices. In fiscal 2015, the company benefited from the aging population, which will continue to drive demand for prescription drugs in later years. Also in fiscal 2015, revenue grew 6.0%, which can be attributed to synergies from the agreement with Alliance Boots, coupled with cost savings related to the company's restructuring program. In fiscal 2018, the company's purchase of 1,932 of Rite Aid's stores is expected to affect industry-relevant revenue and operating income significantly. Though the company has closed some of these locations, the remaining stores are expected to contribute to the company's industry-relevant revenue growth of 12.1% in fiscal 2018.

Player Performance

CVS Health Corporation
Market Share: 28.9 %

Founded in 1996 and headquartered in Woonsocket, RI, CVS Health Corporation (CVS) operates more than 9,800 retail pharmacy stores throughout the United States, Brazil and Puerto Rico, in addition to more than 1,100 walk-in clinics. In 2017 (latest available data), the company employed more than 150,000 people and generated $184.8 billion in total revenue. CVS operates three business segments: pharmacy services, retail/long-term care (retail) and corporate. The pharmacy services segment offers a variety of services through its pharmacy benefit management (PBM) services, such as

Major Companies

Player Performance continued

plan and design administration, formulary management, Medicare Part D services and other services. The corporate segment provides management and administrative services to support the overall operations of the company. The retail segment, which is the only relevant segment to this industry, operates pharmacies and drug stores, selling prescription drugs along with a slew of general merchandise, ranging from over-the-counter (OTC) drugs to cosmetics and convenience food items.

In 2017, CVS's retail segment filled more than 1.2 billion prescriptions (with 90-day prescriptions being measured as three prescriptions). Pharmacy sales accounted for about 75.0% of the segment's total revenue, with general merchandise, OTC and personal care products and cosmetics making up the remaining 25.0%. The segment's strategy is to focus on shifting from solely dispensing prescriptions to also providing services such as flu vaccinations and face-to-face patient counseling. These integrated pharmacy services have already been implemented in many locations. Additionally, CVS offers more comprehensive healthcare services through its 1,134 MinuteClinic clinics, staffed with nurse practitioners and physician assistants.

Over the five years to 2018, CVS has completed several mergers and acquisitions to further its presence in the Pharmacies and Drug Stores industry and the healthcare sector as a whole. Prior to the period, in 2011, the company acquired the Medicare prescription business of Universal American Corp., supporting the company's PBM revenue growth. In August 2015, CVS acquired Omnicare, a leading provider of pharmacy services to the long-term markets, creating RxCrossroads, a pharmaceutical distributor and consulting service to chronic and long-term care facilities. In December 2015, the company acquired Target's 1,674 pharmacies and clinics for $1.9 billion, contributing to the segment's strong sales performance in 2016. Most recently, in December 2017, CVS announced a deal to purchase major healthcare provider Aetna for $69.0 billion. While it is unclear how this will affect the company's industry-relevant segment, it further demonstrates CVS's desire to leave a larger footprint in the healthcare industry as a whole, with plans to offer customers more local-care options and potentially full-service health centers in the near future.

CVS Health Corporation (US industry-specific segment) - financial performance*

Year	Revenue ($ million)	(% change)	Operating Income ($ million)	(% change)
2013	65,235.5	N/C	6,231.2	N/C
2014	67,390.6	3.3	6,721.4	7.9
2015	71,608.6	6.3	7,106.5	5.7
2016	80,726.5	12.7	7,268.4	2.3
2017	78,986.7	-2.2	6,435.5	-11.5
2018	83,907.7	6.2	6,835.2	6.2

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

Financial performance

Over the five years to 2018, CVS's industry-relevant revenue is expected to grow at an annualized rate of 5.2% to $83.9 billion. In 2016, revenue increased 12.7%, driven by robust sales volumes due to the company's acquisition of Target and Omnicare, the latter which was a key pharmacy company that catered to the senior market. However, in 2017, CVS's industry-relevant revenue decreased 2.2% and profit decreased at an accelerated rate of 11.5% in the same year. This can largely be attributed to falling prescription reimbursement rates and the rising prevalence of generic drug prescriptions, which typically have a lower selling price than their brand-name counterparts. In response to falling prescription reimbursement rates, CVS continues to expand its front-end business to increase customer traffic and purchases. For example, the company's loyalty card program, ExtraCare, has about 65.0 million cardholders, making it one of the largest loyalty card programs in the Retail Trade sector (IBISWorld report 44-45). As a result, the company's industry-relevant revenue and operating income are expected to experience growth in 2018.

Player Performance

Rite Aid Corporation
Market Share: 5.3 %

Rite Aid Corporation (Rite Aid) is the third-largest drug store chain in the United States, with more than 2,500 locations in 19 states. Founded in 1962 and headquartered in Camp Hill, PA, Rite Aid generated $31.5 billion in total revenue in fiscal 2018 (year-end March, latest available data). Prescription drug sales comprised 65.9% of the company's total sales in fiscal 2018; over-the-counter medications and personal care accounted for 10.9%, health and beauty aid products accounted for 4.4%; and general and other merchandise accounted for 18.8%. The company tries to differentiate its stores through wellness and loyalty programs, such as Wellness Plus, private brands and its strategic alliance with GNC, a leading retailer of vitamin and mineral supplements.

