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MEMORANDUM

Date: April 20, 2010

To: Michigan Economic Growth Authority

From: Valerie Hoag, Director
Packaging Team

Subject: Briefing Memo – Diplomat Specialty Pharmacy, Inc.
Standard MEGA Credit

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COMPANY NAME

Diplomat Specialty Pharmacy, Inc.
2029 S. Elms Road; Suite D
Swartz Creek, Michigan 48473

HISTORY OF COMPANY

Diplomat Specialty Pharmacy originally opened in 1973 as the fourth store in a small chain. In 1975, Diplomat began transforming its retail business into a specialty pharmacy business. Specialty pharmacy is the segment of the pharmaceutical delivery system that focuses on the most complex medicines and disease states including coordination of care for patients with serious chronic illnesses and complex medical conditions like cancer and immunological disorders.

Diplomat moved to its current facility in Swartz Creek in 2006 where it expanded its compounding services to include a certified clean room supporting sterile and infusion products. The Swartz Creek location also includes a separate area for specialty pharmaceuticals and medication management services. Today, Diplomat has grown to become the sixth largest specialty pharmacy company in the country. In 2009, Diplomat was recognized by Inc magazine as one of the fastest growing healthcare companies in the United States.

Currently, Diplomat employs approximately 269 people in Michigan.

PROJECT DESCRIPTION

The proposed project will allow Diplomat to consolidate and expand its existing and planned specialty pharmacy services including: 1) a corporate headquarters; 2) specialty pharmacy compounding; specialty pharmacy dispensing and distribution; 3) patient call center support; 4) pharmaceutical and medical reimbursement; 5) funding for indigent patients; 6) clinical services for disease states treated with specialty pharmacy solutions; 7) training for employees and customers; 8) software application development; and 9) patient database management and reporting.

Diplomat plans to invest approximately \$12 million and create up to 1,039 jobs over the next five years as a result of this project. Additionally, the company anticipates the creation of up to 4,000 total new jobs over the next 20 years. The average weekly wage for

the newly created jobs will be \$710. The company also offers healthcare benefits, and plans to pay a portion of the benefit cost.

There are no other Michigan businesses known in the same industry.

BENEFIT TO STATE

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, it is estimated that this facility will generate a total of 7,274 jobs in the state by the year 2028. Total state government revenues through the year 2028, net of MEGA costs, would be increased by approximately \$274 million (current dollars) due to the presence of this facility.

BUSINESS CASE

The primary competition for this project is Cleveland, Ohio where the company has its current national distribution facility. Diplomat could expand this operation rather than establishing a new one in Michigan. According to the company's analysis, the disadvantages of Michigan versus Ohio are as follows: lower wages in Ohio, access to a skilled workforce dedicated to the specialty pharmacy sector is much greater in Ohio than Michigan and lower personal property taxes.

OTHER STATE AND LOCAL ASSISTANCE

The City of Flint will provide a PA 328 or other assistance of equivalent or greater value. The value of this incentive is not known at this time. In addition, Genesee/Shiawassee Michigan Works! will provide up to \$14 million (\$1.4 million/year for 10 years) for worker training.

The MEGA Board will also be considering a small Brownfield MBT credit of up to \$1.25 million at a later date for this project.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent standard employment tax credit for 18 years for up to 4,000 net new employees in excess of the company's established base of 269 subject to the following:

- 1) The company must create at least 1,800 jobs by the end of the 10th year of the credit. Failure to do so will result in a reduction of the remaining credit years by one year;
- 2) The company must create at least 3,100 jobs by the end of the 15th year of the credit. Failure to do so will result in the reduction of the remaining credit years by one year; and
- 3) The company must pay an administrative fee of \$450,000. The administrative fee will be made in equal installments of \$90,000 over the first 5 years of the credit.