



Generic Substitution: The Savings

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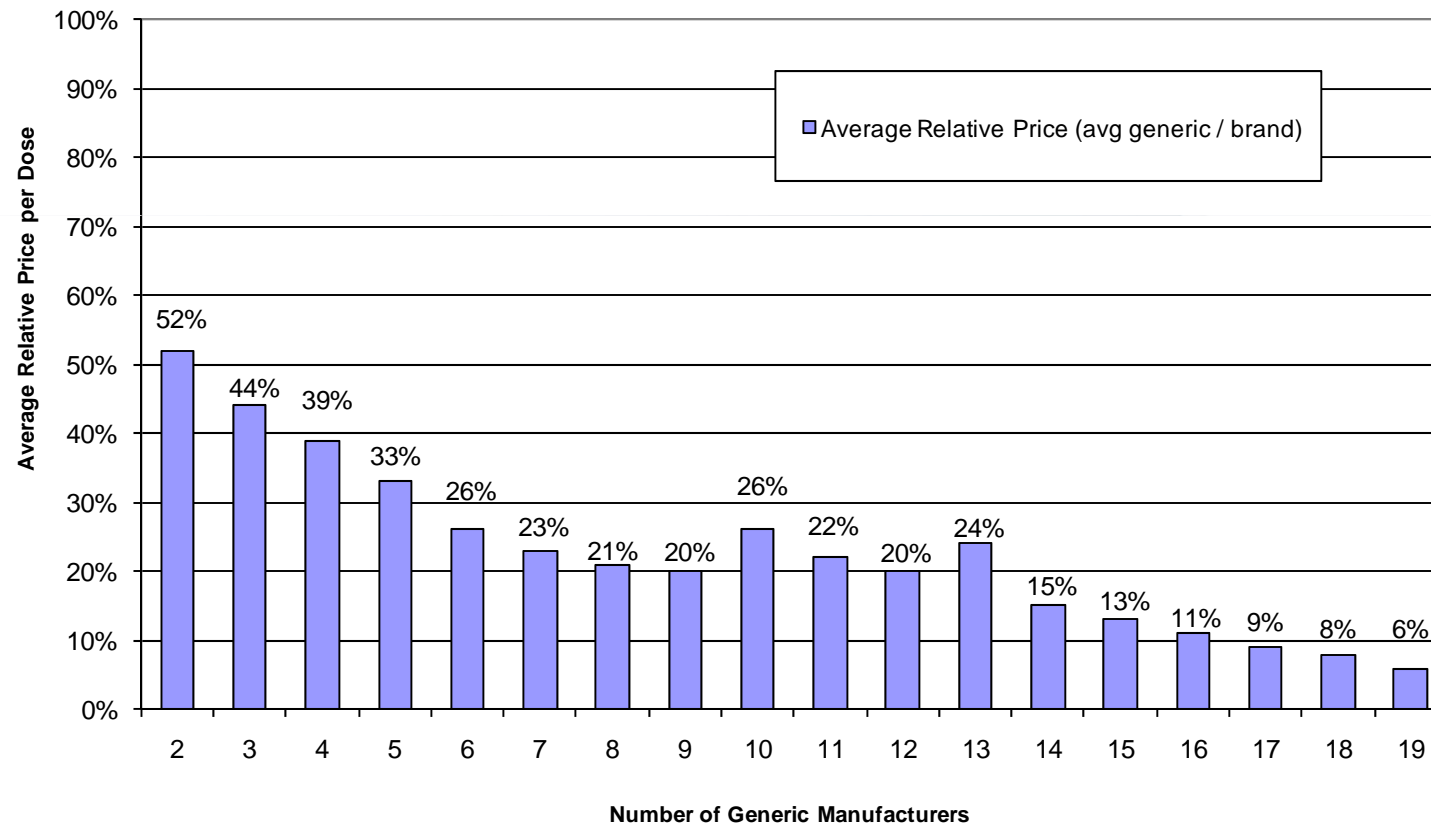
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- Competition between compounds (e.g., Lunesta and Ambien CR)
 - Creating brands
 - Detailing to doctors
 - Advertising direct to consumer
 - Competing on price (differentiated products)

- Competition between different providers of the same compound (e.g., Prozac and generic fluoxetine)
 - Competing on price (limited differentiation or identical products)

