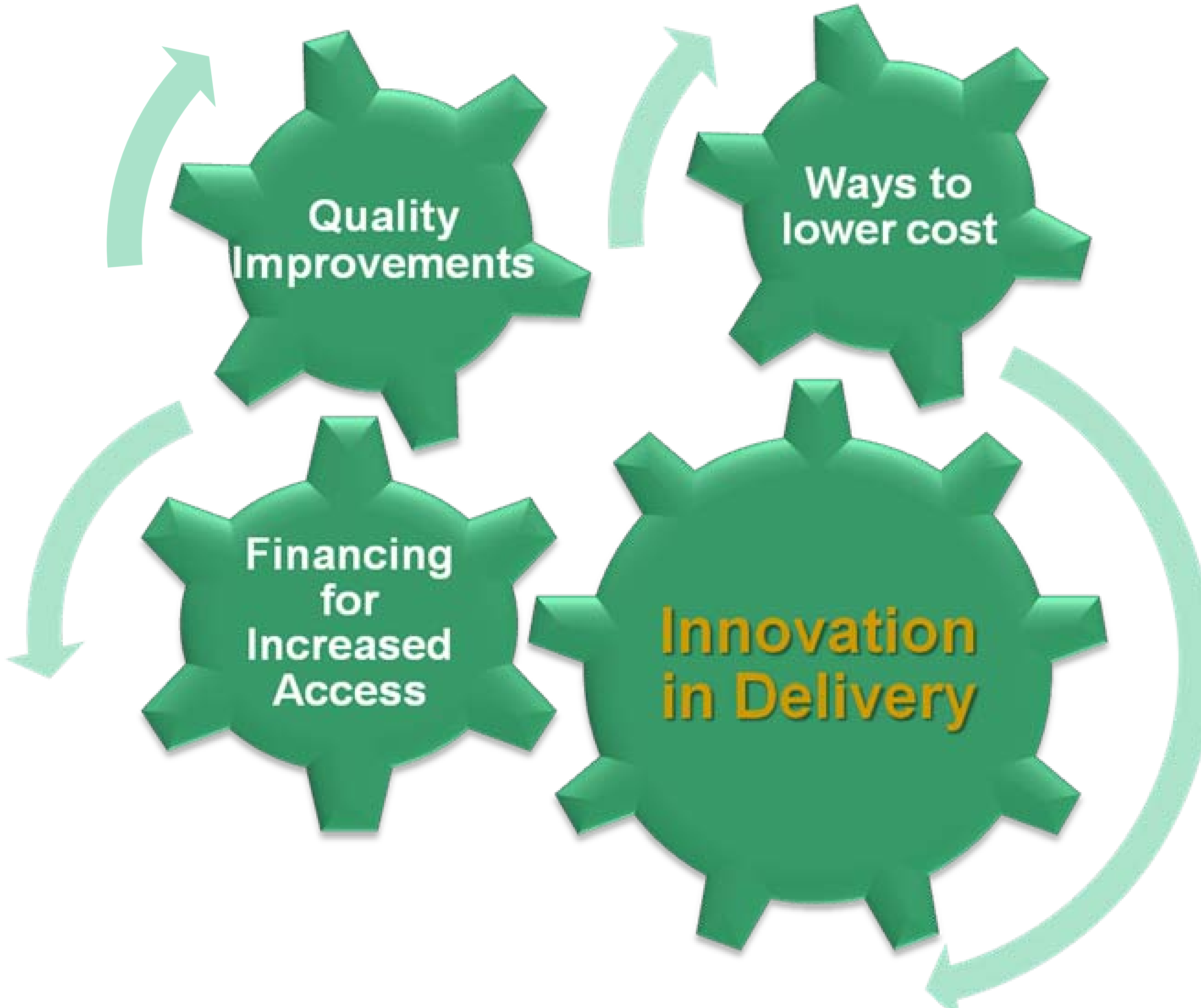
Healthcare in the Express Lane: Retail Clinics go Mainstream

