

Express Scripts Holding Co.
Form 10-K
February 20, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
x 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013, OR
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

FOR THE TRANSITION PERIOD FROM TO .

Commission File Number: 1-35490

EXPRESS SCRIPTS HOLDING COMPANY

(Exact name of registrant as specified in its charter)

Delaware

45-2884094

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

One Express Way, St. Louis, MO

63121

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (314) 996-0900

Securities registered pursuant to Section 12(b) of the Act:

Title of Class

Name of each exchange on which registered

Common Stock \$0.01 par value

Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ..

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes .. No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ..

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ..

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x

Accelerated filer ..

Non-accelerated filer .. (Do not check if a smaller reporting company)

Smaller reporting company ..

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of Registrant's voting stock held by non-affiliates as of June 28, 2013, was \$50,173,343,223 based on 812,655,381 such shares held on such date by non-affiliates and the last sale price for the Common Stock on such date of \$61.74 as reported on the Nasdaq Global Select Market. Solely for purposes of this computation, the Registrant has assumed that all directors and executive officers of the Registrant are affiliates of the Registrant. The Registrant has no non-voting common equity.

Common stock outstanding as of

776,032,000 Shares

January 31, 2014:

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference portions of the definitive proxy statement for the Registrant's 2014 Annual Meeting of Stockholders, which is expected to be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2013.

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Information included in or incorporated by reference in this Annual Report on Form 10-K, other filings with the Securities and Exchange Commission (the “SEC”) and our press releases or other public statements, contains or may contain forward-looking statements. Please refer to a discussion of our forward-looking statements and associated risks in “Part I — Item 1 — Business — Forward-Looking Statements and Associated Risks” and “Part I — Item 1A — Risk Factors” in this Annual Report on Form 10-K.

PART I

THE COMPANY

Item 1 — Business

Industry Overview

Prescription drugs play a significant role in healthcare today and constitute the first line of treatment for many medical conditions. For millions of people, prescription drugs provide the hope of improved health and quality of life.

Total medical costs for employers continue to outpace the rate of overall inflation. National health expenditures as a percentage of Gross Domestic Product are expected to increase to 19.9% in 2022 from an estimated 18.0% in 2013 according to the Centers for Medicare & Medicaid Services (“CMS”). In response to cost pressures being exerted on health benefit providers such as managed care organizations, health insurers, employers and unions, pharmacy benefit management (“PBM”) companies work to develop innovative strategies designed to keep medications affordable.

PBM companies combine retail pharmacy claims processing, formulary management, utilization management and home delivery pharmacy services to create an integrated product offering to manage the prescription drug benefit for payors. Some PBMs also offer specialty medication services that deliver a more effective solution than many retail pharmacies in providing treatments for diseases that rely upon high-cost injectable, infused, oral or inhaled drugs.

PBMs have also broadened their service offerings to include compliance programs, outcomes research, drug therapy management programs, sophisticated data analysis and other distribution services.

Company Overview

On April 2, 2012, Express Scripts, Inc. (“ESI”) consummated a merger (the “Merger”) with Medco Health Solutions, Inc. (“Medco”) and both ESI and Medco became wholly-owned subsidiaries of Express Scripts Holding Company (the “Company” or “Express Scripts”). “We,” “our” or “us” refers to Express Scripts Holding Company and its subsidiaries. The consolidated financial statements (and other data, such as claims volume) reflect the results of operations and financial position of ESI for all periods prior to April 1, 2012. However, references to amounts for periods after the closing of the Merger on April 2, 2012 relate to Express Scripts.

