

*medco*

# Medco Health Solutions, Inc.

Merrill Lynch Health Services Investor Conference








November 30, 2004

# Forward looking statements

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*This presentation contains "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties that may cause results to differ materially from those set forth in the statements. No forward-looking statement can be guaranteed, and actual results may differ materially from those projected. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise. Forward-looking statements in this presentation should be evaluated together with the many uncertainties that affect our business, particularly those mentioned in the risk factors section of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.*

# 3rd Quarter 2004: Strong performance across financial metrics

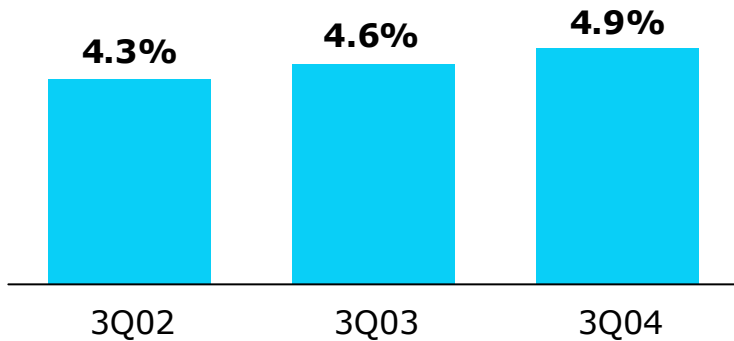
	Net Revenue	\$ 8.7 BN	+ 2%
	Mail Order Rx's	22.2 MM	+ 14%
	Net Income	\$ 118 MM	+ 18%
	Generic Dispensing Rate	46.8 %	+ 3pts
	EBITDA	\$ 301 MM	+ 20%
	EBITDA/Adj. Rx	\$ 1.81	+ 22%
	EPS (adj. for intangible amortization)	\$ 0.53	+ 26%

Please see latest 10Q for reconciliation of non-GAAP measures and most comparable GAAP measures.  
EBITDA is earnings before interest income/expense, taxes, depreciation and amortization.

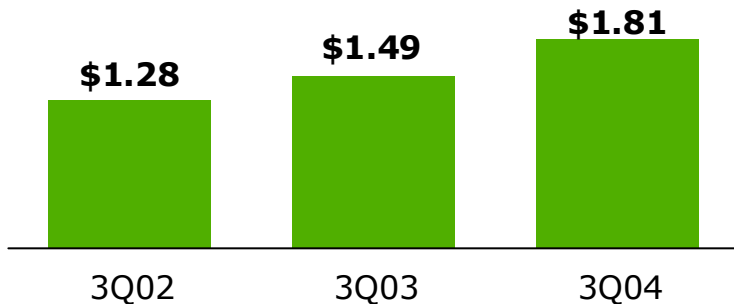
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# Gross margin and EBITDA per Rx continued upward trend