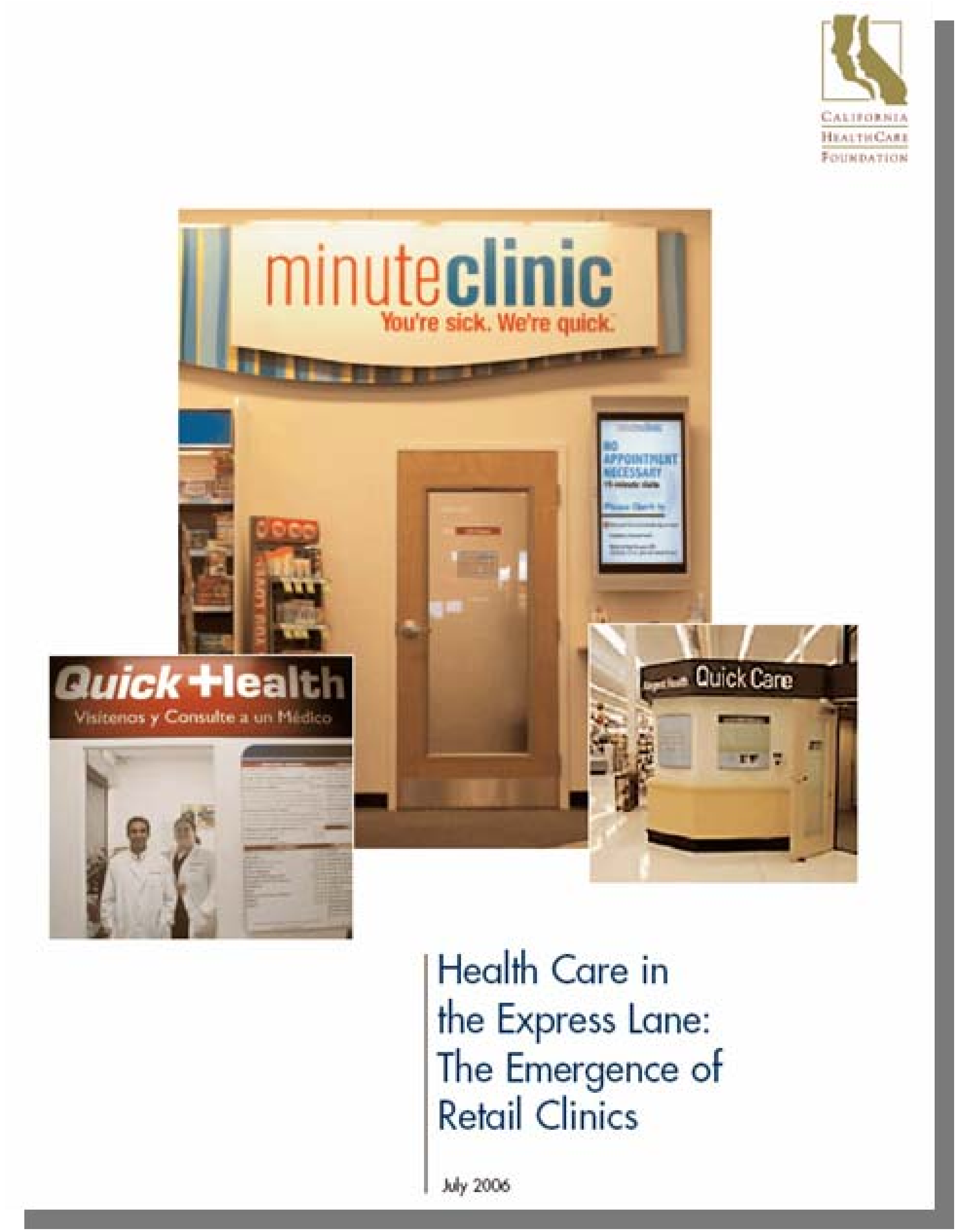
September 26, 2007

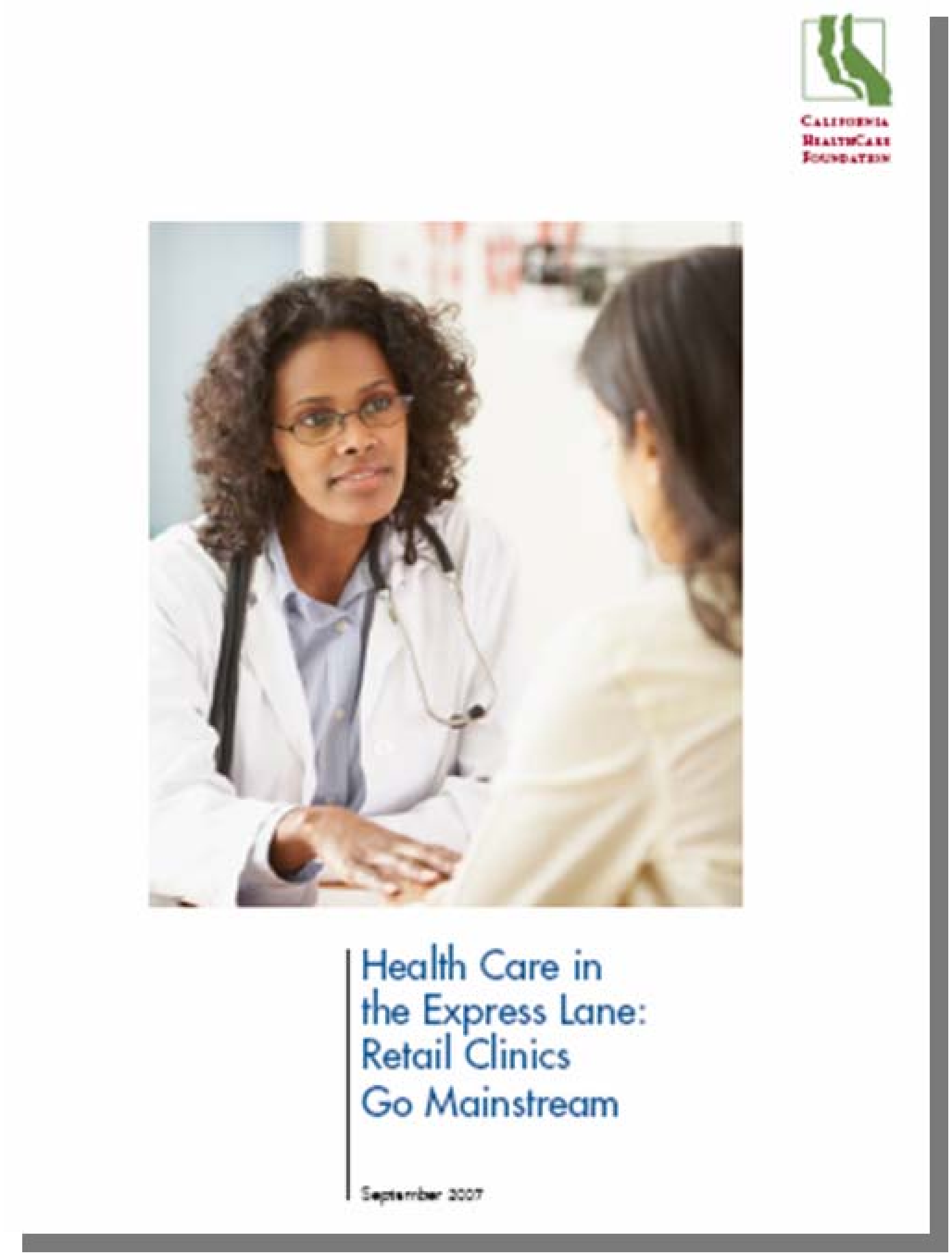
Prepared for Consumer Driven Health Care Summit

by Scott & Company, Inc.

The shifting health care debate: From Cost, Quality & Access to Delivery Innovation