Rite Aid operates two business segments: pharmacy services and retail pharmacy. The pharmacy services segment was formed in 2015 when Rite Aid acquired EnvisionRx, a national pharmacy benefit management (PBM) company, for $2.0 billion. The acquisition made Rite Aid the second drug store chain to own a PBM, with CVS being the only other operator that owns a PBM. The retail pharmacy segment is the company's industry-relevant segment, which encompasses Rite Aid's retail stores and pharmacies. At the start of fiscal 2017, Rite Aid operated more than 4,500 pharmacies and drug stores. However, in September 2017 (after Rite Aid's fiscal year-end), the company completed the sale of 1,932 of its stores to Walgreens, a deal which took two years to complete. The transfer of these stores took place in increments, with the completion of the transfer taking place in spring 2018, coinciding with Rite Aid's year-end. These two transactions demonstrate Rite Aid's aim to focus its efforts on its existing and growing mail-order, specialty pharmacy and PBM services and to begin offering expanded healthcare services.

Financial performance

Over the five years to fiscal 2019, IBISWorld estimates that Rite Aid's industry-relevant revenue will decrease at an annualized rate of 0.4% to $15.5 billion. This drop in revenue can largely be attributed to Rite Aid's sale of almost 2,000 stores to Walgreens in 2017. Thus, in fiscal 2018 alone, industry-relevant

Major Companies

Player Performance continued

revenue declined 5.6%, and in fiscal 2019, industry-relevant revenue is expected to fall an additional 1.9%. Despite the decrease in industry-relevant revenue and profit, Rite Aid's market share is expected to decrease only marginally, falling from 6.7% in fiscal 2014 to 5.3% in fiscal 2019. However, before Rite Aid's deal with Walgreens was completed, the company experienced some setbacks, with its retail pharmacy segment generating lackluster figures in fiscal 2017. While these declines are tied to similar detriments affecting other major players, such as reimbursement rate pressures and a rise in generic drug purchases, Rite Aid also suffers from its lack of participation in Medicare Part D restricted networks. This has resulted in declining prescription counts for the company and accounts for sluggish growth prior to fiscal 2019.

Rite Aid Corporation (US industry-specific segment) - financial performance*

Year**	Revenue ($ million)	(% change)	Operating Income ($ million)	(% change)
2013-14	15,874.6	N/C	539.7	N/C
2014-15	16,588.2	4.5	879.2	62.9
2015-16	16,820.4	1.4	747.9	-14.9
2016-17	16,766.6	-0.3	551.8	-26.2
2017-18	15,832.6	-5.6	338.4	-38.7
2018-19	15,535.3	-1.9	439.5	29.9

*Estimates; **Year-end March 3

SOURCE: ANNUAL REPORT AND IBISWORLD

Other Company Performance

Costco Wholesale Corp.
Market Share: N/A

Costco Wholesale Corporation's (Costco) first pharmacy opened in 1986. The company operates two central filling facilities in Everett, WA, and Sacramento, CA. The locations fill all online prescriptions and orders for many Costco locations. Costco's pharmacies operate under the company's ancillary business segment, and in fiscal 2017 (year-end September, latest available data), the segment accounted for about 17.0% of Costco's total revenue. The company's pharmacies have consistently ranked among the leaders in customer satisfaction and prescription pricing. Costco has been among the top three pharmacies in terms of customer satisfaction for the past two years in the J.D. Power and Associates' annual "National Pharmacy Study." Furthermore, Costco is considered a community pharmacy with the lowest prices for a wide range of prescription drugs, according to Consumer Reports, in many cases providing lower out-of-pocket costs than their competitors' discounted prices. More than 50.0% of Costco's pharmacy business is paid for with cash; therefore, the company caters its products and services to people that do not have insurance. Through its Costco Member Prescription Program, the company offers savings for Costco members and their families. The program enables those without insurance, or those whose insurance does not cover all their

Major Companies

Other Company Performance continued

medications, to receive savings of up to 70.0% on prescription medications. The company also tries to attract more customers by offering more patient consultations than it did in the past. Costco's new pharmacies have private consultation and education rooms where it can show films to customers on healthcare subjects. However, Costco is not considered a major industry player because it operates in a variety of industries, and pharmaceutical sales are not the company's primary source of revenue.