## Total Gross Margin



## EBITDA per Adjusted Rx

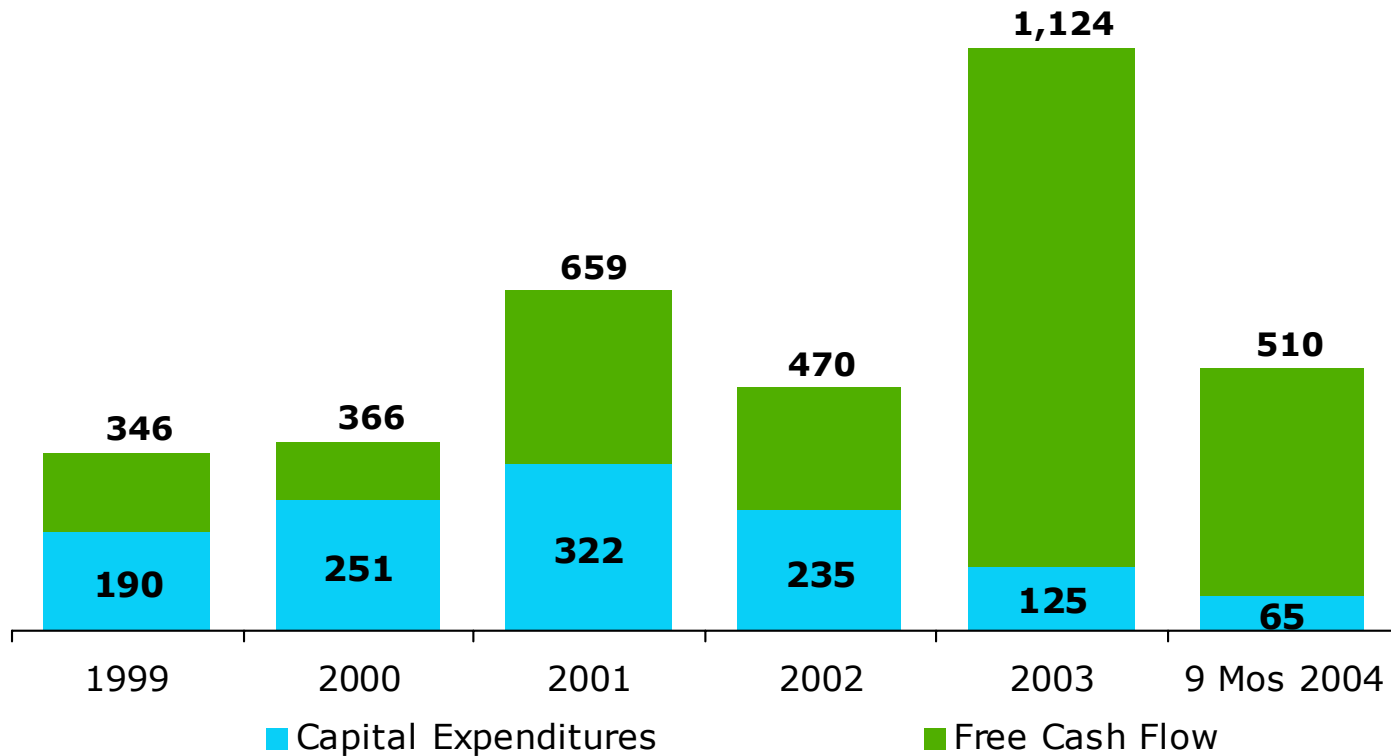


## Drivers

- Growth in mail order volume and generic use
- Operational efficiencies and production gains from investments in technology
- Improvement in formulary management
- Improvements in service margins

# Strong cash flow generation

## Cash From Operations (\$ MM)

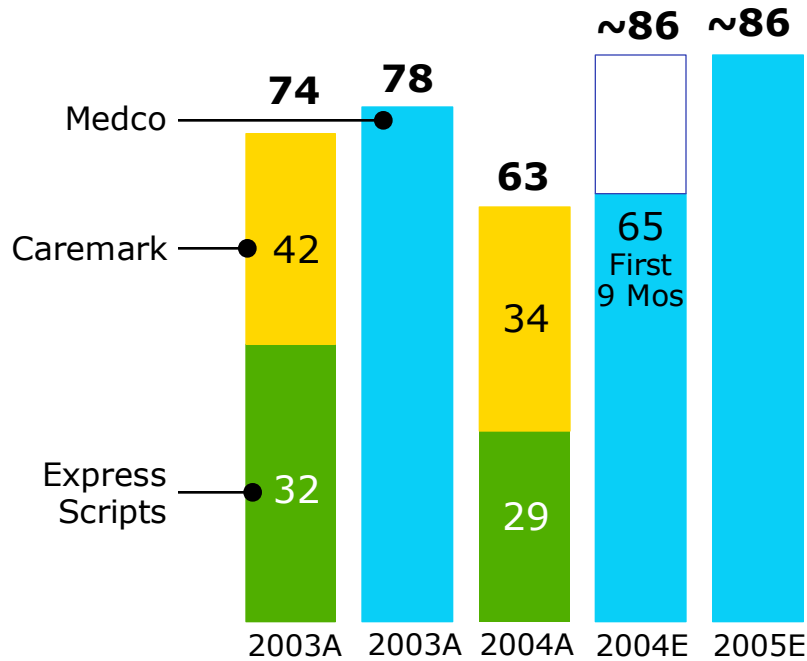


Note: Free cash flow = Cash from operations – Capital expenditures

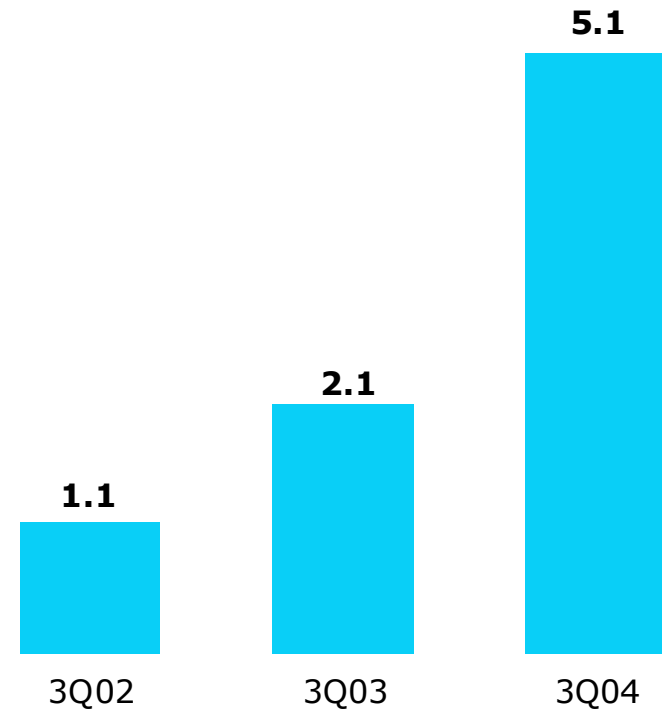
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# Medco's strength: scale at mail