We are the largest PBM company in the United States, offering a full range of services to our clients, which include managed care organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans, workers’ compensation plans and government health programs. We help health benefit providers address access and affordability concerns resulting from rising drug costs while helping to improve healthcare outcomes. We manage the cost of the drug benefit by performing the following functions:

- evaluating drugs for price, value and efficacy in order to assist clients in selecting a cost-effective formulary
- leveraging purchasing volume to deliver discounts to health benefit providers
- promoting the use of generics and low-cost brands
- offering cost-effective home delivery pharmacy and specialty services that result in drug cost savings for plan sponsors and co-payment savings for members

We work with clients, manufacturers, pharmacists and physicians to increase efficiency in the drug distribution chain, to manage costs in the pharmacy benefit chain and to improve members’ health outcomes and satisfaction.

Suboptimal prescription-related decisions by patients, caregivers and providers continue to cause adverse clinical and financial results for plan sponsors and their members. Healthier outcomes require better decisions. Express Scripts supports healthier outcomes by applying science to health decisions. Express Scripts offers a comprehensive array of solutions to support better choices in four areas: benefit choices, drug choices, pharmacy choices and health choices.

Health Decision ScienceSM is the Company’s unique approach to understanding and improving the decisions that impact clinical and financial outcomes and applies principles and advanced knowledge from three key disciplines: behavioral sciences, clinical specialization and actionable data. These disciplines form a powerful combination that seeks to increase the likelihood of

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healthier decisions and healthier outcomes. Consumerology[®], or the advanced application of the behavioral sciences to healthcare, optimizes decision mechanisms and helps make better decisions easier. Therapeutic Resource CentersSM give patients access to specialist pharmacists and nurses to close gaps in care. By leveraging data from over one billion annual claims, the Company drives actionable data to the point of decision in an effort to enhance safety, effectiveness and affordability.

Plan sponsors who are more aggressive in taking advantage of our effective tools and comprehensive array of solutions to manage drug spend have seen reductions in their prescription drug trend while preserving healthcare outcomes. Greater use of generic drugs and lower-cost brand drugs has resulted in significant reductions in spending for commercially insured consumers and their employers.

We have organized our operations into two business segments based on products and services offered: PBM and Other Business Operations.

Our PBM segment primarily consists of the following products and services:

- retail network pharmacy administration
- home delivery pharmacy services
- benefit design consultation
- drug utilization review
- drug formulary management
- clinical solutions to improve health outcomes, such as adherence, case coordination and personalized medicine
- a flexible array of Medicare Part D, Medicaid and Health Insurance Marketplace (“Public Exchange”) offerings to support clients’ benefits
- specialty pharmacy, including the distribution of fertility pharmaceuticals requiring special handling or packaging
- administration of a group purchasing organization
- consumer health and drug information

The Other Business Operations segment primarily consists of the following products and services:

- distribution of pharmaceuticals and medical supplies to providers and clinics
- scientific evidence to guide the safe, effective and affordable use of medicines

Our revenues are generated primarily from the delivery of prescription drugs through our contracted network of retail pharmacies, home delivery of prescription drugs and specialty pharmacy services and Other Business Operations services. Revenues from the delivery of prescription drugs to our members represented 98.8% of revenues in 2013, 99.0% in 2012 and 99.4% in 2011. Revenues from services, such as the fees associated with the administration of retail pharmacy networks contracted by certain clients, medication counseling services and certain specialty distribution services, comprised the remainder of our revenues.

Prescription drugs are dispensed to members of the health plans we serve primarily through networks of retail pharmacies that are under non-exclusive contracts with us and through home delivery fulfillment pharmacies, specialty drug pharmacies and fertility pharmacies that we operate. More than 68,000 retail pharmacies, which represent over 95% of all United States retail pharmacies, participated in one or more of our networks at December 31, 2013. The top ten retail pharmacy chains represent approximately 60% of the total number of stores in our largest network.

Express Scripts, Inc. was incorporated in Missouri in September 1986, and was reincorporated in Delaware in March 1992. Aristotle Holding, Inc. was incorporated in Delaware on July 15, 2011. Aristotle Holding, Inc. was renamed Express Scripts Holding Company concurrently with the consummation of the Merger.