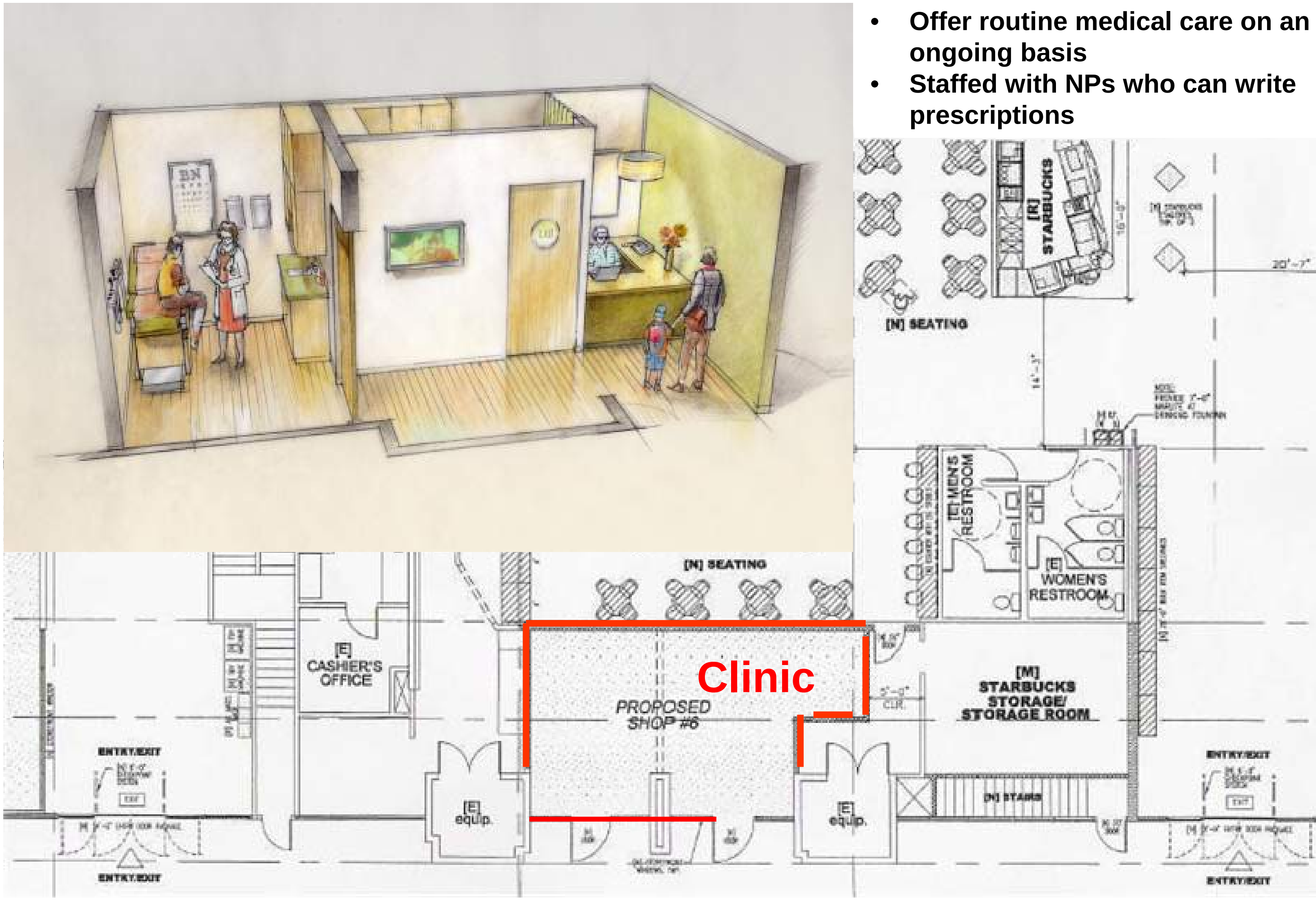



California HealthCare Foundation
minuteclinic
You're sick. We're quick.
Quick Health
Visítenos y Consulte a un Médico
Quick Care
Health Care in the Express Lane: The Emergence of Retail Clinics
July 2006


California HealthCare Foundation
Health Care in the Express Lane: Retail Clinics Go Mainstream
September 2007

Retail clinics are inside a store, operated by a clinic provider

- Inside a retail store
- Offer routine medical care on an ongoing basis
- Staffed with NPs who can write prescriptions



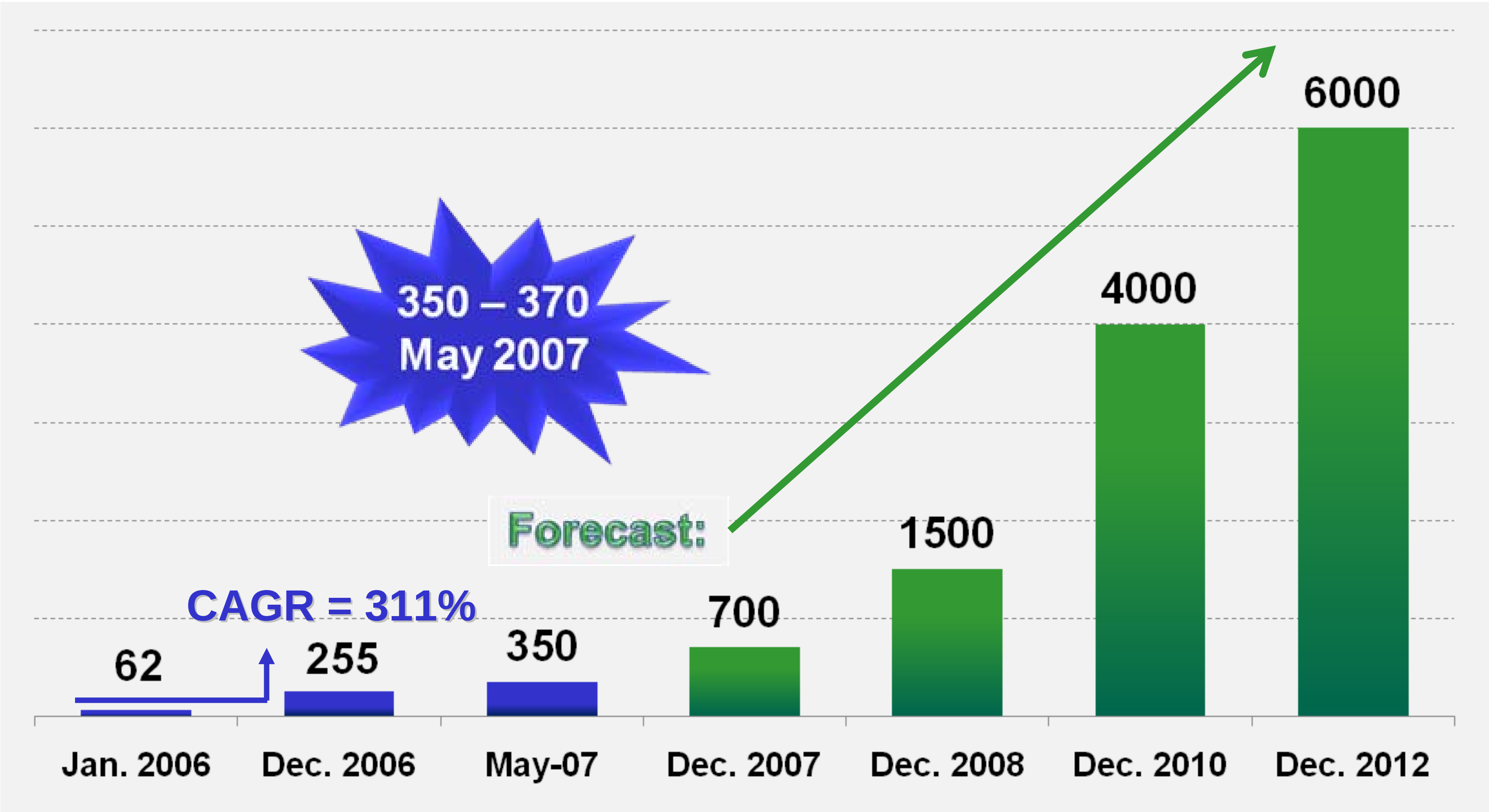
Irreversible trends that drive the proliferation of retail clinics

- Acute, long-term shortage of Primary Care Physicians
- Consumers paying more for health care – out of pocket
- Consumers taking a DIY approach to healthcare and information sourcing
- New services and devices for home care create new capacity to "be your own doctor"
- Health insurance is getting unaffordable for many
- New HDHP coverage is gaining traction
- Technology enables new care settings, new pace of diagnosis and lower costs
- Investors are fueling innovation in healthcare delivery with funding

Retail clinics in grocery, drug and mass merchandise stores

Clinics are opening at a rapid pace around the country

Number of clinics



Main Clinic Players include operators (tenants) and retailer (hosts)

Clinic Operators

~50+ national regional and local players

85% independent

15% affiliated with hospitals

Health Corner Clinic
Aurora QuickCare
Take Care Health Systems – Professional Care. Always there.
My Healthy Access – Your Health... Your Clinic...
Sutter Express Care
minuteclinic – You're Sick. We're Quick
MedExpress – Great Care. Fast.
RediClinic
Quick Health
solantic – Great care. Fast and fair.
The Little Clinic

Retailers

~25+ national and regional players, local players are emerging

Target
CVS/pharmacy – Expect something extra
Bartell Drugs – Washington's Own Drugstores
Publix Super Markets
Albertsons
Kroger
Walgreens – The Pharmacy America Trusts
Wal★Mart – Always Low Prices. Always.
Rite Aid – With us, it's personal.
Wegmans – helping you make great meals easy
H-E-B – Here Everything's Better.