## Mail Order Rx's (Unadjusted, MM Rx's)



## Members in Retail Refill Allowance Programs (MM Lives)

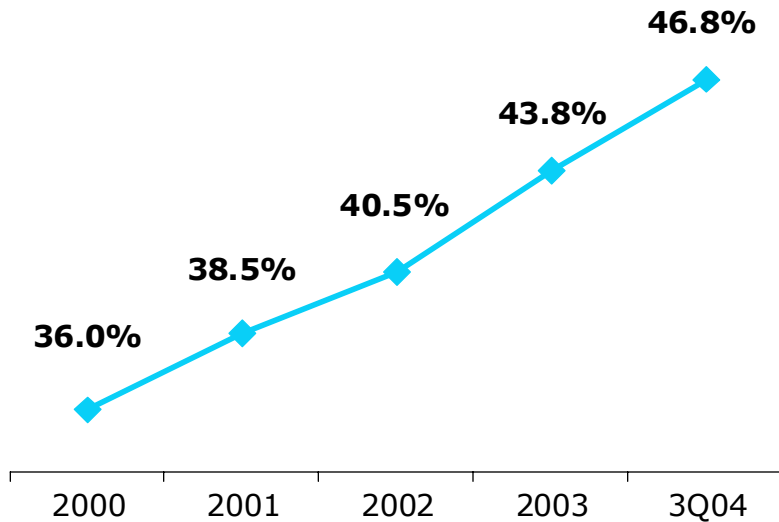


Source: Company reports. Caremark results proforma for AdvancePCS acquisition.

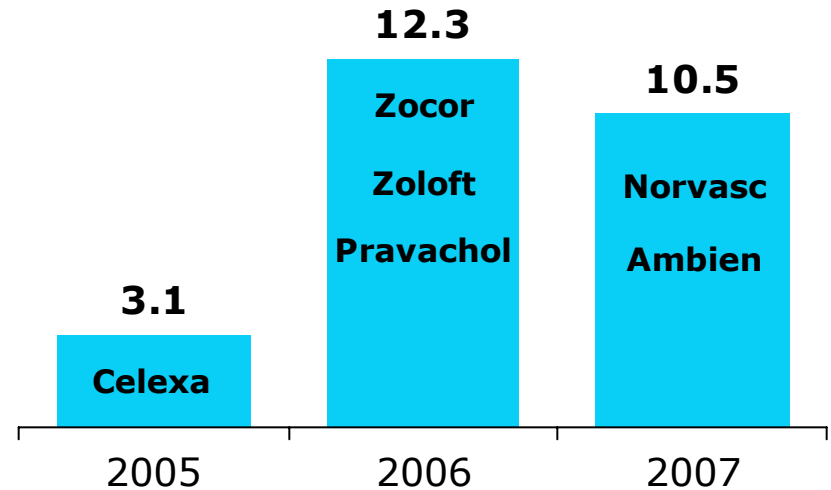
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# Opportunities to increase generic utilization

**Generic Dispensing Rates**  
(Percent)



**Brand Drug Spend Coming off Patent**  
(\$ BN)



**On average, for every \$100 million of Brand Drug Spend coming off patent, Medco's client and members are estimated to save \$45 million and Medco will gain an estimated incremental \$9 million in margin**

