Jason: Good afternoon. Our next presenting company is going to be PharMerica, which is the second largest institutional or long-term care pharmacy in the country. We’re very happy to have, presenting from the company, the Chief Executive Officer, Greg Weishar, as well as Chief Financial Officer, Michael Culotta. With that, I’ll turn it over to Greg.

Greg Weishar: Thank you, Jason, for the introduction and thank you for the report to kick us off. Welcome; I’m glad to be here. We’ve been busy with presentations and hopefully you guys have recovered from lunch. (I’m trying figure out how to make this work, Mike.)

Before I get started, let’s talk about Safe Harbor -- I’ll let you read that, take a minute and read that; these are forward-looking statements.

So who is PharMerica? PharMerica was formed through the simultaneous spin-off and merger of the institutional pharmacy business of AmeriSource Bergen and Kindred Pharmacy Services. As most of you know, the transaction closed at the end of July, and here’s what we look like today. We are one of two scale competitors in the institutional pharmacy business and prior to the merger, neither company really had the scale, we believe, to compete adequately. And both were distant competitors to Omnicare.

The key message that I’d like to leave with you today is that PharMerica is a meaningful No. 2 player today. Our combined pro forma 2006 revenues of $1.9 billion certainly are going to help us drive operating efficiencies in our pharmacies and also in clinical operations, which are becoming more and more important.

Our revenues are predominately from nursing homes, approximately 95%. This merger also expanded our geographic reach; we have over 120 pharmacies. We’re going to lower that number, but there were about 25 overlapping pharmacies and so we’ll end up with about 100 pharmacies and we’ll be servicing over 340,000 beds.

We’ve moved our corporate headquarters to Louisville, Kentucky, which was the previous home of KPS, one of our merged companies.

Here’s our business -- our customers are skilled nursing facilities, assisted living facilities, and other institutional settings; we have a small management hospital business. In terms of our nursing home business, the key value add is in the dispensing time that we save the nurses. Unit dose packing and specialized med carts are a key part of making the job of the nurses’ dispensing activities easier.
In addition to making the jobs of the nurses easier and more efficient, we also help them save money. So our value proposition is operational assistance with the medications and also saving our clients money.

We have about 400 clinical pharmacists throughout the United States and they conduct monthly chart reviews on every patient. They position us to influence prescribing, which is a key part of our business, as they recommend the most cost-effective prescriptions, those that are approved by our formulary, and that’s a key function of their job.

So we are an essential partner to the nursing homes and they rely on us to get the right drug to their patients at the most cost-effective and efficient manner.

What are the benefits of institutional pharmacy services? I’d like to make sure everyone knows the difference between an institutional pharmacy and a retail pharmacy. They’re quite substantial and may not quickly meet the eye to those who haven’t followed this business.

I’m sure most of you’ve seen a CVS or a Walgreens and you’re familiar with the traditional retail transaction -- you walk into the store and you either drop your scrip off or pick one up. The retail pharmacy business is essentially a consumer business and basically there are two components to that business, which are filling the scrip accurately and getting it out the door within 15 or 20 minutes. The retailer’s stock in trade is what we call the “walking well.”

This retail business is in sharp contrast to the institutional pharmacy business. Probably the most important difference -- there are certainly some operational differences -- but we are a business-to-business model, a B2B model, and that’s fundamentally a difference. We have to go out and sell our services to nursing homes and we have contracted services.

That makes us look more like a prescription benefit management company. We sell pharmacy management services to local, regional, and national chain nursing homes. The big thing about our business as well, is we deliver, to those homes and their med carts. Logistics is also a key component of our business, which makes it somewhat different than the retail environment.

Our stock in trade is making the nursing homes and their lives easier, as I said earlier. And saving our customers money; can’t emphasize that enough. That’s why our industry dispenses unit-of-use packaging, bingo cards, instead of the standard vials that you see coming out of retail. Unit of use streamlines the administration process, which is labor intensive and prone to error. So our compliance is better under this process as well as the cost structure to the nursing homes is lower.