Other Company Performance

Walmart Store Inc.
Market Share: N/A

Walmart and Sam's Club, divisions of Walmart Store Inc. (Walmart), operate retail pharmacies in 49 states and Puerto Rico. A majority of the company's 4,761 US Walmart locations and 597 Sam's Club locations include a pharmacy. Walmart's pharmacies operate under the company's health and wellness segment, which makes up about 11.0% of the company's total revenue. However, since Walmart operates in a variety of industries, and since pharmaceutical sales are not the company's primary source of revenue, the company is not considered a major player within the Pharmacies and Drug Stores industry. Nevertheless, according to Pembroke Consulting, Walmart was estimated to make $20.6 billion from its pharmacy sales in 2016 (latest available data), enough to make it a potential threat to the industry's major players. Additionally, the company's introduction of $4.00 generic prescription drugs forced other pharmacies, particularly chain pharmacies, to reduce prices to remain competitive. In May 2008, the company announced the third phase of its $4.00 prescription drug plan; in addition to offering a one-month supply of generic drugs for $4.00 as it had before, Walmart began offering $4.00 over-the-counter drugs and a 90-day supply of about 350 different generic drugs for $10.00. Thus, the company's massive buying power and expansive retail stores create considerable competition in the industry.

Operating Conditions

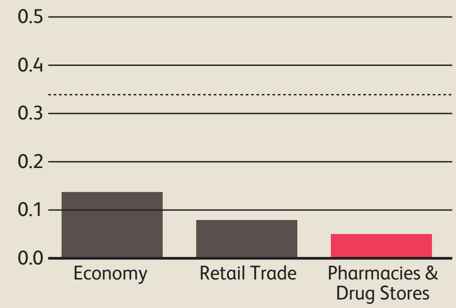
Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

Capital Intensity

Level
The level of capital intensity is **Low**

The Pharmacies and Drug Stores industry has a low level of capital intensity. In 2018, for every dollar spent on wages, an estimated $0.05 is spent on capital. Comparatively, labor costs are substantial in this industry, despite wages as a share of revenue declining over the five years to 2018. In 2013, wages accounted for 10.7% of industry revenue, whereas in 2018, they are estimated to account for 10.0% of revenue. Additionally, despite the industry's consolidating environment leading to a slowdown in demand for pharmacists and technicians over the past five years, the average wage increased. The anticipated shortage of pharmacists over the five years to 2023 is anticipated to cause the average wage to increase further as operators aim to attract and retain their

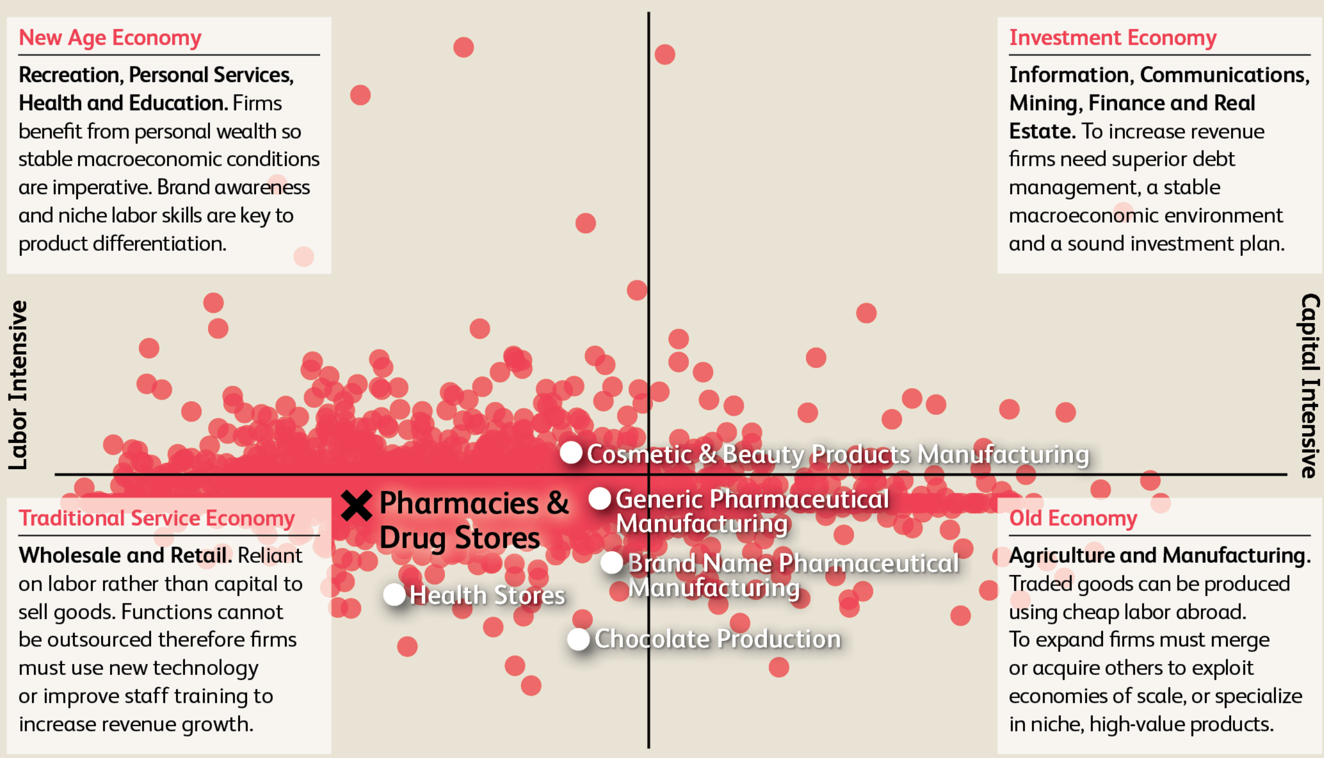
Capital Intensity
Capital units per labor unit