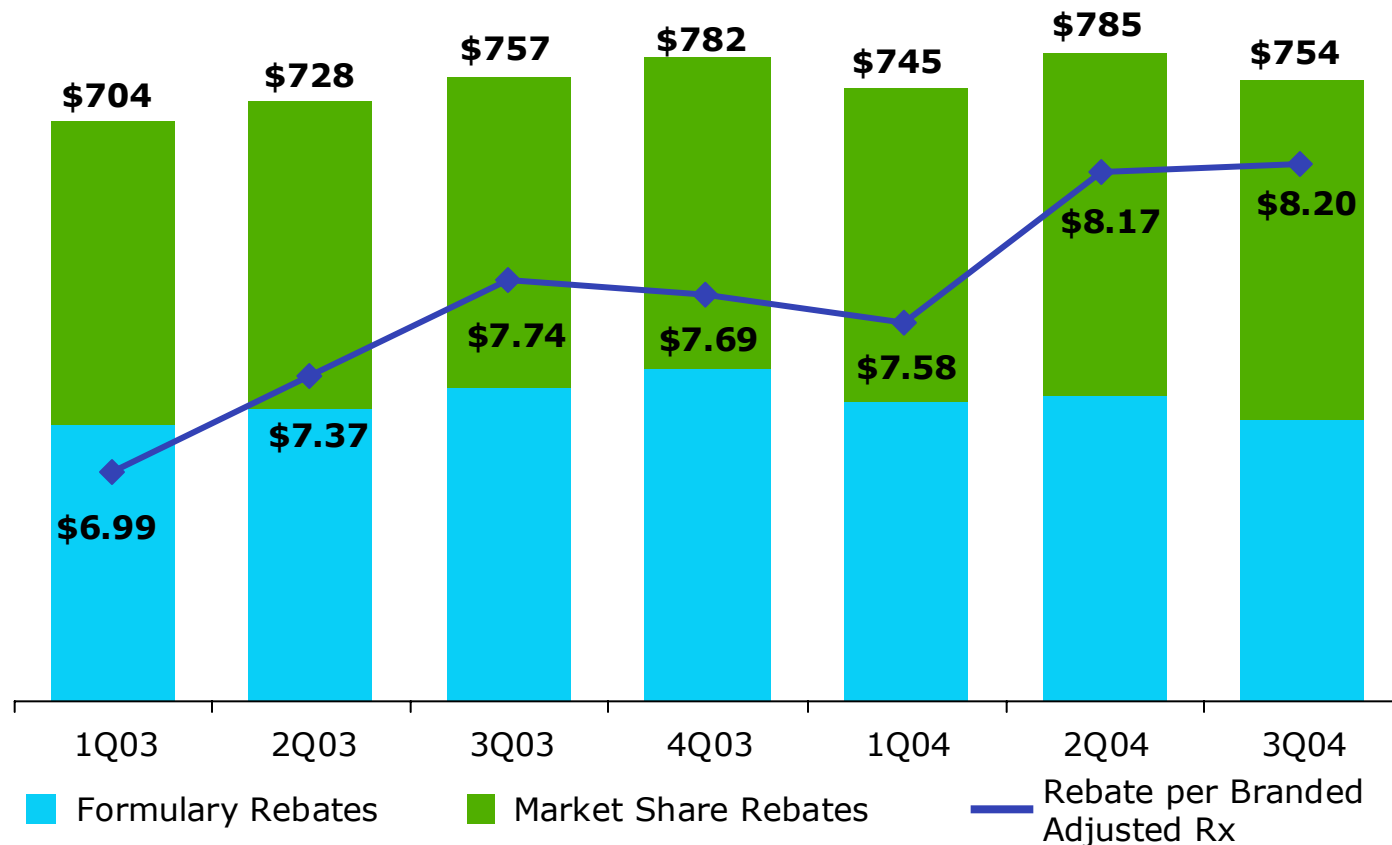
Source: IMS Health data and company estimates based on current patent expiration dates  
Changes may occur due to litigation, patent challenges etc.

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# Improving formulary management

## Total Rebate Dollars

(\$ MM except Rebate per Branded Adj. Rx)