What's changed in a year: the market has proven an experimental model viable

The past year has been much more about ***validation of the model, including consumer validation of the concept***

Key players have ensured the success of clinics

- ***Operators***
- ***Retailers***
- ***Payers***
- ***Consumers***
- ***Wider Health Care System***
- ***Regulators***

Business model for clinics remains fundamentally the same

- Encourage consumer use by offering convenience at fair, transparent price
- Ensure reasonable price with payer coverage
- Limit the scope of services
- Minimize cost through lower cost labor and smaller space
- Maintain quality with technology based protocols, physician oversight

Clinics break even at 18-30 months on a per-store basis, but breakeven for clinic companies is more difficult

- 85% fixed cost business – labor, space, technology
- Spaces getting smaller – now about 220 square feet
- Leases at “fair market value” ~$60-90 square foot
- Overhead for clinic companies ~$2m+ per year

- ~100+ clinics are necessary for a reasonable long term economic return for the corporate entity

Clinics make strategic choices on service scope…

"We believe the initial consumer exposure should be about acute care and educating consumers about how to use the clinics as a complement to their primary care physicians… if we move too quickly to screening and wellness, people may see [the clinics] as a medical home, and that might be confusing."

- Michael Howe, CEO, MinuteClinic

"The consumer is proving to be very smart on using retail clinics – they know how and when to use clinics."

- Dave Mandelkern, CEO, Quickhealth

"…their need for easy access to affordable preventive care is just as acute as their need for easy access to affordable treatment of routine medical conditions."

- Web Golinkin, CEO, RediClinic

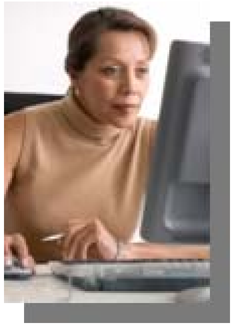
...and on channel, geography and the customer experience of quality and service…

- Drug, grocery or mass merchandise – or a combination? Tradeoff between store traffic, consumers, market position

- Geographic concentration to “own” a market and achieve cost effective marketing, or to target a specific customer segment

- *the NP is critical – as s/he provides the total experience for the consumer including the quality of care and the check –in and out process*

- *clinic operators consider the entire consumer experience – and are piloting several technologies for improved customer service*



…and strategic choices on payer relationships – in the past 12 months payers have shifted their coverage provisions

HUMANA

We want you to know

Aetna

BlueCross BlueShield

CIGNA

UnitedHealth Group

Harris Poll '07
42% of clinic patients were reimbursed for some or all clinic fees

But, not all clinics pursue relationships with payers

Quick Health™

We Make Quality Medical Care Affordable and Convenient

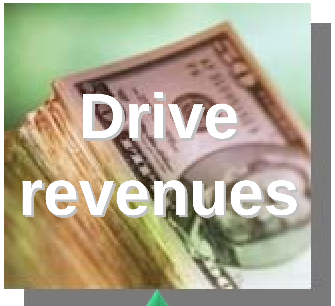
- Drop In and See a Doctor for $39
- No Appointment Necessary
- Open Seven Days a Week
- Health Insurance Is Not Required or Accepted

Harris Poll '07
22% of clinic patients did not have health insurance

"Most of our customers don't have insurance… if we offered coverage we would have to increase our rates for everyone to reflect the cost of doing business with insurers. We don't think that the few people who want to use their health insurance at our clinics should burden the majority of our customers who don't have health insurance."

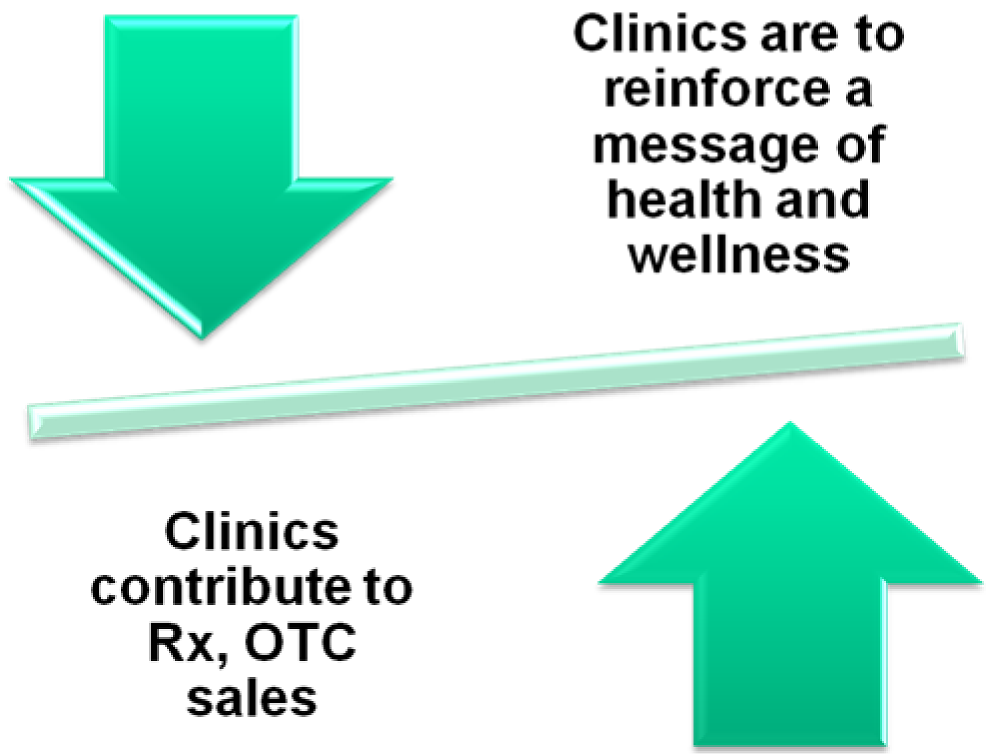
- Dave Mandelkern, CEO, QuickHealth

Why are retailers participating?



- Drive home their consumer offer around health and wellness
- Increase customer visits, time in store
- Drive pharmacy, OTC
  - 30-35% of clinic consumers represent a new Rx to the retailer; cost effective way to get new Rx customers – and fight the mail order and internet pharmacy battle
  - Grocery and general merchandise is low margin ~5%; pharmacy is 16-23% margin
  - 95% of scripts are filled in the clinic's retail store
  - 55% of clinic consumers buy OTC and GM while at the visit

“Retail clinics are good for business” (Lee Scott, Wal-Mart)



> ***“The clinics create a halo and a destination for healthcare.”***
>
> CVS/pharmacy Expect something extra - Chris Bodine, CVS

Clinics as a driver of prescriptions

If there are 2,500 clinics in 3 years, and assuming that half break even (which is 20 patients a day) and half see 40 patients a day… That translates to 26 million clinic patients. If half those patients get prescriptions, then...

13 million prescriptions could be generated by clinics by 2010

An alternate 5 year scenario:

if you believe in the projected CVS and Wal-Mart rollouts – a total of 5000+ clinics – operating at 40 patients per day; then it's possible 36m Rx could pass through clinics within the next five years

Retailers are in “pilot mode” yet are expanding their participation with clinics

- CVS announced 2500 stores in next “several years”
- Walgreens 250 clinics in 2007
- Wal-Mart plans to put clinics in “as many as 400 in U.S. stores in the next three years” and possibly 2,000 of them within five years -- clinics will be in 55% of Wal-Mart stores by 2012
- Publix announced 30 clinics along with many other grocery players

With 5000+ clinics it will be the norm to have a local retail clinic in your neighborhood

“This is a pilot. We are still learning.”