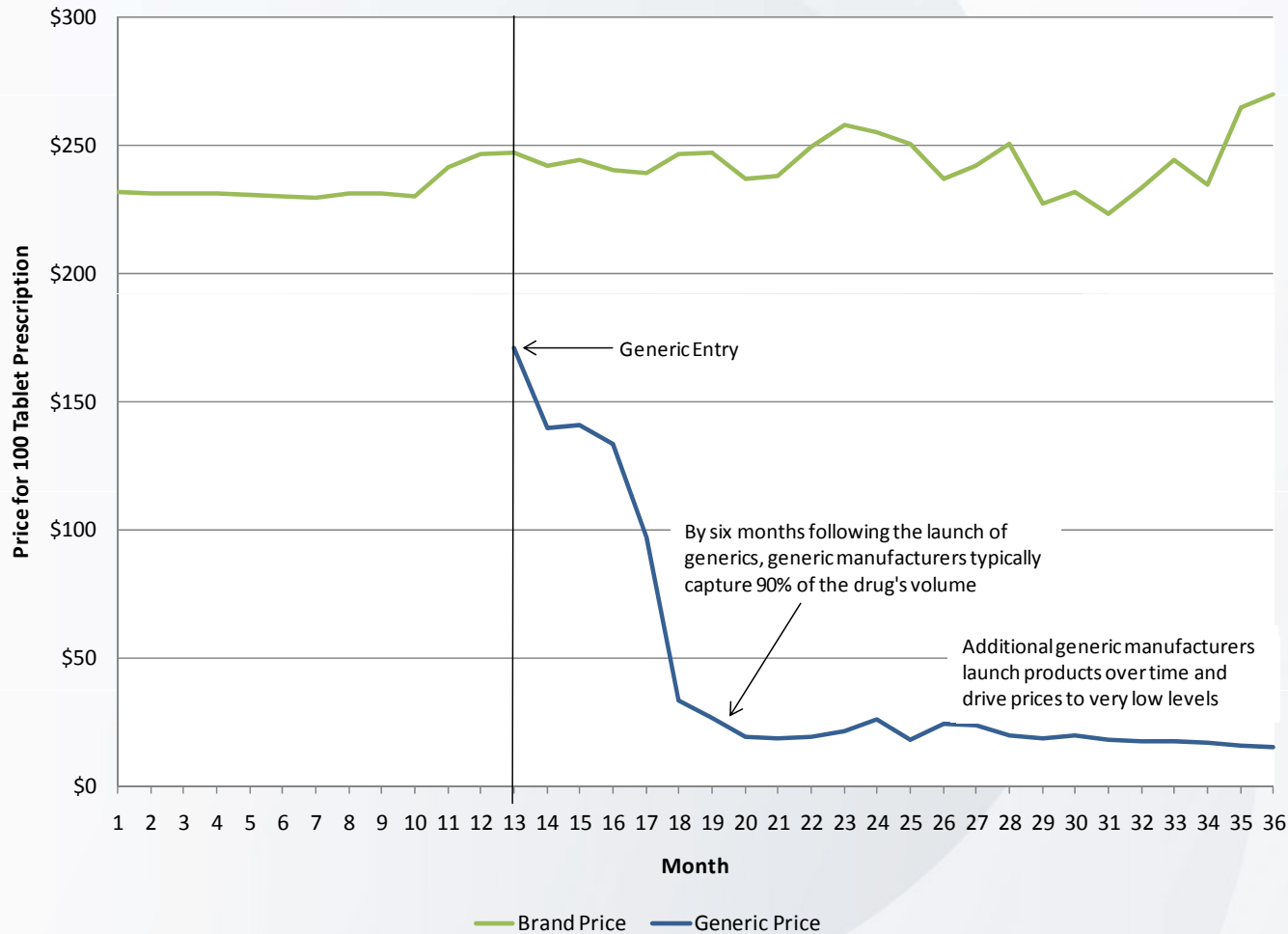
- Competition between compounds and between different providers of the same compound (e.g., Nexium, Prevacid, Protonix, Prilosec, generic omeprazole, Prilosec OTC)

Generic Competition Dramatically Reduces Prices



Source: FDA analysis of retail sales data from IMS Health, IMS National Sales Perspective (TM), 1999-2004, extracted February 2005