Dotted line shows a high level of capital intensity
SOURCE: WWW.IBISWORLD.COM

pharmacists. Additionally, many pharmacies and drug stores are offering additional services, such as on-site

Tools of the Trade: Growth Strategies for Success



SOURCE: WWW.IBISWORLD.COM

Operating Conditions

Capital Intensity continued

vaccinations and in-store health clinics, as more consumers use industry services as a form of primary healthcare. As a result, industry operators have needed to implement a larger workforce that provides a variety of services, such as flu shot immunization, while maintaining high-quality customer service.

At the same time, capital expenditure costs have increased over the five years to 2018, which is in line with rising construction costs, remodelingand building of stores, developing internet sales facilities and the installation of digital photography development machines to replace the older film development equipment. Due to these changes, the overall capital intensity of the industry has increased.

Technology and Systems

Level
The level of technology change is **Medium**

The Pharmacies and Drug Stores industry has benefited from the technological advances that have occurred in the retail sector as a whole, including the introduction of computer scanning cash registers and electronic data interchange (EDI). Many pharmacies and drug stores use EDI software to keep track of prescription inventories by selecting and ordering items with a barcode scanning device. EDI also enables pharmacists to upload inventory on the computer and access a wholesaler's inventory. Additionally, e-prescribing is becoming more popular. Prescriptions routed electronically more than doubled from 2008 to 2013 (latest data available), according to data from The National Association of Chain Drug Stores. About 90.0% of all pharmacies have e-prescribing capabilities, and the federal stimulus package is expected to further bolster electronic prescribing by providing $36.0 billion in incentives to clinics and medical offices to adopt electronic health records. The upgraded technology will give doctors access to software that makes electronic prescribing possible. Also, advances in computerized retail point-of-sales (POS) systems enable pharmacies and drug stores to more accurately manage stock levels and improve inventory turnover. Advances in information technology are also serving to redefine the relationship between distributor, retailer and customer, including the increased use of digital tracking systems and satellite networks, which are used to facilitate the filling of prescriptions anywhere in the country.

Additionally, technological advancements are improving efficiency. For example, faster claims transmission, central fill stations, central call centers, electronic prescription transfers, product databases and other developments are technological innovations that benefit pharmacies. Smartphones and the internet provide customer convenience, with many larger operators integrating mobile applications, which let customers refill prescriptions, receive notices when their refill is due and perform a slew of other retail-related functions. Additionally, automated medication dispensing systems, such as AutoScript III, have continued to reduce operating costs while improving reliability. More importantly, the computerized dispensing systems enable pharmacists to keep records of a client's conditions, allergies, prescription history, concessional status, the doctor who prescribed the drug and the amount owed to the pharmacy. Currently, information on more than 3,000 drugs can be printed out for consumers to access a drug's efficacy, side effects and other information. Also, touch screens are being used to match a patient's symptoms with over-the-counter medications.

Operating Conditions

Technology and Systems continued

Conversely, the growing acceptance and use of the internet is hampering revenue as pharmaceutical sales via the internet become widespread. Over the five years to 2023, this trend will continue as more consumers grow comfortable with ordering medications and consumables online. Though many larger industry players already operate an online prescription delivery system, smaller operators unable to profitably offer similar services will suffer as the practice becomes more widespread.

Revenue Volatility

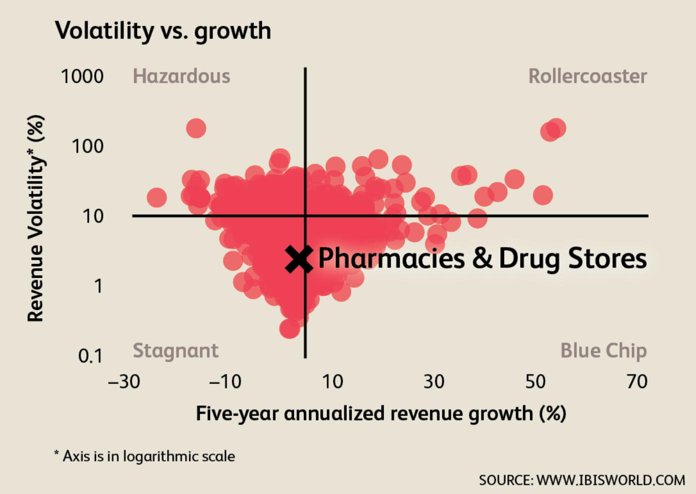
Level
The level of volatility is **Low**

The Pharmacies and Drug Stores industry has a low to moderate level of revenue volatility. In 2014, the industry grew at its fastest rate during the period, 4.5%, propped by the revitalization in federal funding for Medicare and Medicaid, which included prescription coverage for many drugs. Conversely, in 2017, industry revenue grew just 0.1%, as federal funding for Medicare and Medicaid declined, thus inciting many individuals to purchase their prescriptions at competitor retailers, such as Walmart, which offers low prescription prices. Nevertheless, the industry exhibits a low level of revenue volatility, which can be attributed to consumers continuing to purchase their prescriptions despite periods of economic uncertainty or low per capita disposable income.