-Alicia Ledlie, Senior Director of Health Business Development, Wal-Mart

Retailers experiment with 3 models

In-house Model

CVS/pharmacy® Expect something extra™
minuteclinic® You're Sick. We're Quick®

Walgreens The Pharmacy America Trusts
Health Corner Clinic Where Medical Care & Pharmacy Meet™

Exclusive Operator Model

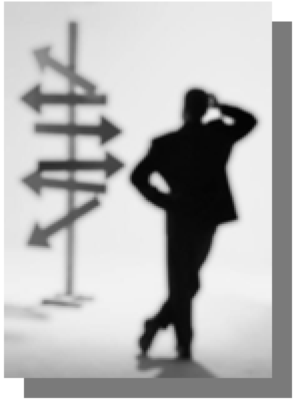
Multiple Operator Model

My Healthy Access Your Health... Your Clinic...
solantic Great care. Fast and fair.
RediClinic
QuickHealth™
Aurora QuickCare℠

Assessing the opportunity for your store

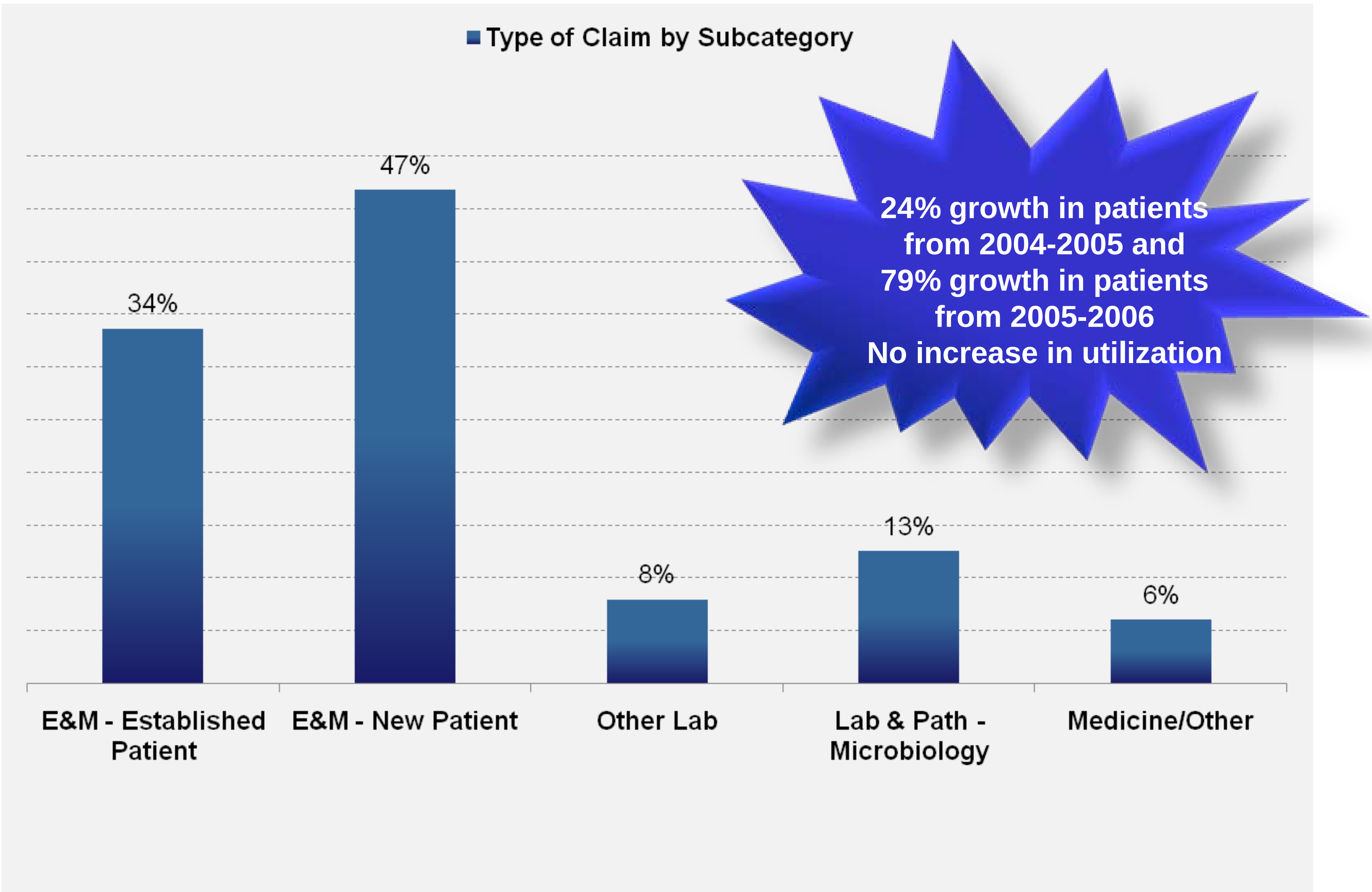
1. Will it work for my store?