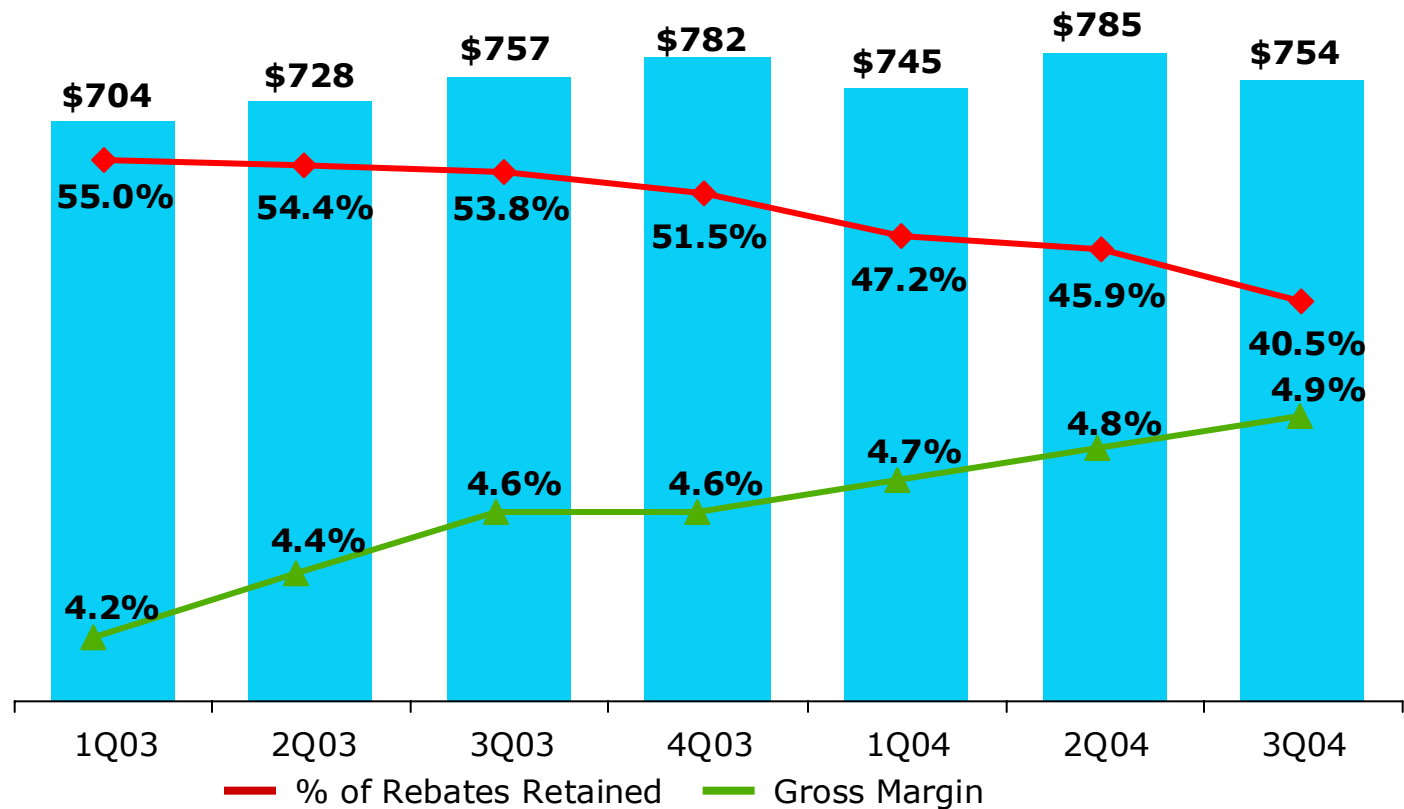


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# Improving formulary management

## Total Rebate Dollars (\$ MM)



# Medco responded aggressively to marketplace demands

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## Market Demand

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**Transparency**

## Medco Response

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- Developed member level rebate capability at point of sale
- Aggressively pursued and won Towers Perrin collaborative
- Launched EXPERxT Advisor™
- Eliminated all non-rebate pharma critical funding on renewal

# Medco responded aggressively to marketplace demands

## Market Demand

Transparency

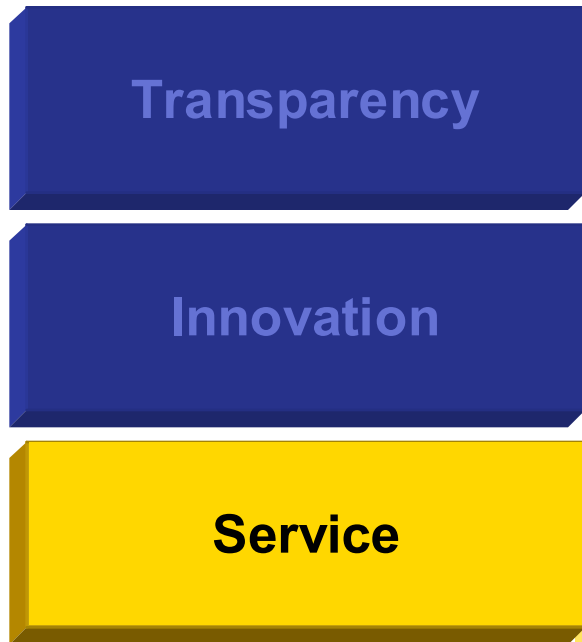
Innovation

## Medco Response

- Real-time consumer-driven product
- RationalMed® integrated data product redesign
- Payor-centric Specialty Pharmacy product – ACM
- Medicare expertise/offerings
- Data-driven sales approach

# Medco responded aggressively to marketplace demands

## Market Demand



## Medco Response

- Pursued JCAHO certification, achieved perfect score
- 2004 winner of Wilson Rx™<sup>†</sup> Award (4th year in a row)
- Launched Change Management and Implementation (CMI) reliability process
- New software staging environment

<sup>†</sup> Source: WilsonRx™ Pharmacy Survey, © 2004 Wilson Health Information, LLC, New Hope, PA. For information contact [info@WilsonRx.com](mailto:info@WilsonRx.com) or visit [www.WilsonRx.com](http://www.WilsonRx.com)

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# Medco responded aggressively to marketplace demands

## Market Demand

Transparency

Innovation

Service

Focus

## Medco Response

- Resolution of several key legal issues
- Drove organic growth
- Net winner vs. carve-in
- Creation of market focused business groups and end-to-end accountability