Over the five years to 2023, favorable changes in healthcare reform will prompt revenue growth. As the Patient Protection and Affordable Care Act (PPACA) continues to expand healthcare coverage and lower the number of uninsured individuals, pharmacies and drug stores will benefit from more patients visiting their primary care provider. As a result, higher prescription sales volumes will occur. Additionally, both prescription and nonprescription drug sales are affected by the timing and severity of the cold and flu season. Although the industry fluctuates in line with the cold and flu season, volatility remains low because demand for medications and basic consumables are sheltered from changes in product price and consumer income. Stores also retail diverse products, thereby reducing their dependency on any type of one good to generate revenue. However, the future of the PPACA is unclear, as the Republican-controlled Congress and President Donald Trump have their sights aimed on repealing the act. If the PPACA is repealed, projections for the industry will likely change.

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.



Operating Conditions

Regulation and Policy

Level & Trend
The level of Regulation is **Medium** and the trend is **Increasing**

Regulations

The main regulating body governing the Pharmacy and Drug store industry is the US Food and Drug Administration (FDA). The FDA governs the laws and regulations relating to the development, testing, manufacturing, marketing and distribution of pharmaceuticals. Aspects of pharmaceutical marketing including labeling, advertising and promotional claims and comparisons are regulated under the Federal Food, Drug, and Cosmetic (FD&C) Act, which gives the FDA the legal authority to take action against the importation, sale or distribution of an adulterated or misbranded drug; the importation, sale, or distribution of an unapproved new drug; illegal promotion of a drug; the sale or dispensing of a prescription drug without a valid prescription; and counterfeit drugs. Quality System (QS) Regulations are governed by the FDA and are also applicable to the industry, as these strive to assure that pharmaceuticals sold are safe and effective for their intended use.

To a large extent, third-party players, who will pay only a certain price for drugs sold to their plan members, indirectly regulate prices for a prescription. Drug stores' nonprescription sales are unregulated except for state consumer-protection laws that apply to all retailers. In some states, pharmacies are required to substitute less expensive generic drugs unless prescriptions specifically demand a particular brand-name drug.

Relevant product liability laws vary on a state-by-state basis. Unlike several other industrialized countries, the United States does not possess formal national cost-containment policies that govern the supply of pharmaceutical products. At the same time, however, rising costs have seen both public and private health insurers adopt various cost containment strategies designed to restrain pharmaceutical prices. Other regulations affecting the industry include the Health Insurance Portability and Accountability Act, which requires pharmacies to have systems and processes in place that comply with requirements on the confidentiality of patient medical records and other information.

Pharmacists must be licensed

A licensed pharmacist must carry out the dispensing of prescription drugs. Pharmacists can obtain a license by participating in an internship under a licensed pharmacist, graduating from an accredited college of pharmacy and passing state examinations. All states, except California and Florida, currently grant a license without extensive reexamination to qualified pharmacists already licensed by another state.

Pharmacy technicians and pharmacy aides assist licensed pharmacists in providing medication and other healthcare products to patients. Pharmacists or technicians receive written prescriptions or requests for prescription refills from patients. They are involved in prescription verification and preparation. Prescription preparation may involve counting, pouring, weighing, measuring, and sometimes mixing medications. Finally, prescription labels are prepared and affixed to the container and medications are then sold to customers. A pharmacist must check medications prepared by a technician before they are sold to patients. Pharmacy aides also help licensed pharmacists with administrative duties in running a pharmacy. Aides include clerks or cashiers who primarily answer telephones, handle money, stock shelves and perform other clerical duties.

Operating Conditions

Industry Assistance

Level & Trend
The level of Industry Assistance is **Low** and the trend is **Steady**

Support from industry associations
The National Association of Chain Drug Stores (NACDS) and the National Community Pharmacists Association (NCPA) protects the interests of the Pharmacies and Drug Stores industry. For instance, the NCPA recommended healthcare reform provisions to the Obama administration in February of 2010. In March 2010, The National Association of Chain Drug Stores hosted its Second Annual NACDS RxIMPACT Day, where more than 200 pharmacy representatives from more than 35 states attended policy and advocacy briefings and participated in hundreds of meetings with federal lawmakers on the importance of propatient, propharmacy healthcare policy.