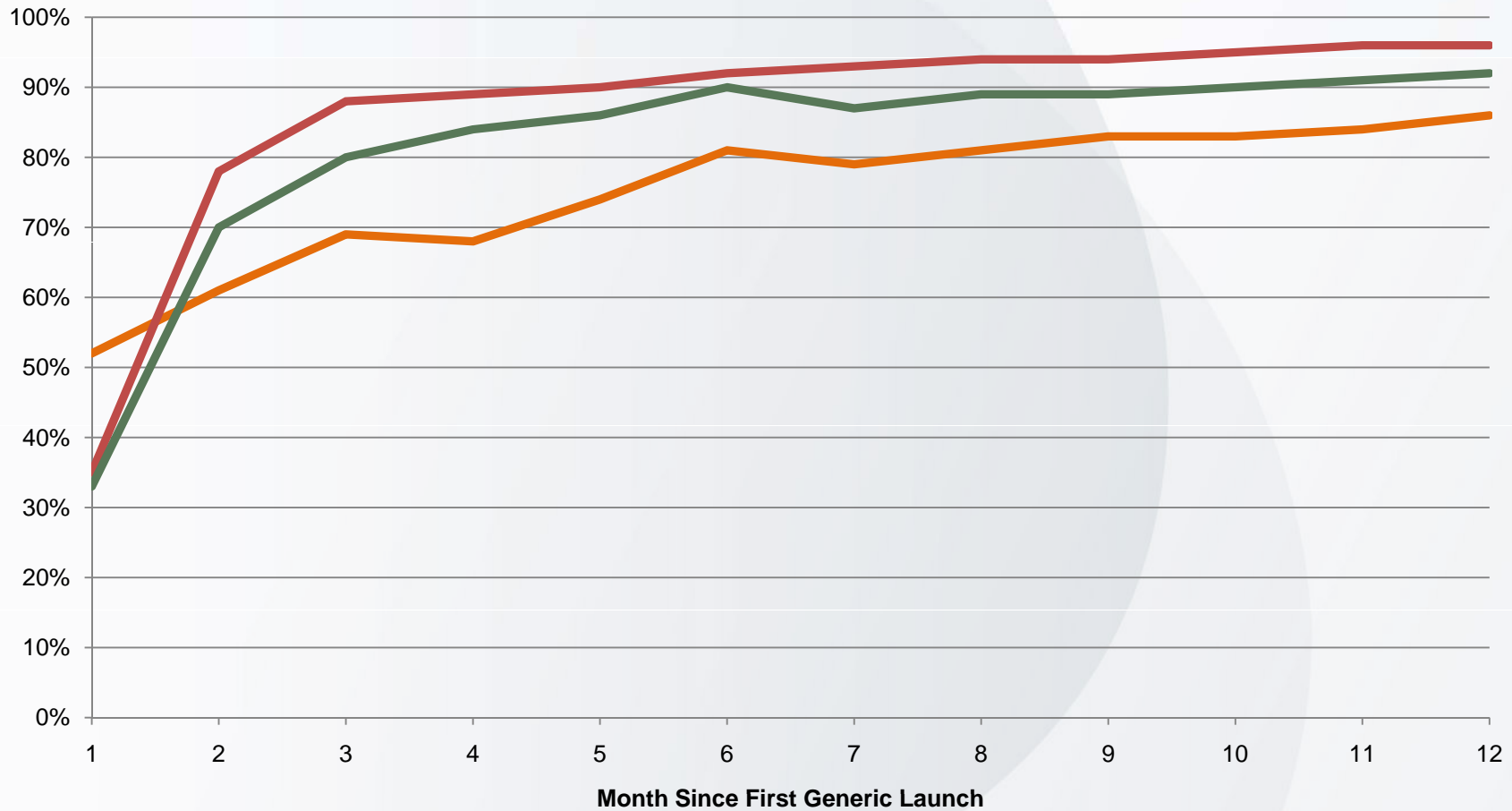
Brand and Generic Prices for a Typical Drug



Source: IMS

Notes: Recently genericized product that is available in three strengths. Prices used are weighted averages based on the unit sales of these strengths. Drug name and prices for individual strengths are confidential.

