Healthcare Distribution in 2025: Growth Continues, Efficiency Remains Strong and Profits Improve

U.S. Economy and Distributor Sales
U.S. businesses, including those in the healthcare distribution sector, operated in a relatively stable but demanding economic environment in 2025. The labor market remained strong, although hiring slowed during the year. Layoffs remained limited and unemployment averaged just 4.2 percent. Inflation eased further at 2.7 percent, despite concerns surrounding the potential impact of tariffs.

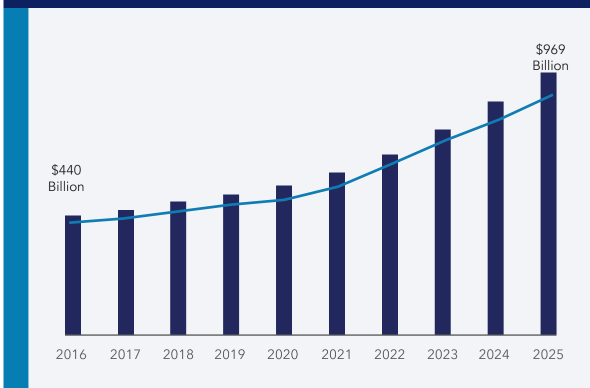
Against this backdrop, sales through the traditional pharmaceutical distribution sector increased 11.6 percent in 2025. This followed double-digit gains of 10.4 percent in 2024, 13.7 percent in 2023 and 15.5 percent in 2022. Total pharmaceutical distributor sales reached $969 billion in 2025, representing 96 percent of total prescription drug sales.

Sales by Customer and Category
Product mix shifted only modestly in 2025, although the longer-term movement toward specialty branded prescription drugs continued. Specialty branded prescriptions rose to 40.5 percent of total sales, compared with 38.5 percent in 2024. Non-specialty branded prescriptions accounted for 51.1 percent of dollar volume, while generics declined to 5.4 percent. Overall, prescription drugs represented 98.4 percent of distributor sales, and there was relatively little movement among non-prescription categories.

Customer mix changed more noticeably during the year. Chain drug stores increased their share of total sales to 44.5 percent, up from 40.5 percent in 2024. Specialty pharmacies also gained share, rising to 7.4 percent from 6.4 percent. Independent drug stores continued their recent downward trend, falling to 10.6 percent from 11.7 percent, while hospitals and HMOs declined to 12.7 percent. Most other customer categories remained generally consistent with recent patterns.

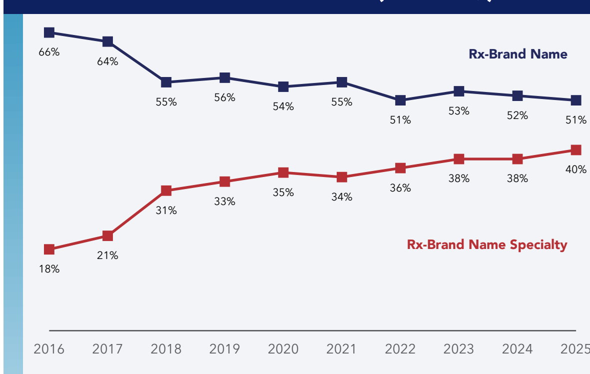
2025
Sales Growth
11.6%

DISTRIBUTOR SALES



8.3% CAGR
Since 2016

PRODUCT TYPES (% OF $)



Note: Some numbers in graphs have been rounded.

Margins

Margin pressure remained a defining characteristic of the industry in 2025. Gross profit margin slipped to 1.64 percent of revenue, down from 1.68 percent in 2024 and continuing a longer-term pattern of margin compression.

Despite the decline in gross margin, bottom-line profitability improved. Net profits before taxes increased to 0.48 percent of revenue in 2025 from 0.26 percent in 2024, reaching the highest level since 2020. The improvement suggests that distributors were able to offset some gross margin pressure through disciplined management of operating expenses.