Federal programs support drug sales
Many individuals receive prescription drug assistance through federal programs, which helps industry sales. The increasing cost of prescription drugs has put pressure to control drug spending on federal programs such as Medicare Part D, Medicaid, and the Federal Employees Health Benefits Program (FEHBP). Medicare prescription drug coverage (Medicare Part D) helps seniors, age 65 and older, as well as disabled citizens pay for generic and brand-name prescription drugs at participating pharmacies. Consumers covered under Medicare pay monthly premiums, deductibles and co-payments. Medicare prescription drug coverage provides protection for people who have very high drug costs as well as sheltering them from future unexpected prescription drug bills.

The Medicaid program for low-income adults and children sets guidelines for consumer drug payment. Medicaid does not negotiate drug prices with manufacturers but reimburses retail pharmacies for drugs dispensed to beneficiaries at set prices. If reimbursement rates are lowered, pharmacy revenue could be negatively affected. An important element of controlling Medicaid drug spending is the Medicaid drug rebate program, under which drug manufacturers are required, by law, to provide rebates for certain drugs covered by Medicaid.

Finally, prescription drug spending within the FEHBP, which provides health and drug coverage to about 8.0 million federal employees, retirees and their dependents, has contributed significantly to prescription drug cost and premium growth. FEHBP uses competition among health plans to control prescription drug spending, giving plans an incentive to lower costs and leverage their market share to obtain favorable drug prices. Most FEHBP plans contract with pharmacy benefit managers (PBMs) to help administer the prescription drug benefit. The PBMs reduce drug spending, in part, by obtaining drug price discounts from retail pharmacies and dispensing drugs at lower costs through mail-order pharmacies operated by the PBMs. Consequently, industry players are experiencing pricing pressure from PBMs to supply a significant number of consumers.

Other assistance is minimal
Assistance in the form of tariffs does not apply to this industry. However, items sold by this industry may be subject to tariffs at the manufacturing level. Tariffs at the manufacturing level for products sold by this industry vary depending on the product and the materials used in production. Items sold in pharmacies and drug stores that are subject to tariffs at the manufacturing level include hot water bottles, invalid nursing cushions, crutch tips and grips (4.2%), nursing nipples (0.6%), and sheath contraception (0.8%) among other items.

Key Statistics

Industry Data

	Revenue ($m)	Industry Value Added ($m)	Establish-ments	Enterprises	Employment	Exports	Imports	Wages ($m)	Domestic Demand	Total health expenditure (trillion)
2009	251,517.8	44,295.6	48,198	24,136	735,277	--	--	29,074.2	N/A	2.5
2010	254,194.7	41,149.3	48,762	24,617	742,161	--	--	28,895.1	N/A	2.6
2011	259,149.4	43,459.1	50,540	25,008	714,046	--	--	28,946.4	N/A	2.6
2012	253,062.9	43,210.2	49,903	25,412	723,730	--	--	27,258.1	N/A	2.7
2013	255,113.9	43,809.2	50,434	26,006	706,950	--	--	27,279.2	N/A	2.7
2014	266,624.9	46,476.7	51,049	26,574	711,064	--	--	27,444.5	N/A	2.8
2015	277,320.8	45,511.9	51,694	27,114	720,550	--	--	27,616.6	N/A	2.9
2016	282,591.7	45,966.4	56,461	29,385	716,037	--	--	27,992.9	N/A	3.0
2017	282,854.1	46,048.9	56,211	29,321	713,310	--	--	28,393.5	N/A	3.1
2018	290,591.6	47,279.0	57,521	29,999	729,907	--	--	29,155.0	N/A	3.2
2019	297,595.8	48,321.3	58,760	30,635	740,048	--	--	29,689.9	N/A	3.3
2020	303,212.0	49,244.0	59,891	31,244	751,121	--	--	30,213.4	N/A	3.4
2021	311,280.5	50,529.4	61,051	31,826	764,207	--	--	30,875.7	N/A	3.5
2022	319,821.3	51,887.0	62,613	32,657	782,245	--	--	31,712.8	N/A	3.6
2023	326,858.9	52,993.7	63,767	33,251	794,928	--	--	32,333.5	N/A	3.7
Sector Rank	**6/63**	**4/63**	**15/63**	**25/63**	**9/63**	**N/A**	**N/A**	**4/63**	**N/A**	**N/A**
Economy Rank	**28/696**	**63/696**	**122/696**	**173/696**	**52/696**	**N/A**	**N/A**	**57/696**	**N/A**	**N/A**