Our principal executive offices are located at One Express Way, Saint Louis, Missouri, 63121. Our telephone number is 314.996.0900 and our website is www.express-scripts.com. Information included on our website is not part of this annual report.

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Products and Services

Pharmacy Benefit Management Services

Overview. Our core PBM services involve the management of outpatient prescription drug utilization to foster high quality, cost-effective pharmaceutical care. We consult with our clients to assist in the selection of plan design features that balance clients' requirements for cost control with member choice and convenience. We focus our solutions to enable better decisions in four important and interrelated areas: benefit choices, drug choices, pharmacy choices and health choices. As a result of these solutions, we believe we are able to deliver healthier outcomes, higher member satisfaction and a more affordable prescription drug benefit. During 2013, 97.9% of our revenue was derived from our PBM operations, compared to 97.6% and 97.2% during 2012 and 2011, respectively.

Retail Network Pharmacy Administration. We contract with retail pharmacies to provide prescription drugs to members of the pharmacy benefit plans we manage. In the United States, Puerto Rico and the Virgin Islands, we negotiate with pharmacies to discount the price at which they will provide drugs to members and manage national and regional networks that are responsive to client preferences related to cost containment, convenience of access for members and network performance. We also manage networks of pharmacies that are customized for or under direct contract with specific clients. In addition, we have contracted Medicare Part D provider networks to comply with CMS access requirements for the Medicare Part D Prescription Drug Program ("PDP").

All retail pharmacies in our pharmacy networks communicate with us online and in real time to process prescription drug claims. When a member of a plan presents his or her identification card at a network pharmacy, the network pharmacist sends certain specified member, prescriber and prescription information in an industry-standard format through our systems, which process the claim and send a response back to the pharmacy.

Home Delivery Pharmacy Services. We also dispense prescription drugs from our five high-volume automated dispensing home delivery pharmacies and one non-automated dispensing home delivery pharmacy. In addition to the order processing that occurs at these home delivery pharmacies, we also operate several non-dispensing order processing facilities and patient contact centers. We also maintain one non-dispensing home delivery fulfillment pharmacy for business continuity purposes. Our pharmacies provide patients with convenient access to maintenance medications and enable us to manage our clients' drug costs through operating efficiencies and economies of scale as well as provide greater safety and accuracy. Through our home delivery pharmacies, we are directly involved with the prescriber and patient and, as a result, research shows we are generally able to achieve a higher level of generic substitutions, therapeutic interventions and better adherence than can be achieved through the retail pharmacy networks.

Benefit Design Consultation. We provide clinically sound formularies that encourage the use of equally effective but lower-cost drugs over higher-cost alternatives. This is accomplished through formulary compliance strategies that also maintain member satisfaction. Express Scripts offers several base and advanced formulary management options for clients, including Medicare Part D and Public Exchange formularies. We also offer clients a variety of utilization management tools to manage patient drug utilization and overall drug spend. The most common benefit design options we offer to our clients are financial incentives and reimbursement limitations on the drugs covered by the plan, including drug formularies, tiered co-payments, deductibles or annual benefit maximums, as well as utilization management programs.

Drug Utilization Review. Our electronic claims processing system enables us to implement sophisticated intervention programs to assist in managing prescription drug utilization. The system can alert the pharmacist to drug safety concerns, generic substitution and therapeutic intervention opportunities, as well as formulary adherence issues, and can also administer prior authorization, step therapy protocol programs and drug quantity management at the time a claim is submitted for processing. Our claims processing system also creates a database of drug utilization information that can be accessed at the time the prescription is dispensed, on a retrospective basis to analyze utilization trends and prescribing patterns for more intensive management of the drug benefit, and on a prospective basis to help support pharmacists in drug therapy management decisions.