Cost of goods sold once again exceeded net product sales, totaling 100.6 percent of revenue. Vendor payment-term discounts remained crucial to generating positive gross margins, with cash discounts representing 2.3 percent of sales. Total operating expenses remained lean at 0.9 percent of sales.

Employees

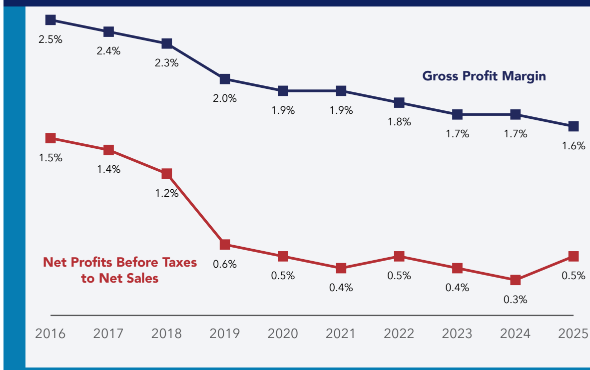
Employee costs moved higher again in 2025, with average compensation increasing to $91,000 from $86,500 in 2024. At the same time, total payroll costs as a share of gross profit fell to 16.9 percent from 17.4 percent.

Healthcare distributors generally provided salary increases of 3 percent in 2025, with increases of the same amount expected for 2026.

Warehouse employee turnover improved during the year. Day-shift turnover declined to 30 percent, compared with 33 percent in 2024, while night-shift turnover fell to 38 percent from 49 percent.

Productivity continued to strengthen as well. Net sales per employee rose to $33.1 million, while gross profit per employee reached $543,000. Automated picking methods also remained widely used, with 97 percent of respondents reporting some use of automation. Among those using automation, 49 percent of invoice lines were picked through automated processes.

GROSS PROFIT MARGIN



TOTAL COMPANY PAYROLL AS A PERCENT OF GROSS PROFIT MARGIN (%)

SALES PER EMPLOYEE (Millions)

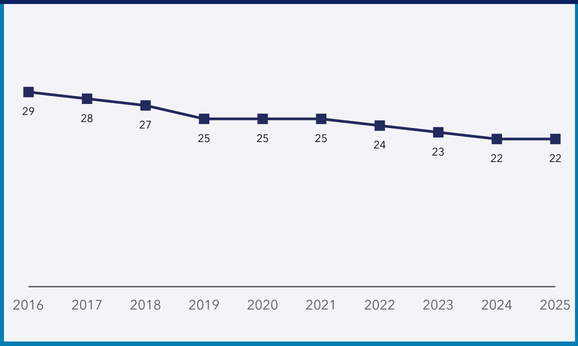
Note: Some numbers in graphs have been rounded.

Asset Management
Healthcare distributors continued to use their asset base efficiently in 2025, although asset turnover moderated somewhat from the prior year. Asset turnover declined to 5.8 times from 6.2 times in 2024, meaning industry net sales were 5.8 times the book value of assets. While lower than the prior year, the metric remained within the industry's historically strong range.

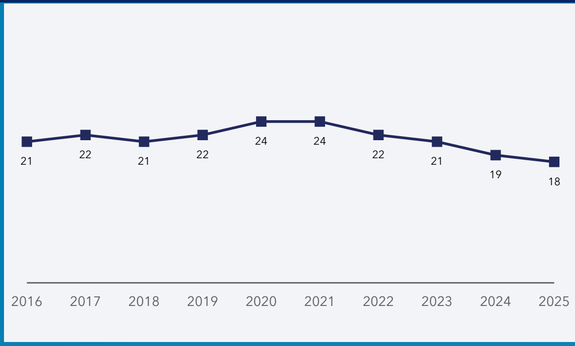
Capital expenditures rose sharply in 2025, reaching $685 million compared with $386 million in 2024. The composition of spending also changed. Land, buildings, vehicles and other expenditures accounted for 44 percent of the total, while information technology represented 26 percent. Machinery and equipment increased to 31 percent of total capital spending, up considerably from the prior year.