2. If so, how do I select a clinic operator?

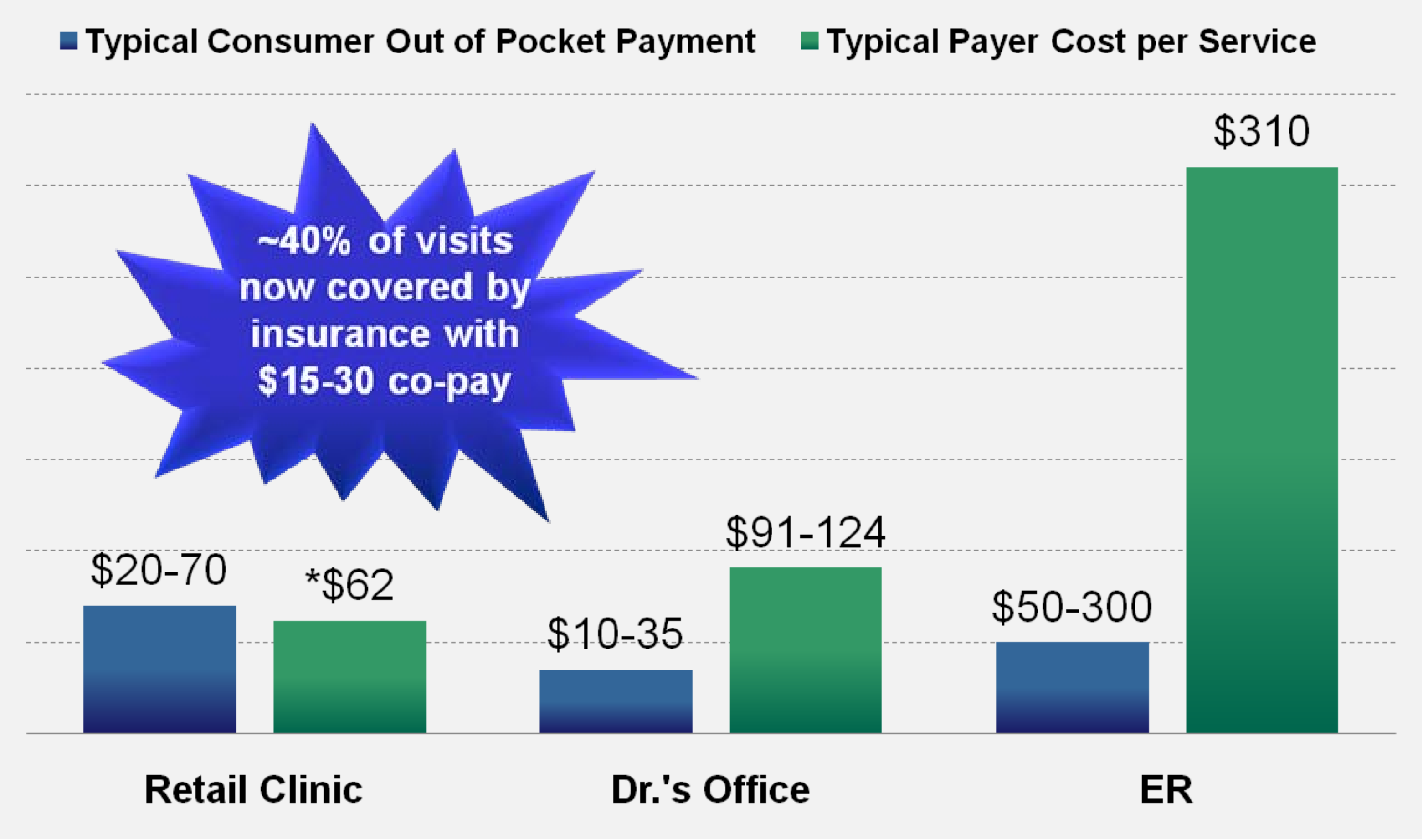


3. How do I ensure success for the clinic in my store?

Payers are paying… Claims Experience of BCBS - MN

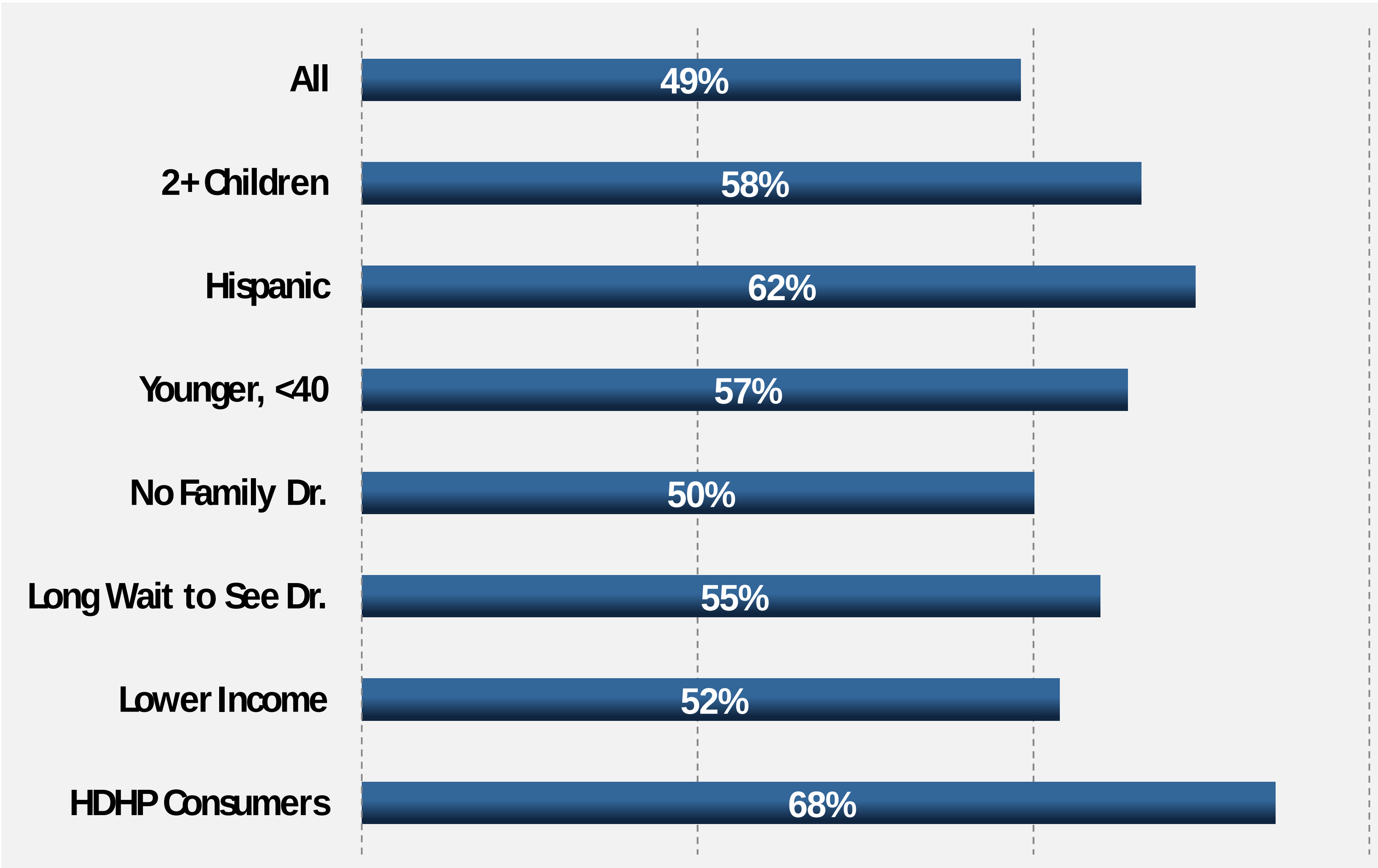


While clinics are cheaper for the insurer, for many consumers it can be an expensive out-of-pocket option



Source: Health Partners 2005

In consumer surveys, who indicated a likelihood to use retail clinics?