Drug Formulary Management. Formularies are lists of drugs to which benefit design is applied under the applicable plan. Formulary management enables patients and physicians to choose clinically appropriate and cost-effective drugs for a given condition. Our foremost consideration in the formulary development process is the clinical appropriateness

of the particular drugs. In developing formularies, we first perform a rigorous assessment of the available evidence regarding each drug's safety and clinical effectiveness. No new drug is added to the formulary until it meets standards of quality established by our National Pharmacy & Therapeutics ("P&T") Committee, a panel composed of 16 independent physicians and pharmacists in active clinical practice, representing a variety of specialties and practice settings, typically with major academic affiliations. We fully comply with the P&T Committee's clinical recommendations. In making its clinical recommendation, the P&T Committee has no information regarding the discount or rebate arrangement we might negotiate with the manufacturer. This is

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designed to ensure the clinical recommendation is not affected by our financial arrangements. After the clinical recommendation is made, the drugs are evaluated on an economic basis to determine optimal cost effectiveness. We administer a number of different formularies for our clients. A majority of our clients select formularies that are designed to be used with various financial or other incentives, such as three-tier co-payments, which drive the selection of formulary drugs over their non-formulary alternatives. Some clients select closed formularies, in which benefits are available only for drugs listed on the formulary.

We also provide formulary compliance services to our clients. For example, if a doctor has prescribed a drug that is not on a client's formulary, we notify the pharmacist through our claims processing system. The pharmacist may then contact the doctor to attempt to obtain the doctor's consent to change the prescription to the appropriate formulary product. The doctor has the final decision-making authority in prescribing the medication.

Clinical Solutions. We also offer innovative clinically based intervention programs to assist and manage patient quality of life, improve health outcomes and facilitate physician communication/education.

Our physician connectivity program facilitates well-informed electronic prescribing with real-time insight that informs prescribers of a patient's benefit, formulary information and medication history as they write a prescription.

RationalMed[®] evaluates medical, pharmacy and laboratory data to detect critical patient health and safety issues and gaps in essential care which are then addressed through timely notification to physicians, pharmacies, patients and case managers.

ScreenRx[®] uses proprietary predictive models to detect adherent and nonadherent patients at risk for future nonadherence and then proactively addresses the problem through interventions tailored specifically for that patient. **ExpressAlliance[®]** offers a portfolio of patient care coordination services that enables client-authorized healthcare professionals to share a common view of a patient's health record and coordinate future patient outreach and counseling. Personalized medicine combines the latest advances in pharmacogenomics testing with patient and physician outreach to help providers understand which drugs or dosages work best for individual patients, empowering them to make more informed and cost-effective decisions that improve patient care and safety.

Medicare Part D, Medicaid and Public Exchange Offerings. We support clients by providing several program options: the Retiree Drug Subsidy program, which is offered by CMS to reimburse municipalities, unions and private employers for a portion of their eligible expenses for retiree prescription drug benefits; the Employer Group Waiver Plan, a group-enrolled Medicare Part D option for employers and labor groups; and the "PBM inside" service that offers drug-only and integrated medical and Medicare Part D drug benefits to a number of Medicare Part D sponsors. As a PBM supporting health plans, we provide prescription adjudication services in addition to a suite of required programmatic offerings such as a Medication Therapy Management program, Explanation of Benefits for members using prescription services and a variety of member communications related to their prescription benefit. We also offer an individual prescription drug plan which is offered to beneficiaries in all 34 Medicare regions across the U.S., as well as Puerto Rico.

Our product revenues include premiums associated with our Medicare PDP risk-based products offerings. These products involve prescription dispensing for beneficiaries enrolled in the CMS-sponsored Medicare Part D prescription drug benefit. Two of our insurance company subsidiaries have been operating under contracts with CMS since 2006 and one since 2007. All three contracts currently offer several Medicare PDP options. The products involve underwriting the benefit, charging enrollees applicable premiums, providing covered prescription drugs and administering the benefit as filed with CMS. We provide two Medicare drug benefit plan options for beneficiaries, including a "standard Part D" benefit plan as mandated by statute and a benefit plan with enhanced coverage that exceeds the standard Part D benefit plan, available for an additional premium. We also offer numerous customized benefit plan designs to employer group retiree plans under the Medicare Part D prescription drug benefit.