Distributors carried $55 billion in inventory on any given day throughout 2025, an increase from $50 billion in 2024. Inventory averaged 22 days on hand, essentially unchanged from 2024, continuing to reflect disciplined inventory management. Branded products averaged 15 days on hand, while generic products averaged 31 days.

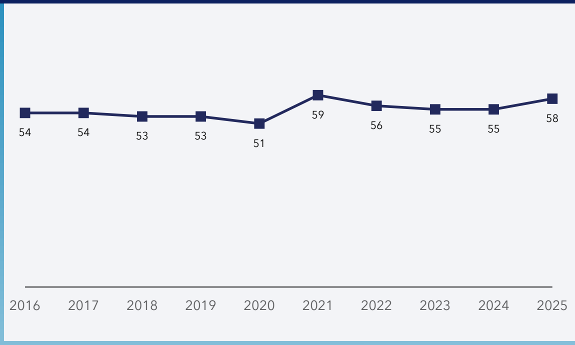
INVENTORY DAYS



RECEIVABLE DAYS



PAYABLE DAYS



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Liquidity and Leverage

Liquidity remained tight but stable in 2025. The current ratio held at 0.7 times, while the acid-test ratio remained at 0.3 times. These measures have shown little movement in recent years and continue to reflect the industry's lean approach to working-capital management.

Receivables were collected in 18 days on average, improving from 19.4 days in 2024 and reaching the lowest level of the past decade. At the same time, accounts payable increased to 57.9 days. The combination of faster collections and longer payment cycles provided additional cash flow support despite continued pressure on gross margins.

Financial leverage increased in 2025 after falling sharply in 2024. Assets-to-net-worth rose to 18.2 times from 14.4 times in 2024, though it remained well below the elevated levels seen earlier in the decade. Debt represented 94.5 percent of total assets, compared with 93.1 percent in the prior year.

Orders

In 2025, distributors continued to pick more than 10.5 million units per day. The average traditional distribution center processed 4,600 orders per business day, with each order consisting of about 9.7 invoice lines and 22 units. Average sales per invoice line were $578.

Distributors filled 91.2 percent of invoice lines for "raw orders," improving from 89 percent in 2024. Manufacturers' inability to ship accounted for 88 percent of unfilled invoice lines, while distributor stockouts represented the remaining 12 percent.

On a sales-dollar basis, the average fill rate was 94.5 percent. Handling costs averaged $5.38 per invoice line, while each distribution center processed 44,349 invoice lines and 102,000 units per business day.

Note: *this summary is focused on traditional distribution*

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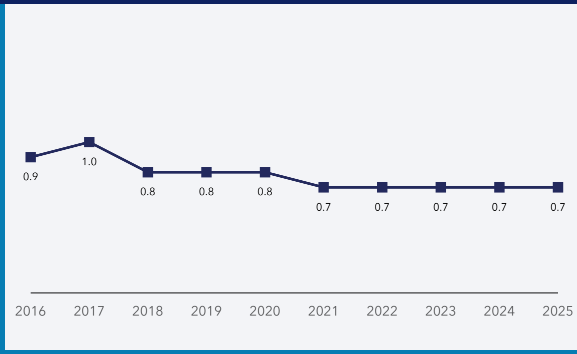
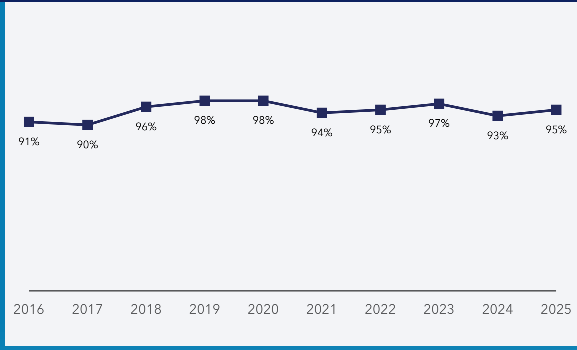
CURRENT RATIO



PERCENT OF ASSETS FUNDED BY DEBT



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