Annual Change

	Revenue (%)	Industry Value Added (%)	Establish-ments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Total health expenditure (%)
2010	1.1	-7.1	1.2	2.0	0.9	N/A	N/A	-0.6	N/A	4.0
2011	1.9	5.6	3.6	1.6	-3.8	N/A	N/A	0.2	N/A	0.0
2012	-2.3	-0.6	-1.3	1.6	1.4	N/A	N/A	-5.8	N/A	3.8
2013	0.8	1.4	1.1	2.3	-2.3	N/A	N/A	0.1	N/A	0.0
2014	4.5	6.1	1.2	2.2	0.6	N/A	N/A	0.6	N/A	3.7
2015	4.0	-2.1	1.3	2.0	1.3	N/A	N/A	0.6	N/A	3.6
2016	1.9	1.0	9.2	8.4	-0.6	N/A	N/A	1.4	N/A	3.4
2017	0.1	0.2	-0.4	-0.2	-0.4	N/A	N/A	1.4	N/A	3.3
2018	2.7	2.7	2.3	2.3	2.3	N/A	N/A	2.7	N/A	3.2
2019	2.4	2.2	2.2	2.1	1.4	N/A	N/A	1.8	N/A	3.1
2020	1.9	1.9	1.9	2.0	1.5	N/A	N/A	1.8	N/A	3.0
2021	2.7	2.6	1.9	1.9	1.7	N/A	N/A	2.2	N/A	2.9
2022	2.7	2.7	2.6	2.6	2.4	N/A	N/A	2.7	N/A	2.9
2023	2.2	2.1	1.8	1.8	1.6	N/A	N/A	2.0	N/A	2.8
Sector Rank	**13/63**	**15/63**	**8/63**	**7/63**	**13/63**	**N/A**	**N/A**	**13/63**	**N/A**	**N/A**
Economy Rank	**256/696**	**265/696**	**165/696**	**165/696**	**237/696**	**N/A**	**N/A**	**236/696**	**N/A**	**N/A**

Key Ratios

	IVA/Revenue (%)	Imports/ Demand (%)	Exports/ Revenue (%)	Revenue per Employee ($'000)	Wages/Revenue (%)	Employees per Est.	Average Wage ($)	Share of the Economy (%)
2009	17.61	N/A	N/A	342.07	11.56	15.26	39,541.83	0.31
2010	16.19	N/A	N/A	342.51	11.37	15.22	38,933.74	0.28
2011	16.77	N/A	N/A	362.93	11.17	14.13	40,538.56	0.29
2012	17.07	N/A	N/A	349.66	10.77	14.50	37,663.36	0.28
2013	17.17	N/A	N/A	360.87	10.69	14.02	38,587.17	0.28
2014	17.43	N/A	N/A	374.97	10.29	13.93	38,596.39	0.29
2015	16.41	N/A	N/A	384.87	9.96	13.94	38,327.11	0.28
2016	16.27	N/A	N/A	394.66	9.91	12.68	39,094.21	0.27
2017	16.28	N/A	N/A	396.54	10.04	12.69	39,805.27	0.27
2018	16.27	N/A	N/A	398.12	10.03	12.69	39,943.44	0.27
2019	16.24	N/A	N/A	402.13	9.98	12.59	40,118.88	0.27
2020	16.24	N/A	N/A	403.68	9.96	12.54	40,224.41	0.27
2021	16.23	N/A	N/A	407.32	9.92	12.52	40,402.27	0.27
2022	16.22	N/A	N/A	408.85	9.92	12.49	40,540.75	0.27
2023	16.21	N/A	N/A	411.18	9.89	12.47	40,674.75	0.27
Sector Rank	**42/63**	**N/A**	**N/A**	**9/63**	**50/63**	**7/63**	**7/63**	**4/63**
Economy Rank	**582/696**	**N/A**	**N/A**	**261/696**	**536/696**	**319/696**	**461/696**	**63/696**

Figures are in inflation-adjusted 2018 dollars. Rank refers to 2018 data.