Our member website also supports pre-enrollment and post-enrollment activities on behalf of our Medicare PDP and programs serving multiple clients. Prospective Medicare PDP participants and their caregivers can use the pre-enrollment site's Plan Compare tool to accurately project costs for all of their medications. The post-enrollment site allows members who have signed up to receive a Medicare Part D benefit from either Express Scripts or one of our clients to securely manage all aspects of their prescription program.

We support health plans that serve Medicaid populations by offering a pharmacy drug benefit. This business is driven by state requirements and we earn revenues based on transaction-related activity. Common services include

transitioning members' access to drugs as plan offerings change, generation of data to the state through encounter files and coordination of benefits between states and other payors. Medicaid populations are expected to grow in states that choose to expand Medicaid eligibility.

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We also support health plans that serve the newly insured Public Exchange members, which is a population expected to grow with the implementation of the Affordable Care Act. This business is driven by both federal and state requirements and we earn revenues based on transaction-related activity. We offer an array of pharmacy benefit solutions that can be leveraged in plan design to align with any exchange strategy to achieve desired cost and clinical objectives.

Specialty Benefit Services. Specialty medications are used primarily for the treatment of complex and potentially life-threatening diseases. These medications are broadly characterized to include medications with frequent dosing adjustments, intensive clinical monitoring, the need for patient training, specialized product administration requirements and/or are limited to specialty pharmacy network by manufacturers. Through a unique combination of assets and capabilities, Express Scripts provides an enhanced level of care and therapy management for patients taking specialty medications, increased visibility and improved outcomes for payors, as well as custom programs for biopharmaceutical manufacturers.

Accredo Health Group and CuraScript Specialty Pharmacy, which is currently in the process of being rebranded (“Accredo[®]”), are focused on dispensing infused, injectable, inhaled and oral drugs that require a higher level of clinical services and support compared to what typically is available from traditional pharmacies. Accredo is able to achieve better, healthier outcomes and reduced waste through a disease-centric organization, specialty trained clinicians, a nationwide footprint, a network of employed and contracted in-home nursing services, reimbursement and patient assistance programs, and bio-pharma services.

Freedom Fertility (“FreedomFP”) is the nation’s leading specialty pharmacy focused on the needs of fertility patients and providers. Through FreedomFP we provide insurance assistance and patient education and support.

Specialty Benefit Management is our next-generation approach to managing total specialty drug spend and enhancing patient care. By integrating medical benefit management, pharmacy benefit management and our pharmacy and distribution services, we offer flexible solutions that control the cost of specialty drugs and make healthcare more affordable and accessible. Approximately half of specialty drug spend is on the medical benefit. As such, it is critical to provide our clients a toolset that can manage specialty spend, regardless of the benefit. Our capabilities include guaranteed savings through medical benefit management services, ensuring the safe and appropriate use of high-cost specialty drugs, redirecting patients and medications to the lowest-cost and most appropriate channel, verifying claims are paid at the contracted rate, improving opportunities to achieve rebates and, where clinically appropriate, moving drug coverage from medical to pharmacy benefit and to lower-cost sites of care.

Administration of a Group Purchasing Organization. We operate a group purchasing organization (“GPO”) that provides various administrative services to participants in the GPO. Services provided include coordination, negotiation and management of contracts for group participants to purchase generic pharmaceuticals and related goods and services from pharmaceutical manufacturers and suppliers, as well as providing strategic analysis and advice regarding pharmacy procurement contracts for the purchase and sale of goods and services.

Consumer Health and Drug Information. Express Scripts empowers member decision-making through online and mobile tools that help guide members in making informed drug, pharmacy and health choices.

