

# 3Q16 Earnings Call Supplemental Slides

November 2, 2016

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# DIR (Direct and Indirect Remuneration) Fees

- Term used by CMS to address price concessions that ultimately impact the prescription drug costs of Medicare Part D plans, but are not captured at the point of sale
  - Some PBMs use DIR as a “catch-all” term to encompass a number of different types of fees
- Final 2014 Part D rule established a new definition of “negotiated price”, effective in 2016, to include all pharmacy price concessions which can be reasonably determined at point of sale
  - Some Plans / PBMs restructured programs for 2016, to make it more difficult for their DIR fees to be “reasonably determined” in anticipation of this legislation
  - Some PBMs assert that DIR fees cannot be determined at the point of sale as the performance against certain quality measurements are not known at the time of adjudication

# DIR Fees

- Not New – been around in some format for a few years
  - Major changes in 2016; rates, methodology, timing, transparency
- Retroactive – Received first 2016 scorecard in 3Q 2016, but retroactive to 1/1/2016
  - Measured with very dissimilar retail pharmacies
- Diplomat is working with other specialty pharmacy industry players, and in Washington D.C., to make sure our case is heard
  - Recent bipartisan legislation has been introduced in both the House and Senate to address DIR fees

# Impact of DIR Fees to DPLO YTD 2016

- \$10.1 million year to date total DIR fees recognized

<i>(millions)</i>	<u>1Q 2016</u>	<u>2Q 2016</u>	<u>3Q 2016</u>	<u>YTD 2016</u>
Recognized in GAAP Financials	\$0.6	\$1.0	\$8.5	\$10.1
Appropriate "Normalized" Timing	2.3	3.3	4.5	10.1
Retroactive Impact	<u>\$1.7</u>	<u>\$2.3</u>	<u>\$(4.0)</u>	<u>\$--</u>

- DIR fees have a minor impact on revenues, but all drop to the bottom line
- Going forward we anticipate DIR fees of \$5-\$6 million in 4Q 16 and approximately \$20-\$30 million in 2017

# 2016 Normalized Income Statement

(millions)

	1Q 2016		2Q 2016		3Q 2016	
	Reported	Normalized <sup>(1)</sup>	Reported	Normalized <sup>(1)</sup>	Reported	Normalized <sup>(1)</sup>
Revenue	\$ 995,870	\$ 994,169	\$ 1,088,506	\$ 1,086,174	\$ 1,181,173	\$ 1,185,206
Gross Profit	\$ 79,238	\$ 77,537	\$ 83,270	\$ 80,938	\$ 78,512	\$ 82,545
Gross Margin	8.0%	7.8%	7.6%	7.5%	6.6%	7.0%
Adj EBITDA	\$ 29,019	\$ 27,318	\$ 29,643	\$ 27,311	\$ 22,615	\$ 26,648
Adj EBITDA Margin	2.9%	2.7%	2.7%	2.5%	1.9%	2.2%
Gross Profit/ Prescription Dispensed	\$ 332	\$ 325	\$ 339	\$ 329	\$ 289	\$ 305

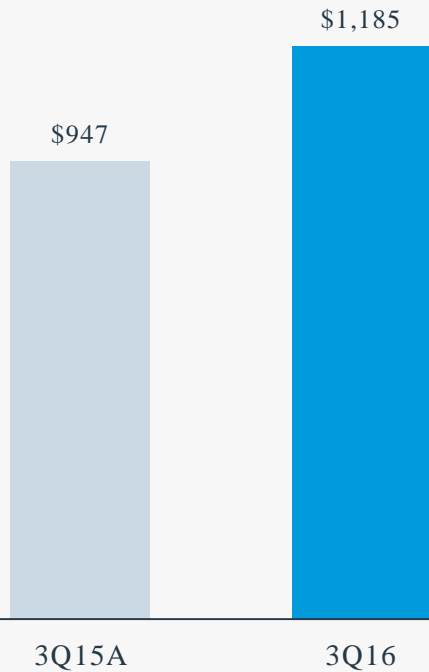
(1)

Adjustments:	1Q 2015	2Q 2015	3Q 2015	FY
DIR fees	\$ (1,701)	\$ (2,332)	\$ 4,033	\$ -