We also operate 24 hours a day. We have STAT service 7 days a week, 365 days a year, as we deliver daily; in some cases, twice daily.

As I indicated earlier, nursing homes look to us to save money, and particularly they look to us to save money in the Part A business. They’re financially responsible for the Part A drug spend, and that represents about 30% of our total sales. So any savings that we can give them in that area go directly to their bottom line. Our clinical services group, chart reviews, generic programs, and formulary drug programs all help us help them save money.

Here’s our combined geographic footprint resulting from the merger. Even with the closing of redundant pharmacies, we’re able to extend our service area. That extension is going to generate some additional business in and of itself on our existing book. As an example, Golden Ventures -- we’re adding some of the facilities that are in the KPS regions where KPS stores were. Also, it makes us more competitive because basically our footprint now -- as a single-source of service and a contracted service, we can serve a larger portion of the national chains business.
So why invest in PharMerica? I’m going to spend a few minutes talking about why we believe
PharMerica is a solid investment opportunity. I joined this company because I saw excellent
growth prospects for this company. No. 1, we have a leading market position in a fast-growing
segment of the pharmacy market.

No. 2, demographic and industry trends are driving organic growth in drug utilization.

No. 3, we are one of two scale competitors in a very fragmented market. That provides
consolidation opportunities for well-capitalized companies.

No. 4, Medicare Part D will provide PharMerica an opportunity to take share as independent and
regional pharmacies exit the market. We believe they’re going to exit the market due to margin
pressures and the complexity of dealing with national payers and the CMS Part D system. It will
simply be harder to compete going forward without adequate scale. Independent pharmacies in the
retail sector, as some of you know, have experienced some of these hardships and are exiting the
market as well as a result of the Medicare Part D environment.

Medicaid reimbursement protected a lot of the smaller pharmacies and there are a sizeable number
of them; they represent about one-third of the market. That leads us to believe that we have a solid
acquisition pipeline opportunity in the coming months, and we’re working very hard to develop
that pipeline opportunity right now.

So aside from the favorable dynamics of the market, we believe investors should also consider
PharMerica’s ability to realize synergies of the merger. We have identified over $30 million in
operational synergy. This is a hard number; we’re very confident about this number.

And then finally, another reason is we believe we have the financial and management resources to
execute our plan. Our management team is incented and focused on achieving our synergy goals
and growing the business and we are all optimistic about the company’s growth prospects.

Before I talk about our growth strategy, I want to spend some time discussing what we consider to
be the two key market dynamics that we want to capitalize on -- the aging of America and
Medicare Part D.

The institutional pharmacy market is about $13 billion and we believe it’s growing at about 8%
per year; that’s organic growth. Industry estimates, if you do the math, point to a $20 billion
market in five years. And we think-- what is so exciting about this is that it’s a sizeable
opportunity; there’s a sizeable chunk of growth that a sector with only two scale players will
ultimately end up fighting over. So we think we’re going to get our fair share.

Everyone knows a key factor driving the growth is the aging of America. As you can see from this
chart, this is particularly relevant to drug expenditures. The senior population is expected to
continue to grow, from about 12.5% in 2000 to 20% in 2030 -- 20% in 2030. Now, growth of the
number of residents in nursing homes and demand for long-term care services certainly creates
demand for our services. But most importantly, seniors account, currently, for more than half of
the drug utilization in the total market. Looking at it from a different angle, seniors represent less
than 15%, as I indicated, of the population, yet they account for 64% of the drug usage.

We would expect, as Medicare Part D and the aging of America are coming together, that
utilization will continue to grow. So this is very positive. More seniors are getting coverage; it’s
good news. Average utilization to a senior is 2.5 times that, if you look at it from a commercial
payer population. So there’s roughly 41 million seniors so you would look at those as roughly 100
million patients out there on an equivalent commercial payer basis that are looking for drugs.
Clearly, these long-term trends will drive the growth in our business over the next decade and thereafter as well.