Express Scripts’ digital solutions provide easy access and clear, simple functionality. The Express Scripts Member Website (www.express-scripts.com) and mobile app are designed to help keep members’ medication information instantly available on their computers or mobile devices. When members use self-service tools, it results in lower administrative costs, better drug therapy adherence, reduced waste and fewer doctor visits, leading to savings for both clients and members. Information included on our website and mobile app are not part of this annual report.

Other Business Operations Services

Overview. Through our Other Business Operations segment, we operate integrated brands that service the patient through multiple paths. CuraScript Specialty Distribution provides specialty distribution of pharmaceuticals and medical supplies direct to providers and clinics and operates a Group Purchasing Organization for many of our clients. United BioSource LLC (“UBC”) develops scientific evidence to guide the safe, effective and affordable use of medicines. During 2013, 2.1% of our revenue was derived from Other Business Operations services, compared to 2.4% and 2.8% during 2012 and 2011, respectively.

Provider Services. CuraScript Specialty Distribution is a specialty distributor of pharmaceuticals and medical supplies direct to healthcare providers for office or clinic administration. Through our CuraScript Specialty Distribution business unit we provide distribution services primarily to office and clinic-based physicians treating chronic disease patients who regularly order high dollar-value pharmaceuticals. We are able to provide competitive pricing on pharmaceuticals and medical supplies. Headquartered in Lake Mary, Florida, CuraScript Specialty Distribution operates three distribution centers to

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ship most products overnight within the United States as well as provide distribution capabilities to Puerto Rico and Guam. CuraScript Specialty Distribution is also a contracted supplier with most major group purchasing organizations and can leverage our distribution platform to operate as a third-party logistics provider for pharmaceuticals.

Payor Services. We provide a comprehensive case management approach to manage care by fully integrating pre-certification, case management and discharge planning services for patients. We assist with eligibility review, prior authorization coordination, re-pricing, utilization management, monitoring and reporting.

Segment Information

We report segments on the basis of services offered and have determined we have two reportable segments: PBM and Other Business Operations. Our integrated PBM services include retail network pharmacy administration, home delivery pharmacy services, benefit design consultation, drug utilization review, drug formulary management, clinical solutions to improve health outcomes, Medicare Part D, Medicaid and Public Exchange offerings, specialty pharmacy services, fertility services to providers and patients, administration of a group purchasing organization and consumer health and drug information. Through our Other Business Operations segment, we provide services including distribution of pharmaceuticals and medical supplies to providers and clinics and scientific evidence to guide the safe, effective and affordable use of medicines. During the second quarter of 2012 we reorganized our other international retail network pharmacy administration line of business (which was substantially shut down as of December 31, 2012) from our PBM segment into our Other Business Operations segment. During the third quarter of 2011 we reorganized our FreedomFP line of business from our Other Business Operations segment into our PBM segment. Information regarding our segments appears in Note 13 - Segment information of the notes to our consolidated financial statements and is incorporated by reference herein.

Suppliers

We maintain an inventory of brand name and generic pharmaceuticals in our home delivery pharmacies and biopharmaceutical products, including pharmaceuticals for the treatment of rare or chronic diseases, in our specialty pharmacies and distribution centers to meet the needs of our patients. If a drug is not in our inventory, we can generally obtain it from a supplier within one business day. We purchase pharmaceuticals either directly from manufacturers or through authorized wholesalers. Generic pharmaceuticals are generally purchased directly from manufacturers.

Clients

We are a provider of PBM services to several market segments. Our clients include managed care organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans, workers' compensation plans and government health programs. We also provide specialty services to customers, which include managed care organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans, government health programs, office-based oncologists, renal dialysis clinics, ambulatory surgery centers, primary care physicians, retina specialists and others.

On July 21, 2011 Medco announced that its pharmacy benefit services agreement with UnitedHealth Group would not be renewed, although it continued to provide service under an agreement which expired on December 31, 2012. A transition agreement was in place throughout 2013, during which time patients moved in tranches off of the Medco platform.