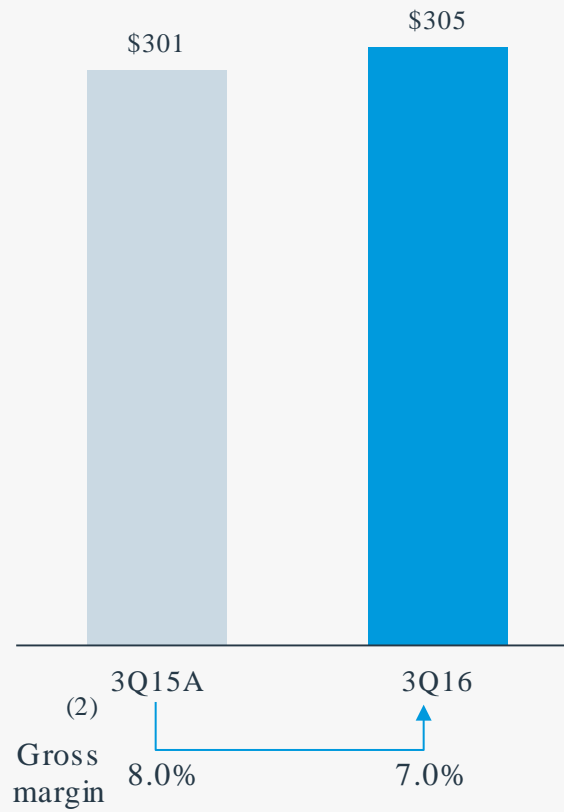
# Normalized Third Quarter 2016 Results

## Revenue

(\$ in millions)

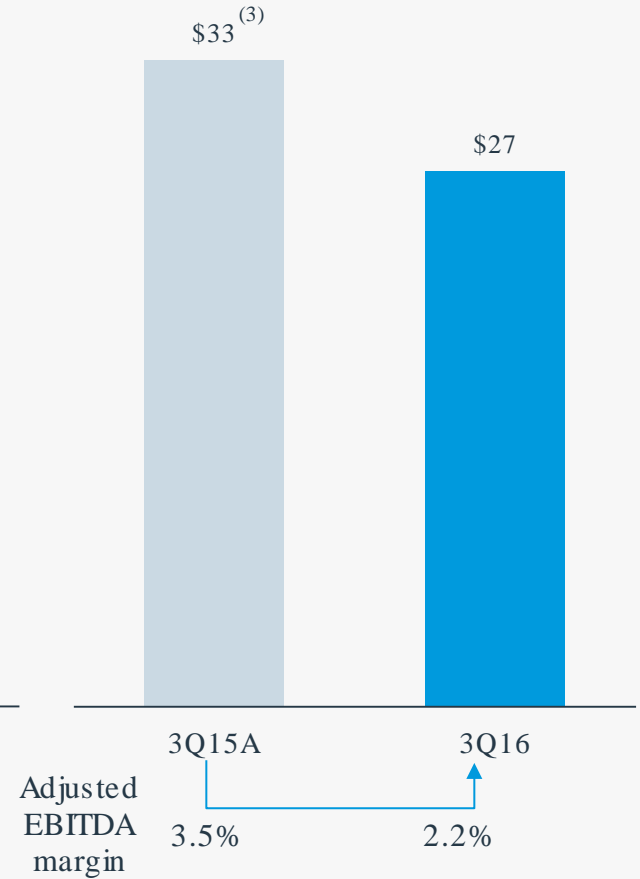


## Gross Profit / Script<sup>(1)</sup>



## Adjusted EBITDA

(\$ in millions)



(1) Based on dispensed scripts only.  
 (2) Gross profit / net sales (i.e., based on dispensed and serviced scripts).  
 (3) 3Q15 Adjusted EBITDA benefited from one time pharma dollars and reversal of 2Q 2015 bad debt expense

# Guidance (November 2, 2016)

	2015 Actual	2016 Guidance	2016 YOY <sup>(1)</sup>
Revenue	\$3.4b	\$4.4b - \$4.6b	34%
Adjusted EBITDA	\$95m	\$107m - \$111m	15%
Adjusted EPS	\$0.75	\$0.83 - \$0.87	13%

- Guidance does not assume any incremental acquisitions
- Q4 2016 assumes approximately 68,500,000 weighted average diluted common shares outstanding and a 40% tax rate