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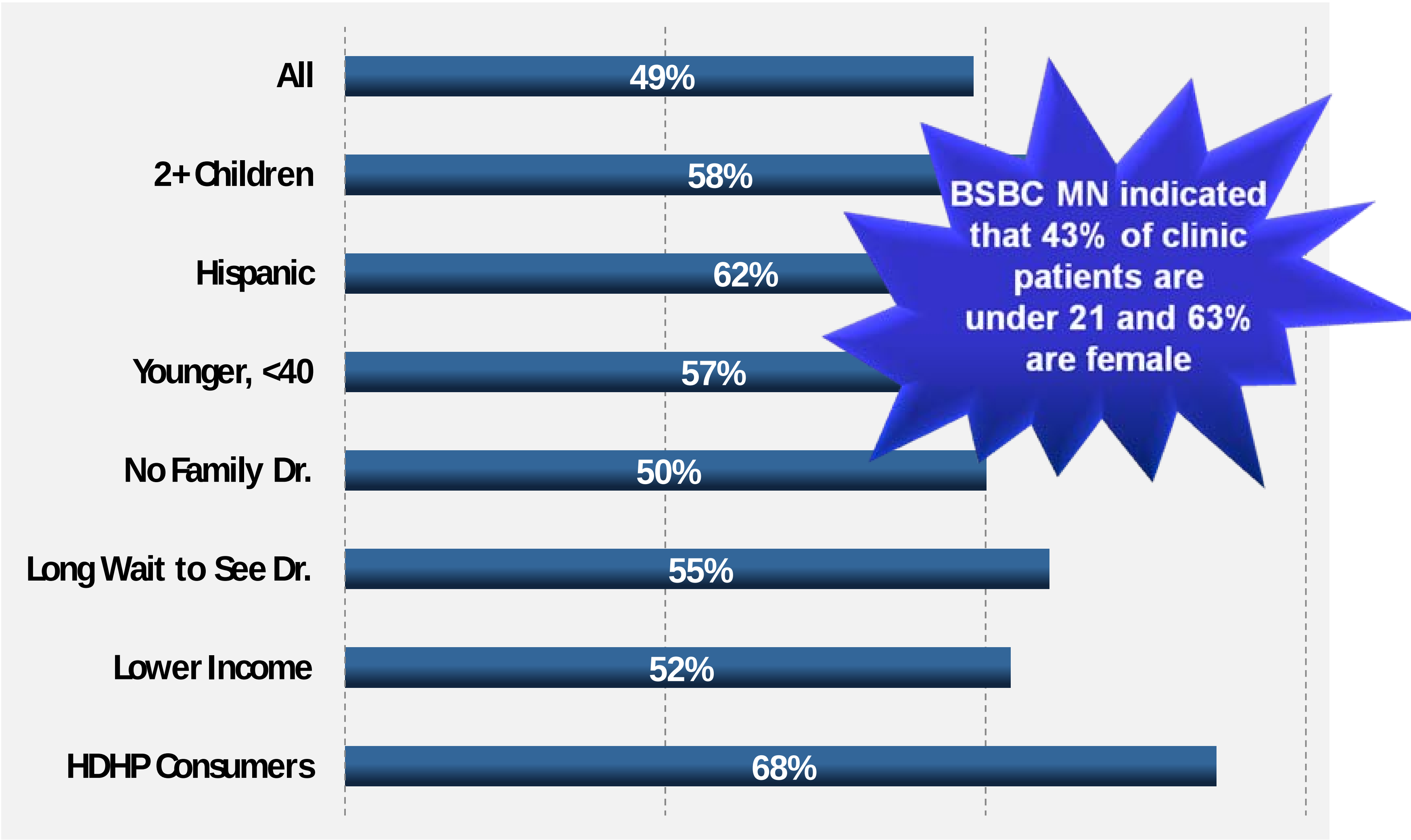
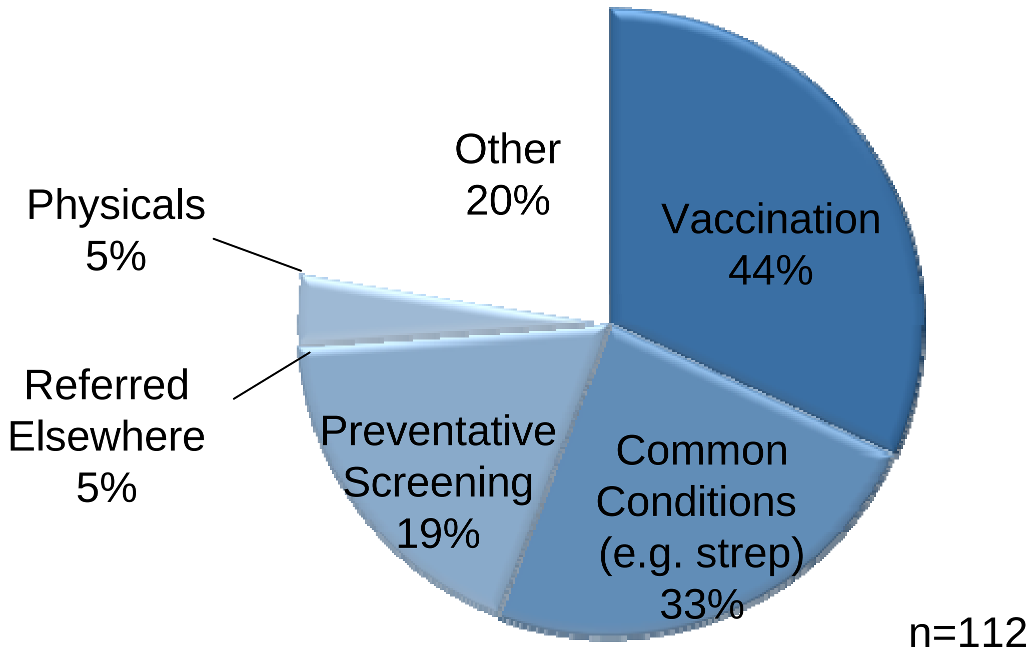


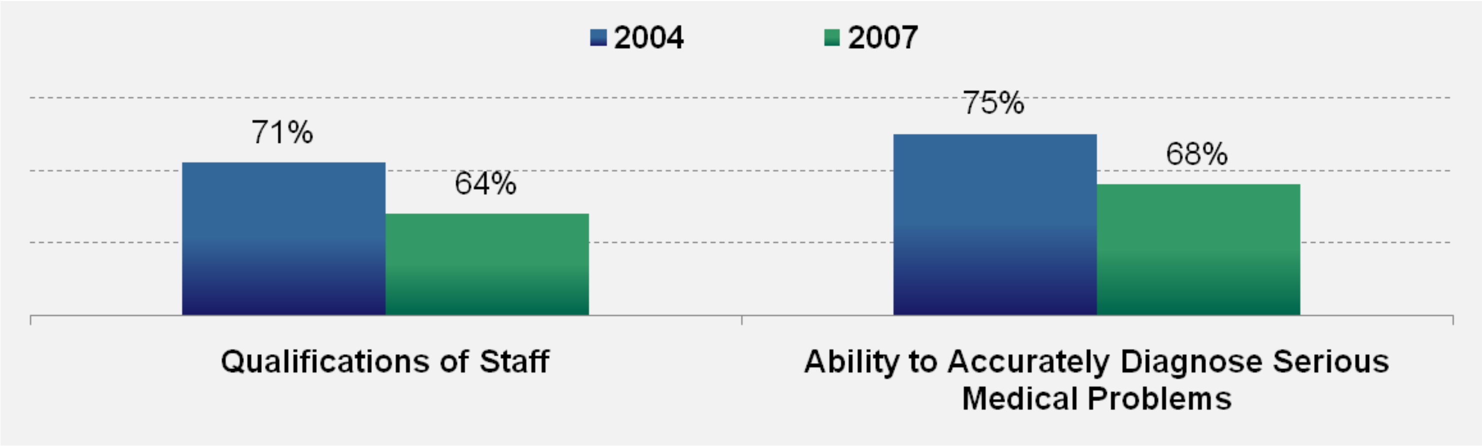
Acute care and vaccinations drive most clinic visits

"…the last time that you or an immediate family member visited an onsite health clinic…what type(s) of medical services did you receive?"