In December 2009, ESI completed the purchase of 100% of the shares and equity interests of certain subsidiaries of WellPoint, Inc. ("WellPoint") that provide pharmacy benefit management services ("NextRx" or the "NextRx PBM Business"). ESI also entered into a 10-year contract under which ESI provides pharmacy benefits management services to members of the affiliated health plans of WellPoint (the "PBM agreement"). Subsequent to this acquisition, we integrated NextRx's PBM clients into our existing systems and operations.

Express Scripts provides pharmacy network services and home delivery and specialty pharmacy services to the United States Department of Defense ("DoD"). The DoD's TRICARE Pharmacy Program is the military healthcare program serving active-duty service members, National Guard and Reserve members, and retirees, as well as their dependents. Under the contract, we provide online claims adjudication, home delivery services, specialty pharmacy clinical services, claims processing and contact center support, and other services critical to managing pharmacy trend. Refer to Note 13 - Segment information for a discussion of client concentration.

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Medicare Prescription Drug Coverage

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “MMA”) created the federal Voluntary Prescription Drug Benefit Program under “Part D” of the Social Security Act. Eligible Medicare beneficiaries are able to obtain prescription drug coverage under Part D by enrolling in a PDP or a “Medicare Advantage” plan that offers prescription drug coverage (an “MA-PDP”). In addition, the MMA created an opportunity for employers offering eligible prescription drug coverage for their Medicare-eligible members to receive a subsidy payment by enrolling in the Retiree Drug Subsidy (“RDS”) program. In order for an employer to claim the subsidy, the beneficiaries claimed by the employer cannot be enrolled in a PDP or MA-PDP.

Mergers and Acquisitions

On April 2, 2012, ESI consummated the Merger with Medco and both ESI and Medco became wholly-owned subsidiaries of Express Scripts. The consolidated financial statements (and other data, such as claims volume) reflect the results of operations and financial position of ESI for all periods prior to April 1, 2012. However, references to amounts for periods after the closing of the Merger on April 2, 2012 relate to Express Scripts.

See Note 3 - Changes in business for further discussion of our merger and acquisition activity.

We regularly review potential acquisitions and affiliation opportunities. We believe available cash resources, bank financing or the issuance of additional common stock or other securities could be used to finance future acquisitions or affiliations. There can be no assurance we will make new acquisitions or establish new affiliations in 2014 or thereafter (see “Part II — Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Acquisitions and Related Transactions”).

Company Operations

General. As of December 31, 2013, our U.S. PBM segment operated five high-volume automated dispensing home delivery pharmacies, one non-automated dispensing home delivery pharmacy, several non-dispensing order processing centers, patient contact centers, specialty drug pharmacies and fertility pharmacies, and one non-dispensing home delivery pharmacy maintained for business continuity purposes.

At our Canadian facilities we provide a full range of integrated PBM services to insurers, third-party administrators, plan sponsors and the public sector. These services facilitate better health decisions and lower costs and include health claims adjudication and processing services, benefit-design consultation, drug-utilization review, formulary management and medical and drug data analysis services. In addition, we provide an active PBM service in Canada, which includes home delivery of maintenance prescription medications from four regional dispensing pharmacy locations.

Sales and Marketing. Our sales managers and directors market and sell PBM services and are supported by a team of client service representatives, clinical pharmacy managers, and benefit analysis consultants. This team works with clients to make prescription drug use safer and more affordable. In addition, sales personnel dedicated to our Other Business Operations segment use direct marketing to generate new customers and solidify existing customer relationships.

Supply Chain. Our supply chain pharmacy contracting and strategy group is responsible for contracting and administering our pharmacy networks. To participate in our retail pharmacy networks, pharmacies must meet certain qualifications, including the requirement that all applicable state credentialing and/or licensing requirements are being maintained. Pharmacies can contact our pharmacy help desk toll free or access our online pharmacy portal 24 hours a day, 7 days a week, for information and assistance in filling prescriptions for our clients’ members. In addition, our Fraud, Waste & Abuse Services team audits pharmacies in our retail pharmacy networks to determine compliance with the terms of their contracts.