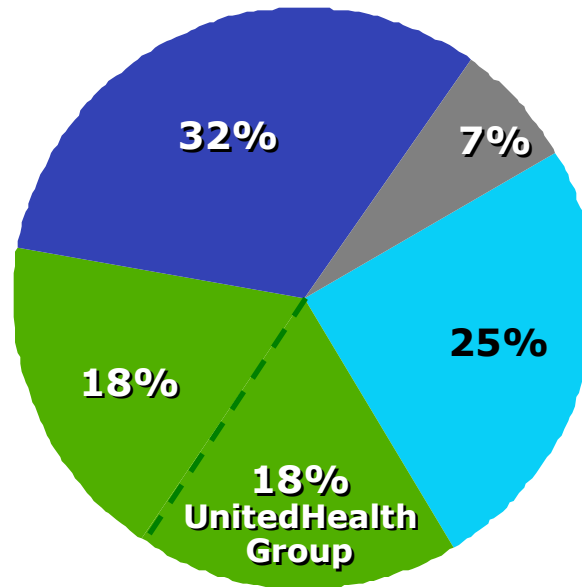
# Diverse revenue across all customer groups

## Health Plans

Managed care organizations; Blue Cross/Blue Shield plans; insurance carriers; consumer driven plans; and the auto industry

## Key Accounts

Health and welfare organizations; local, state and federal governments; public university plans; UnitedHealth Group



## Systemed Rx

Small and middle market employers (<15K lives); third party administrators; and brokers

## National Accounts

Large employers (>15K lives)

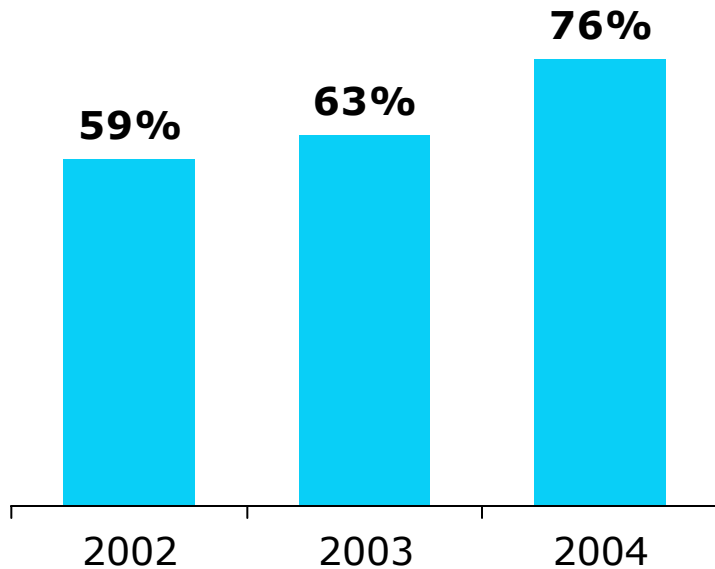
Source: Company reports. Data as of 9/25/04

Also included in chart are other PBMs and captive PBMS, comprising less than 1% of revenue

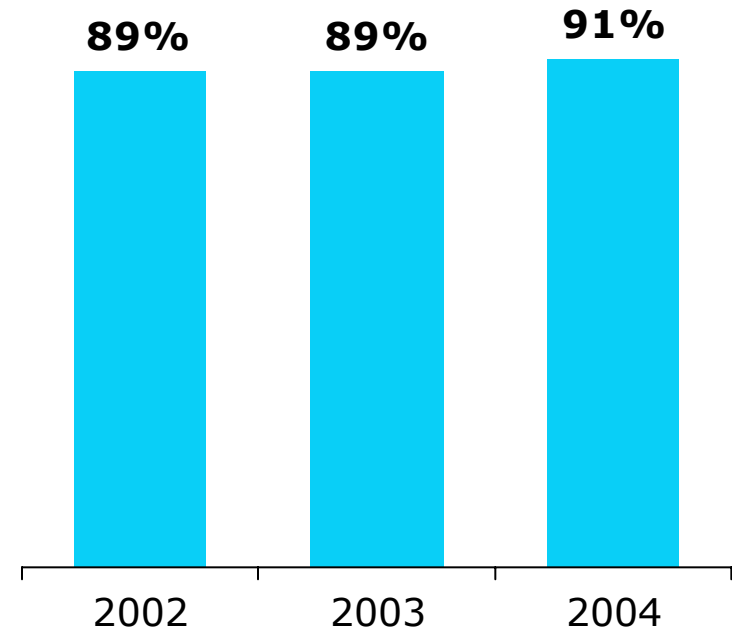
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# Overall satisfaction with Medco