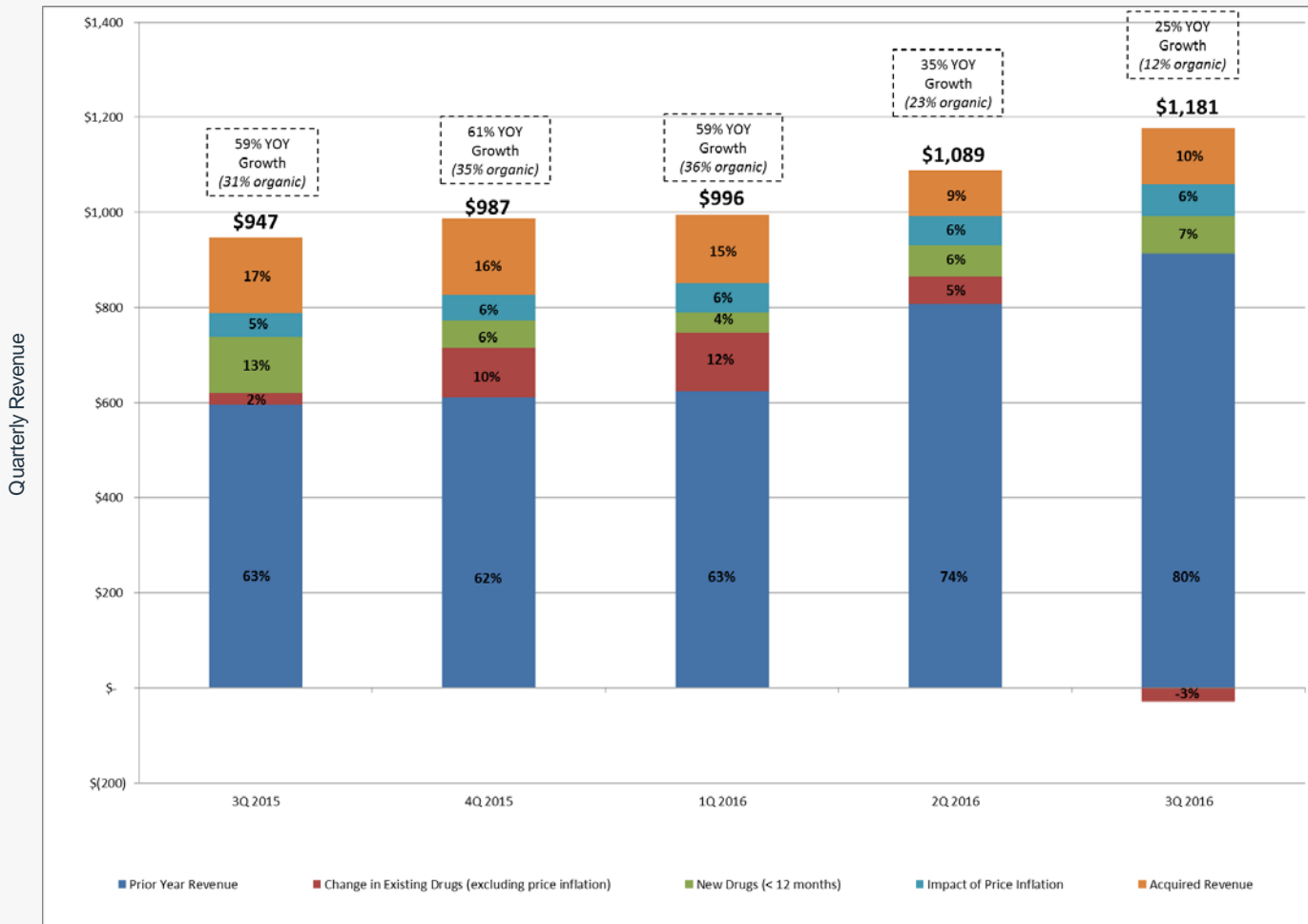


# Balance Sheet / Cash Flow snapshot

(\$ in millions)	September 30,	December 31,
	2016	2015
Cash	\$17	\$28
Total Debt	\$154	\$119 <sup>(1)</sup>
Shareholders' equity	\$613	\$516
Net Debt/ProForma TTM EBITDA <sup>(2)</sup>	~1.2x	~.8x
Cash Flow From Operations (period ended)	\$31	\$29

# Components of Quarterly Revenue Growth

(\$ in millions)



- Price inflation has comprised 5-6% of revenue over the last 5 quarters
  - No meaningful change to date
- Chronic disease expertise provides an annuity-like revenue base
  - Limited distribution leadership and rich drug pipeline driving revenue growth from new drugs