Clinical Support. Our staff of highly trained pharmacists and physicians provides clinical support for our PBM services. Our specialist pharmacists conduct safety reviews and provide counseling for members with clinical needs in their specialty. We have specialist pharmacists in more than a dozen specialties, including oncology, diabetes care and cardiovascular disease.

Our clinical solutions staff of pharmacists and physicians provides clinical development and operational support for our PBM services. These healthcare professionals are responsible for a wide range of activities, including tracking the drug pipeline; identifying emerging medication-related safety issues and notifying physicians, clients, and patients (as

appropriate); providing drug information services; formulary management; development of utilization management, safety (concurrent and retrospective drug utilization review) and other clinical interventions; and/or contacting physicians, pharmacists or patients.

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Our research & analytics team conducts timely, rigorous and objective research that supports evidence-based pharmacy benefit management and evaluates the clinical, economic and member impact of pharmacy benefits. The creation of predictive models and other analytical tools supports the development and improvement of our products and services. The team also produces the Express Scripts Drug Trend Report, which examines trends in pharmaceutical utilization and cost, as well as the factors that trigger these trends, including behaviors that result in wasteful spending in the pharmacy benefit. The team also presents at client forums and professional meetings and publishes in health-related journals.

Information Technology. Our information technology department supports our pharmacy claims processing systems, our specialty pharmacy systems and other management information systems that are essential to our operations. Throughout 2013, clients were migrated towards a consolidated IT platform as part of the integration process from the Merger.

Uninterrupted point-of-sale electronic retail pharmacy claims processing is a significant operational requirement for us. Claims for our PBM segment are presently processed in the United States through systems that are managed and operated domestically by internal resources and an outsourced vendor. Canadian claims are processed through systems maintained and operated by IBM in Canada and managed by us. We believe we have substantial capacity for growth in our United States and Canadian claims processing facilities.

Specialty pharmacy operations are supported by multiple pharmacy systems that are managed and operated internally. We leverage outsourced vendor services to provide certain disaster recovery services for systems located at our data centers. For systems not covered by a third-party vendor arrangement, such as our specialty pharmacy data centers, our corporate disaster recovery organization manages internal recovery services.

Competition

There are a number of other PBMs in the United States against which we compete. Some of these are independent PBMs, such as Catamaran and MedImpact. Others are owned by managed care organizations such as Aetna Inc., CIGNA Corporation, Humana, OptumRx (owned by UnitedHealth Group) and Prime Therapeutics (owned by a collection of Blue Cross Blue Shield Plans). Some are owned by retail pharmacies, such as CVS Caremark (owned by CVS). Wal-Mart Stores, Inc. may continue to engage in certain activities competitive with PBMs. We also compete against adjudicators, such as Argus. With the emergence of alternative benefit models through Private Exchanges, the competitive landscape also includes brokers, health plans and consultants. Some of these competitors may have greater financial, marketing and technological resources. In addition, other companies may enter into the business and become increasingly competitive as barriers to entry are relatively low. We believe the primary competitive factors in the industry include the ability to contract with retail pharmacies to ensure our retail pharmacy networks meet the needs of our clients and their members, the ability to negotiate discounts on prescription drugs with drug manufacturers, the ability to navigate the complexities of governmental reimbursed business, including Medicare Part D, Medicaid and the Public Exchanges, the ability to manage cost and quality of specialty drugs, the ability to utilize the information we obtain about drug utilization patterns and consumer behavior to reduce costs for our clients and members, and the level of service that we provide.

Government Regulation and Compliance

Many aspects of our businesses are regulated by federal and state laws and regulations. Since sanctions may be imposed for violat