As I mentioned earlier, Medicare Part D is changing the market dynamic. Since January of ’06, when the program was first started, we have seen the business transformed. Certainly there have been some challenges on the collection side and the billing side, but the big change has been that the majority of our revenues, which used to come from Medicaid, now come from Part D Medicare plans. We are now serving large national private sector payers such as Humana, United Health, and other large Medicare Part D players.

So what does that mean for us? We think this represents an inflection point in the industry and we’re going to take advantage of it. We’re well positioned to exploit our lower cost structure, which we’re working diligently on right now and will continue for the next two to three years and then thereafter forever with these large payers. The private sector payers are more willing to reward low-cost providers; we think we can become more partners with them over time.

A number of the small competitors, who don’t have our cost and scale advantage, they’re going to find it very difficult to stay in this business. So this is changing the umbrella of protection that Medicaid rates gave this industry historically.

The transformation of the industry is best shown-- this is a chart showing our payer mix. In 2005, our payer mix was 51% Medicaid and 18% Medicare. And in 2006, it essentially flip-flopped -- Medicaid at 17% and Medicare at 55%. Clearly, Medicare Part D is a driving force in our market. We are all inherently well positioned to serve these demanding customers looking for value.

So with this as a backdrop, let me talk about why we believe PharMerica represents a solid investment opportunity. Our story is one of synergy and growth. We’ll talk about synergy in a little bit, but our growth strategy has four components.

First, as we just saw, our industry is growing at a good pace -- about 8% annually. And we plan to leverage our strong market position and scale advantages to realize a fair share of that growth.

Secondly, we’ll capitalize on the favorable competitive landscape and our service reputation to increase our market share. As one of only two scale players, we anticipate we can grow faster than the industry. On that note, we are encouraged by our discussions that we’ve had with some of our largest customers since the acquisition was consummated. They’re telling us that they’re happy with our service and we intend to keep it that way. We’re going to emphasize leadership and customer service as one of the tenets of PharMerica.

The third element of our growth plan is that we will further expand our service regions. There are a number of states, such as New York, New Jersey, Oklahoma, and Oregon, where historically they have not been very favorable from a Medicaid reimbursement standpoint. And now with Medicare Part D, we have the contracts; we can go in there and we can serve those patients. So we’re going to be opportunistic and we’re more inclined to look at opportunities in those states today where we’re not operating than we were in the past.

Last, the fourth element of our growth strategy is selective acquisitions that expand our geographic reach as well as add volume to existing pharmacies. We believe there are a number of acquisitions that we can roll right into our existing pharmacies. We’ll also look to buy pharmacies that-- again, expand our reach. And as you can see from here, from a market share standpoint there is plenty of opportunity to gain from the share of local and regional players.

Once again, we believe this segment is going to find it increasingly difficult to compete and will be looking for an exit strategy. We’re not looking to make mega acquisitions; they’re really not
out there in any event. We’re looking for reasonably sized companies that we can easily integrate into our business so we expect these acquisitions to be relatively small.

It is important to note that we’ll evaluate them on a careful basis. We’re not going to get into bidding wars; we’re going to make these acquisitions with a lot of financial discipline. We’re currently trying to understand what the market is going to be looking like. We do feel comfortable that we can generate growth via this channel. Is it going to be six months, a year, or two years? We’ll be coming back and reporting to you on that.

Here’s a list of the top regional competitors. What I think is probably the most important here of this chart is that it’s so small. Note how quickly the number of beds fall off; pretty quickly down to 3,000 beds. This highlights the fragmented industry structure that we’ve been talking about. The fact that there are no other scale players out there is somewhat evident by this chart.

Independent pharmacies make up the bulk of the remaining market. There are over 300 pharmacies that have over 500 beds under management. So over 300 pharmacies out there represent opportunities for us.