**Client Satisfaction "Top 2 Boxes"**  
(Percent)



**Client Satisfaction "Top 3 Boxes"**  
(Percent)



**20% One-year Increase in "Top 2 Boxes"  
for the Highest Hurdles**

# The results are clear

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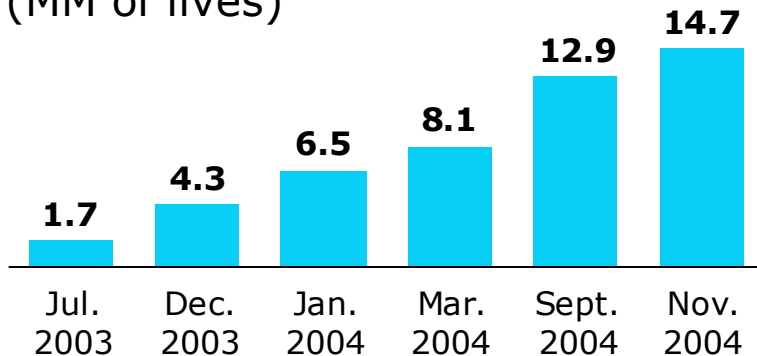
- \$20 BN record renewals in 2004
- \$1.7 BN in new business for 2005
- Sold-in specialty offering to 440 customers covering 14.7 MM lives

**One-third of the Fortune 500 and over half of the Fortune 100 are Medco clients**

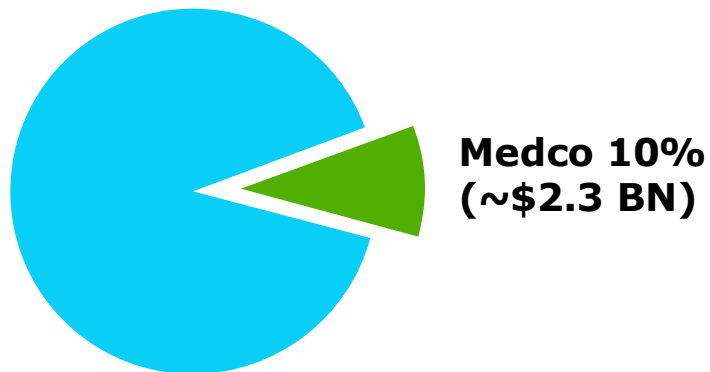


# Specialty pharmacy enrollment growth

(MM of lives)



## 2003 U.S. Specialty Rx Spend (~\$24 BN)



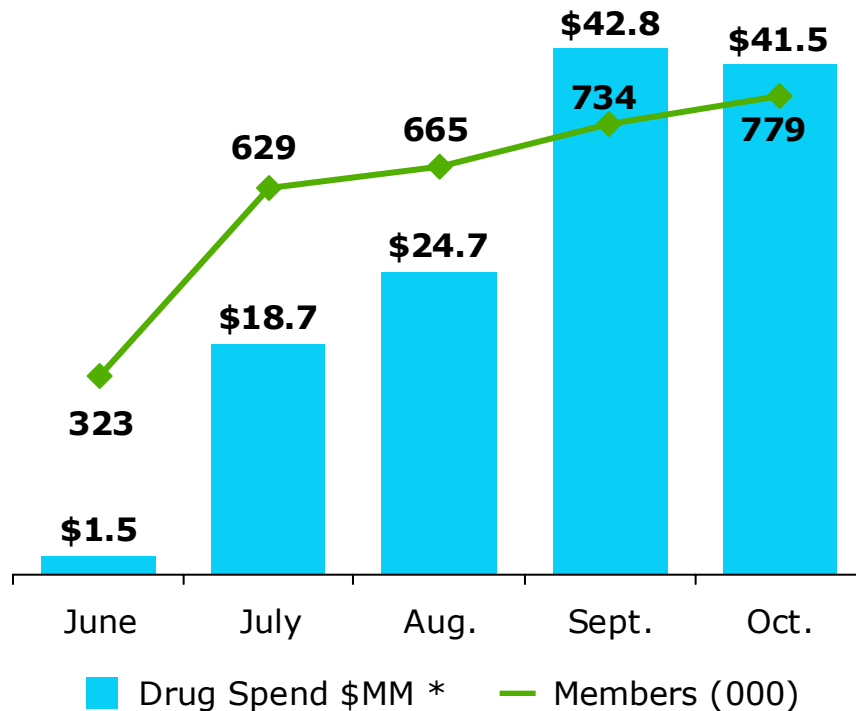
Source: Medco data

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## Enrollment in Medco's Specialty Pharmacy has grown 240% in 2004

- 440 customers representing 14.7 MM lives
- Drug Trend for specialty drugs 19.5% YTD
- 8,000 Rx's dispensed through Accredo through October
- Therapeutic classes include:
  - Cancer
  - Growth Hormone
  - Hemophilia
  - Hepatitis
  - Immune Deficiency
  - Anemia
  - Infertility
  - MS
  - Pulmonary Hypertension
  - Rheumatoid Arthritis

# Medicare discount cards of choice



## Today:

- 800,750 Medicare members
- 2.1 million prescriptions
- YTD Average Discount off AWP:
  - 17% Brand
  - 61% Generic