Source: Harris Interactive Survey, April 2007

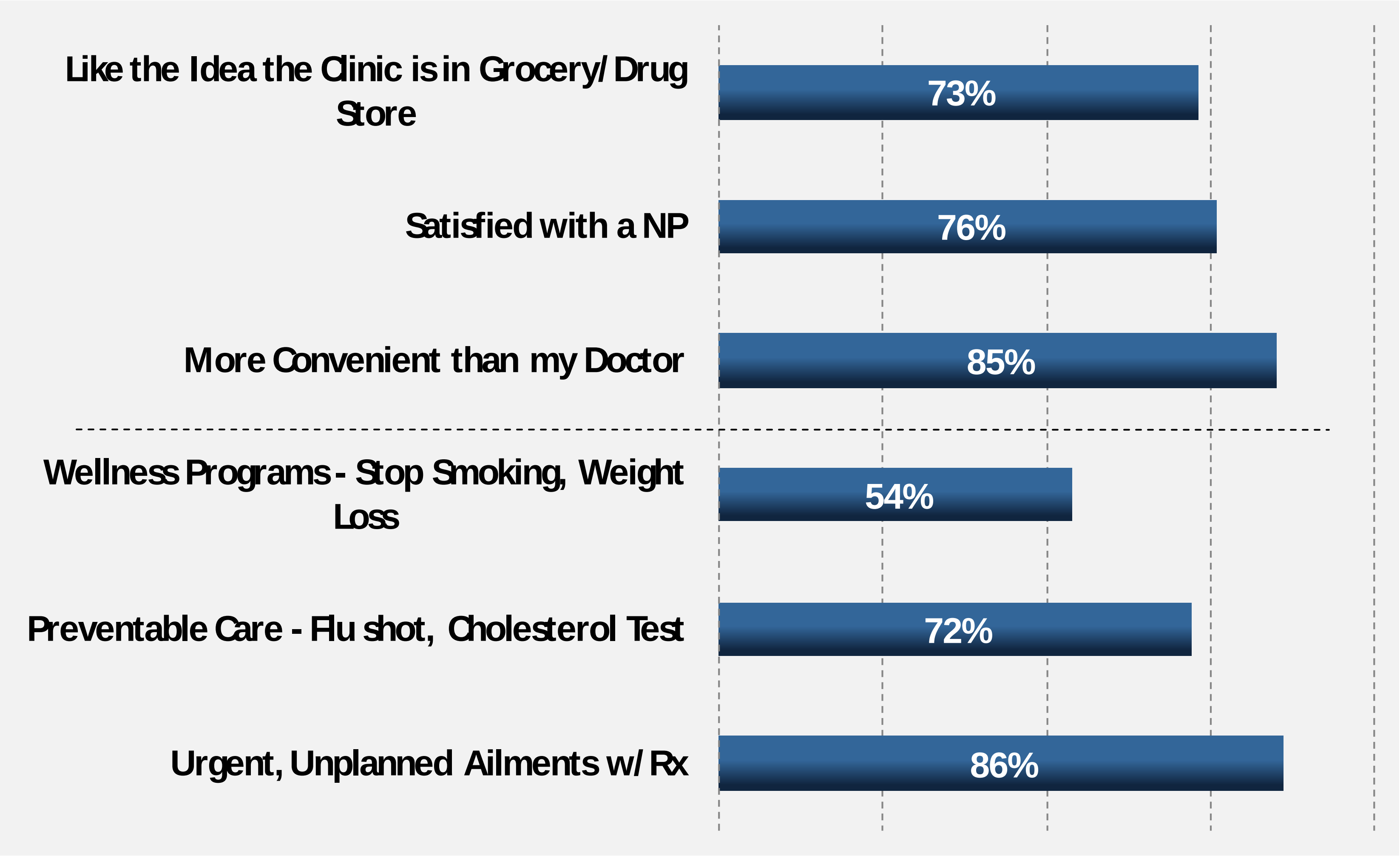
Consumer concerns about clinics have declined but remain...while satisfaction of users remains high



"Overall, how satisfied were you with your or your family member's experience using an onsite health clinic in a pharmacy or retail chain on the following items?"

Source: Harris Interactive Survey, April 2007

How might consumers use retail clinics & features they like



* Filtered for those likely to use the clinic

Clinics integrate into the healthcare system

Clinics are developing new relationships with healthcare system

- providers - with referral networks
- payers
- local hospitals
- health advocacy groups

> ***"Up to 20% of our Chicago-area patients have been referred to a primary care physician or specialist for follow-up care."***
>
> **- Hal Rosenbluth, Chair, Take Care**

Healthcare providers are participating in this trend in different ways

Work with retail clinic operators

- Co-brand with retail clinics to encourage patient use of clinics
- Provide physician oversight for clinics

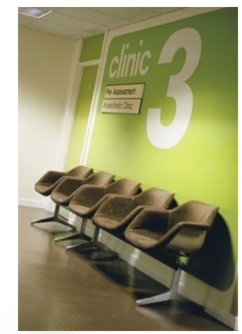
Create and operate their own retail clinics

- Integrated systems see this an opportunity to provide "right care" care by the "right provider" at the "right cost"
- Hospital systems want to keep the patient in their network
- Opportunity to integrate into the community, extend brand, understand the "new healthcare consumer"

Sutter Health
With You. For Life.
Sutter Express Care

Assessing the opportunity for your hospital

1. How will it fit with my ED and overall system?



2. Do I use a clinic operator or run my own clinic? Standalone clinic or in a retail store?

3. What is the economic impact of a clinic?

4. How might my physicians react and respond?

What about quality of care?

New retail health clinic industry group meets to discuss quality, safety standards

Convenient Care Association

Healthcare News
Published: Thursday, 22-Mar-2007

The Convenient Care Association, an organization representing 18 companies that operate retail health clinics, held its first general meeting on Monday at the University of Pennsylvania to discuss quality and safety standards at retail clinics, the Philadelphia Inquirer reports.

The clinics, which treat routine health problems, such as flu and strep throat, typically are staffed by nurse practitioners.

At the meeting, which drew more than 200 industry personnel, the CCA said it would monito
encourage pat

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Are clinics over prescribing?

6 months of data collected by BSBC Tennessee

Fewer prescriptions

possibly due to tighter controls on prescribing authority of the NP

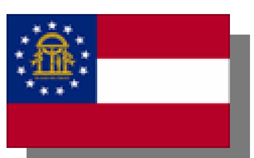
State regulators have latitude to encourage or inhibit clinics

Issues:

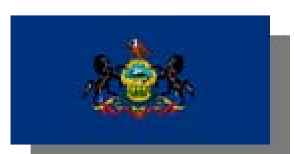
- scope of services
- prescribing authority
- non-physician licensing
- nurse practitioner oversight
- physician-ownership requirements

> ***"The Corporate Practice of Medicine laws make it fundamentally untenable to do business…We can't employ the NP directly and can't control them to ensure high quality standardized care …and we can't own equity …other states are not as problematic and are more welcoming from an ownership perspective."***
>
> RediClinic **- Web Golinkin**

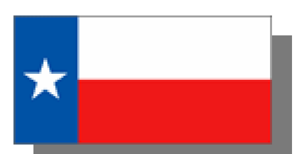
Florida



Georgia



Pennsylvania



Texas

California

This update report outlines the rapid and collaborative responses by all stakeholders

- Major shift in acceptance of the model by all parties
- Significant investment
- Strong consumer response

Next 5 years … 6000+ clinics with 60m patient visits

Publication Date
September 2007
Marykatescott.com
Chcf.org

The market will decide if clinics survive...

An opinion on the “Next Steps” for retail clinics

- Monitor quality, prescribing habits and usage of clinics
- Ensure clinics continue to extend access to safety net population
- Pay attention to remote health management opportunities – both wellness and cost
- Learn new models for lower cost, high quality care

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