This is a bit messy, but nevertheless hopefully you can see from the map, the red is the nursing centers, the purple are our service locations, and the green are potential acquisition targets. Again, the total acquisition opportunity represents over 500,000 beds, which is a little bit over-- just under 1.5 times our current volume.

Here’s an example of where we would look to move pharmacies from-- acquire pharmacies and move them into our existing footprint. This chart highlights St. Louis, Missouri. It shows exactly what we’re trying to accomplish. Here you can see there’s a number of candidates where we could acquire those pharmacies -- and these are not big pharmacies, by the way -- and move them through our existing facilities. What that means for us is that we lower our overall operating cost per scrip as we achieve volume into the facility.

Talked a little about the $30 million in synergy. Here’s where it’s coming from -- let me give you a little flavor about that. $26 million, roughly, will be from the consolidation of the pharmacies; 26, 25, 27 pharmacies are going to be consolidated when it’s all said and done. Our time frame was two years on that and basically 60 locations are going to be impacted out of the 126 or 127 pharmacies-- 60 will go to 34. And we’re looking, at the end of the day, having roughly right at 100 pharmacies at the end of this process, not counting any additional pharmacies we might open up.

These facilities, on average, will go from roughly 3,200 beds to 5,600 beds in terms of who they’re servicing. And the cost of achieving this synergy is, coincidentally enough, about $30 to $35 million as well. That $30 to $35 million is not going to be spent at one point; it’s going to be spent over time as we consolidate the pharmacies. About $15 million of that is in IT and about $8 million is in severance, and there’s another $7 or $8 million in rent, etc. So as we close these pharmacies, we’ll be taking that charge.

As I said earlier, we think these are going to be closed some time in ’09. That would be the time at which you would be able to see the full impact of all those synergies, in the middle of ’09. And we’ll be updating you throughout this process and reporting on the costs of the consolidation and the synergies we are achieving as we go along.

Here’s our growth targets. We’re not giving 2007 guidance but we do want to share with you our growth targets. Over the long term, we expect to generate revenue growth of about 8% to 10% and EBITDA growth of between 15% and 25%.
These targets include synergies and exclude costs associated with realizing them. Again, in early 2008 we anticipate we’ll be giving guidance for 2008.

So why invest in PharMerica? I can’t emphasize enough the opportunities that we see ahead of us. We know there’s going to be challenges along the way but we believe PharMerica is in a truly unique position to capitalize on this unique time in our industry. I’m confident that we have the competitive positioning, the scale, and the depth of human resources to execute on our growth plan and deliver shareholder value. I appreciate your interest in our company; thank you for coming. And Jason, I guess a couple of minutes?

Jason: [Inaudible]

Greg Weishar: Thank you. [Silence] Yes. Back in the back?

Unidentified Participant: [Inaudible]

Greg Weishar: I think the question was what is the risk of us becoming a regulated entity where, in fact, the government indicates what we will-- basically dictates what we sell our services for. Is that your question?

Well, I think we’ve kind of gone away that model, if you think about it, from Medicaid, which basically is a regulated and a legislated price. And if you think about Part D, the tenet of Part D was let the market dictate pricing. And even though CMS is paying the bill, CMS is paying the bill through competitive bids and Part D plans. So I guess that’s not a risk that I consider to be major when I enumerate our risks.

I think our risks are that our biggest-- or, one of our risks clearly is execution. And our challenge is to bring these two companies together pretty quickly. We’re in the process of doing that. Basically change the culture so that we become better at executing in our company.

The other side of our business risk, would be that we’re not able to execute on our acquisition strategy because maybe the pricing is too high. So that could impact our growth strategy. I think those are the two pieces.

And then, of course, everybody’s talking about AMP and the legislative aspects of that, and what’s that going to mean to us? So, there are always those kinds of dynamics that are sitting out there. But structurally, our ability to execute and bring these companies together is clearly one of them.

Jason: That’s about all the time we have for this room; the breakout room will be in the Marasco [ph] Room downstairs.