## 2005 focus:

- Estimated Drug Spend = \$400-\$500 million
- Retail to mail conversion
- Generic substitution

## 2006:

- Prepared to play

**Medco records as revenues mail service drug spend and enrollment fees – which is only a small portion of the Medicare spend. We do not record retail drug spend.**

# Guidance for 2004 and 2005

	2004	2005
<b>EPS (GAAP)</b>	\$1.69–\$1.75	\$1.94–\$2.03
<b>EPS (adj. for intangible amortization)</b>	\$2.08–\$2.14	\$2.33–\$2.42
<b>Capital Expenditures</b>	<\$115MM	<\$130MM

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# Use of Non-GAAP Measures

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Medco calculates and uses EBITDA and EBITDA per adjusted prescription as indicators of its ability to generate cash from reported operating results. These measurements are used in concert with net income, and cash flows from operations, which measures actual cash generated in the period. In addition, the company believes that EBITDA and EBITDA per adjusted prescription are supplemental measurement tools used by analysts and investors to help evaluate overall operating performance and the ability to incur and service debt and make capital expenditures. EBITDA does not represent funds available for our discretionary use and is not intended to represent or to be used as a substitute for net income or cash flows from operations data as measured under U.S. generally accepted accounting principles. The items excluded from EBITDA but included in the calculation of the company's reported net income are significant components of the statements of income, and must be considered in performing a comprehensive assessment of overall financial performance. EBITDA, and the associated year-to-year trends, should not be considered in isolation. Medco's calculation of EBITDA may not be consistent with calculations of EBITDA used by other companies.

Medco uses earnings per share excluding amortization expense as a supplemental measure of operating performance. The amortization is associated with intangible assets that substantially arose in connection with the acquisition of Medco by Merck & Co., Inc. in 1993 that were pushed down to Medco's balance sheet. The company believes that earnings per share excluding amortization of intangibles is a useful measure because of the significance of this non-cash item and to enhance comparability with its peers.

# Reconciliation Tables

Earnings per Share Guidance Reconciliation	Twelve Months ended 12/31/05		Twelve Months ended 12/25/04	
	Low End	High End	Low End	High End
Estimated Net Income per Diluted Share	\$1.94	\$2.03	\$1.69	\$1.75
Estimated Adjustment for the Amortization of Intangible Assets	0.39	0.39	0.39	0.39
<b>Estimated Adjusted Net Income per Diluted Share</b>	<b>\$2.33</b>	<b>\$2.42</b>	<b>\$2.08</b>	<b>\$2.14</b>

Earnings per Share Reconciliation	Quarters Ended		Nine Months Ended	
	9/25/04	9/27/03	9/25/04	9/27/03
Net Income per Diluted Share	\$0.43	\$0.37	\$1.27	\$1.14
Adjustment for the Amortization of Intangible Assets	0.10	0.05	0.30	0.15
<b>Adjusted Net Income per Diluted Share</b>	<b>\$0.53</b>	<b>\$0.42</b>	<b>\$1.57</b>	<b>\$1.29</b>

# Reconciliation Tables

	Quarters Ended		Nine Months Ended	
	Sept 25, 2004	Sept 27, 2003	Sept 25, 2004	Sept 27, 2003
<b>EBITDA Reconciliation</b>				
Net income	\$118.1	\$100.3	\$348.9	\$307.5
Add (deduct):				
Interest and other (income) expense, net	12.6	8.7	48.0 <sup>(1)</sup>	7.6 <sup>(2)</sup>
Provision for income taxes	79.2	71.4	235.7	218.8
Depreciation expense	45.7	47.1	157.5	139.1
Amortization expense	45.0	23.6	134.9	70.7
<b>EBITDA</b>	<b>\$300.6</b>	<b>\$251.1</b>	<b>\$925.0</b>	<b>\$743.7</b>
<b>Claims Detail</b>				
Prescriptions administered:				
Mail order	22.2	19.4	65.4	58.4
Retail	99.3	110.1	311.5	335.9
Total	121.5	129.5	376.9	394.3
Adjusted prescriptions <sup>(3)</sup>	165.9	168.3	507.7	511.1
<b>EBITDA Per Adjusted Prescription</b>	<b>\$1.81</b>	<b>\$1.49</b>	<b>\$1.82</b>	<b>\$1.46</b>

- 1) Includes a one-time write-off of debt issuance costs amounting to \$5.5 MM in the first quarter of 2004 associated with the debt refinancing.
- 2) Excludes a one-time gain of \$11 MM from the sale in the first quarter of 2003 of a minority equity investment in a nonpublic company.
- 3) Estimated adjusted prescription volume equals mail order prescriptions multiplied by 3, plus retail prescriptions. The mail order prescriptions are multiplied by 3 to adjust for the fact that mail order prescriptions include approximately 3 times the amount of product days supplied compared with retail prescriptions.

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