SOURCE: WWW.IBISWORLD.COM

Industry Financial Ratios

	Apr 2013 - Mar 2014	Apr 2014 - Mar 2015	Apr 2015 - Mar 2016	Apr 2016 - Mar 2017	Apr 2016 - Mar 2017 by company revenue: Small (<$10m)	Medium ($10-50m)	Large (>$50m)
Liquidity Ratios							
Current Ratio	1.8	1.7	1.7	1.7	1.9	1.6	1.3
Quick Ratio	0.9	0.9	0.9	1.0	1.0	1.0	0.9
Sales / Receivables (Trade Receivables Turnover)	22.4	23.4	22.6	20.5	23.2	19.4	15.3
Days' Receivables	16.3	15.6	16.2	17.8	15.7	18.8	23.9
Cost of Sales / Inventory (Inventory Turnover)	12.0	13.7	13.4	13.7	12.1	16.2	20.3
Days' Inventory	30.4	26.6	27.2	26.6	30.2	22.5	18.0
Cost of Sales / Payables (Payables Turnover)	16.8	18.1	17.5	17.7	22.0	14.9	11.6
Days' Payables	21.7	20.2	20.9	20.6	16.6	24.5	31.5
Sales / Working Capital	16.0	21.7	20.8	17.7	14.2	21.6	31.7
Coverage Ratios							
Earnings Before Interest & Taxes (EBIT) / Interest	5.2	7.5	10.3	6.6	4.7	9.0	7.5
Net Profit + Dep., Depletion, Amort. / Current Maturities LT Debt	2.1	3.1	2.6	2.6	n/a	n/a	5.4
Leverage Ratios							
Fixed Assets / Net Worth	0.4	0.3	0.3	0.4	0.3	0.4	0.5
Debt / Net Worth	2.1	2.6	2.5	2.5	2.2	2.4	3.7
Tangible Net Worth	23.0	23.9	16.7	18.1	16.9	22.9	13.6
Operating Ratios							
Profit before Taxes / Net Worth, %	32.5	40.9	42.4	46.7	44.9	47.9	56.0
Profit before Taxes / Total Assets, %	9.5	11.8	12.9	13.0	15.9	14.0	10.1
Sales / Net Fixed Assets	64.5	83.2	91.8	83.8	98.2	79.8	43.0
Sales / Total Assets (Asset Turnover)	4.7	5.0	5.3	5.0	5.2	5.0	4.9
Cash Flow & Debt Service Ratios (% of sales)							
Cash from Trading	23.9	23.1	22.0	23.6	22.9	23.2	26.7
Cash after Operations	2.6	3.0	2.5	2.5	2.0	2.6	3.7
Net Cash after Operations	3.1	3.2	2.9	3.7	3.6	3.5	4.1
Cash after Debt Amortization	0.4	0.5	0.3	0.4	0.3	0.5	0.4
Debt Service P&I Coverage	2.5	3.3	3.8	2.5	2.0	3.1	3.7
Interest Coverage (Operating Cash)	7.5	8.2	9.4	5.4	3.8	7.5	9.6
Assets, %							
Cash & Equivalents	15.2	16.0	16.6	16.5	16.9	18.6	11.0
Trade Receivables (net)	22.5	23.5	23.3	25.1	20.6	28.4	35.7
Inventory	31.6	29.6	29.9	28.3	32.2	24.8	20.5
All Other Current Assets	1.8	1.6	2.3	1.7	1.7	1.5	2.1
Total Current Assets	71.1	70.7	72.1	71.6	71.3	73.3	69.3
Fixed Assets (net)	13.3	12.5	11.5	10.8	10.7	10.5	11.7
Intangibles (net)	8.8	9.2	8.9	11.9	10.9	12.2	14.9
All Other Non-Current Assets	6.9	7.6	7.5	5.7	7.1	3.9	4.1
Total Assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Assets ($m)	4,496.3	3,980.0	4,111.1	3,496.7	247.2	490.8	2,758.7
Liabilities, %							
Notes Payable-Short Term	7.7	7.4	11.1	8.4	8.3	9.2	7.2
Current Maturities L/T/D	2.5	2.5	2.5	2.7	3.2	2.4	1.5
Trade Payables	24.1	25.7	25.7	26.1	22.0	29.7	35.1
Income Taxes Payable	0.1	0.2	0.1	0.1	0.1	n/a	0.3
All Other Current Liabilities	9.0	9.3	11.5	9.4	11.3	6.3	7.8
Total Current Liabilities	43.3	45.1	50.8	46.7	44.9	47.7	51.8
Long Term Debt	16.9	15.0	15.4	19.3	22.5	14.6	16.3
Deferred Taxes	0.1	n/a	n/a	0.1	n/a	n/a	0.5
All Other Non-Current Liabilities	7.9	6.8	8.2	3.9	4.8	2.6	3.0
Net Worth	31.8	33.1	25.6	30.0	27.8	35.1	28.5
Total Liabilities & Net Worth ($m)	4,496.3	3,980.0	4,111.1	3,496.7	247.2	490.8	2,758.7
Maximum Number of Statements Used	475	437	432	377	213	107	57

Source: RMA Annual Statement Studies, rmahq.org. RMA data for all industries is derived directly from more than 260,000 statements of member financial institutions' borrowers and prospects.

Note: For a full description of the ratios refer to the Key Statistics chapter online.

rma® THE RISK MANAGEMENT ASSOCIATION

Jargon & Glossary

Industry Jargon

BLOCKBUSTER DRUG A drug product that generates annual sales in excess of $1.0 billion.

FORMULARY A list of medicines that are covered by a health insurance plan and always meet Medicare's requirements.

FRONT-END SALES Sales of products from the front of the store or products sold separately from the pharmacy.

OVER-THE-COUNTER (OTC) MEDICATIONS Medicine that can be purchased without a prescription.

PHARMACY BENEFIT MANAGER (PBM) A third-party administrator of prescription drug programs.

PRESCRIPTION DRUG A licensed medicine that can only be obtained with a doctor's approval.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the "real" growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the US Bureau of Economic Analysis' implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by US companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in the United States.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

Jargon & Glossary

IBISWorld Glossary continued

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20 % ; high volatility is ±10 % to ±20 % ; moderate volatility is ±3 % to ±10 % ; and low volatility is less than ±3 % .

WAGES The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.