Generic Substitution Occurs Rapidly

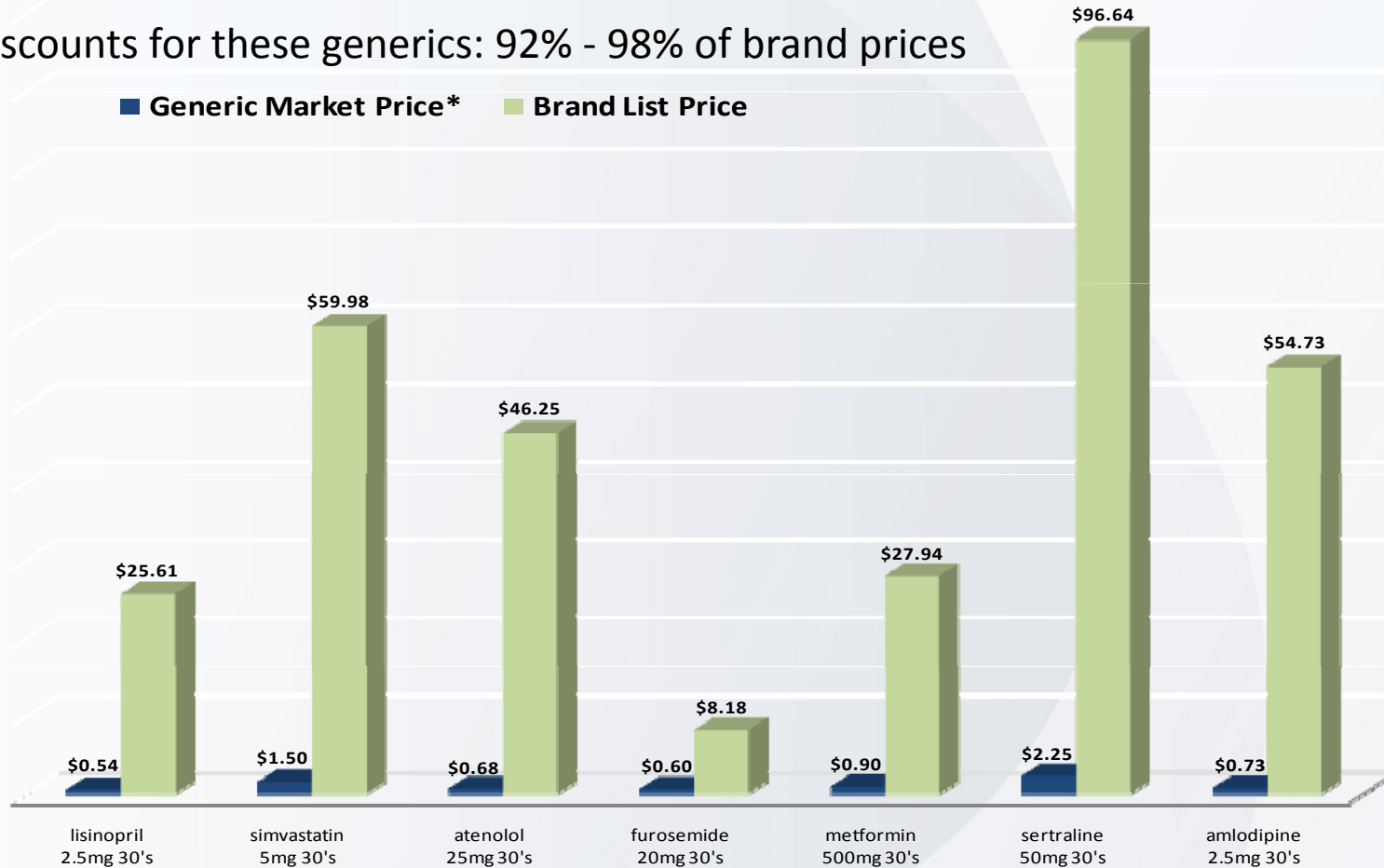


Source: IMS

Notes: Compounds genericized during the last several years. Drug names are confidential.

Pricing for Leading Drugs Dispensed

Discounts for these generics: 92% - 98% of brand prices



Source: GPhA member companies

Notes: *Generic Market Price is the average price charged by distributors. The price charged by manufacturers is well below the distributor price.

Carve-out Experience: Tennessee

- Tennessee requires patient and prescriber notification prior to interchanging an anti-convulsant drug (effective 2005)
- TennCare's use of branded drugs to fill anti-convulsant prescriptions increased by 29.4 percentage points following this change
- TennCare estimates its average branded drug cost is \$135 higher than its average generic drug cost
- Annual expenditure increases due to this carve-out:
 - \$4.9 million for Tennessee
 - \$9.4 million for the federal government
- TennCare fills 6.2 million generic scripts per year
 - Expenditure increases from other carve-outs could be significant