



## PHARMACY SERVICES

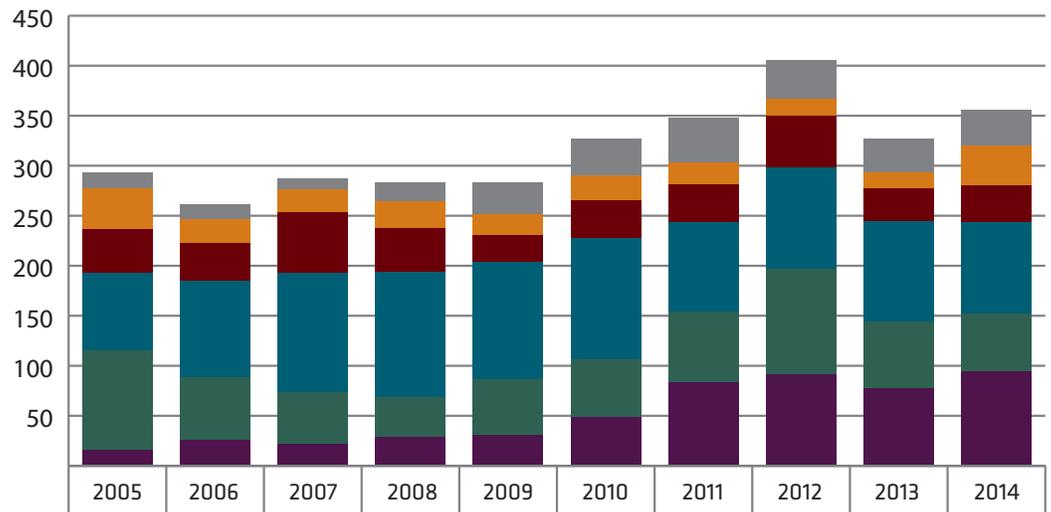
### 2014 M&A ROUNDUP: AS AGGREGATE HEALTH CARE SERVICE DEAL VOLUME TICKS UP 9%, SPECIALTY RX ACTIVITY SOARS 75% TO A NEW ALL-TIME HIGH

Based upon proprietary data collected and analyzed by The Braff Group, every sector except home health and home medical equipment recorded year-over-year gains, propelling aggregate health care service deal volume up 9% over 2013. Moreover, if we exclude 2012, a year that was artificially juiced as sellers rushed the exits to beat an 8.3% increase in capital gains, 2014 was a record year, just eclipsing the tally posted in 2011.

The biggest winner was health care staffing, which rocketed 150% in 2014. With reduced unemployment and more beneficiaries (care of health care reform) accessing an already under-staffed health care system, the sector recorded its highest tally, by far, in nearly 10 years.

#### Health Care Services Deal Volume

- Behavioral Health
- Home Medical Equipment
- Home Health
- Pharmacy Services
- Health Care Staffing
- Hospice



Source: The Braff Group



## Pharmacy Services

On an aggregate basis, in 2014, M&A activity in pharmacy services appears to be a mixed bag. Volume was up 12% vs. 2013, but relatively flat since 2010 if we smooth out the artificially tax driven bump and slump between 2012 and 2013. But if we break the activity down by sub-segment, a very different picture emerges.

## Specialty Pharmacy

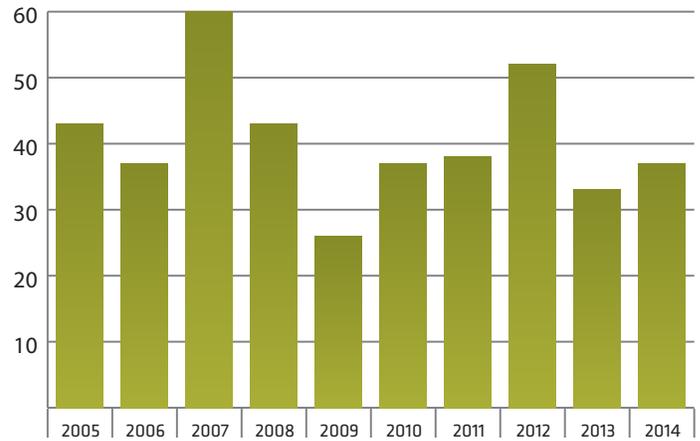
Following an off-year in 2013, specialty pharmacy roared back in 2014, rising 75% year-over-year, to set a new all-time high of 21 deals. That said, with volume whipsawing more than the emotions of a Seahawks fan, it's hard to discern what's really happening in the space. If we plot a trend line, however, the pattern becomes more apparent. Despite the substantial ebbs and flows of deal volume since 2009 – an occurrence likely due to a routinely uneven supply of acquisition candidates – deal volume is rising steadily, demonstrating continued and sustained interest in specialty Rx.

This observation is further boosted by the successful debut of **Diplomat Specialty Pharmacy** on the New York Stock Exchange in October 2014. As we reported in our *marketALERT* publication, *A Glimpse Inside Diplomat Pharmacy's Initial Public Offering: Implications for the Industry*, when trading opened on day 1 at \$16.00 per share, the company was being valued at a heady 21.7 x June 2014 annualized earnings before interest, taxes, depreciation, and amortization. Flash forward to February 11th, 2015. At a closing price of \$25.77, the stock has risen 61% since trading opened. What's more, at that price, and despite a contraction in EBITDA margin vs. mid-year 2014, **Diplomat is currently being valued at an eye-popping 48.8 x September 2014 annualized EBITDA.**

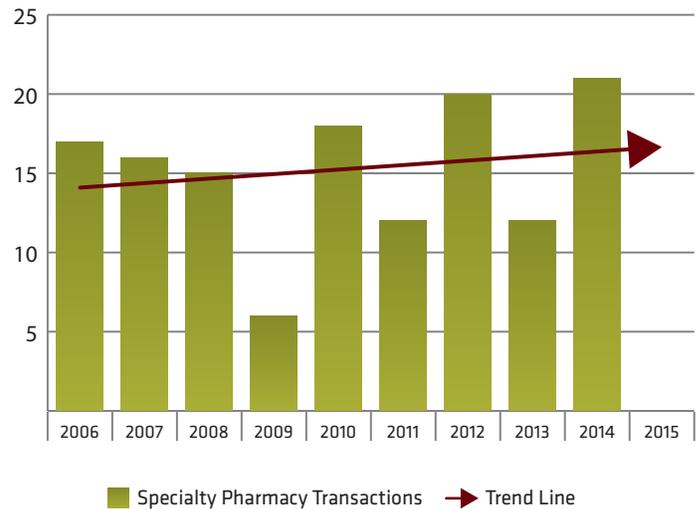
## Home Infusion Therapy

The story looks very different in home IV. Despite the substantial rise in deal flow between 2010 and 2012, the trend-line is decidedly down. Yet at the same time, in a blockbuster announcement at the beginning of 2015, Walgreens announced that it is selling a majority stake in its infusion therapy business to Madison Dearborn Partners, a Chicago-based private equity firm. Although MDP will own a controlling interest in the infusion business, earlier reporting from Reuters suggested that Walgreens' remaining stake could be quite significant. If true, the terms largely dispel any thoughts that Walgreens might have lost faith in its IV holdings. Moreover, the investment from MDP only puts a greater shine on the go-forward prospects for the infusion sector as a whole.

## Aggregate Rx Services Deal Volume



## Specialty Pharmacy Deal Trends



Source: The Braff Group

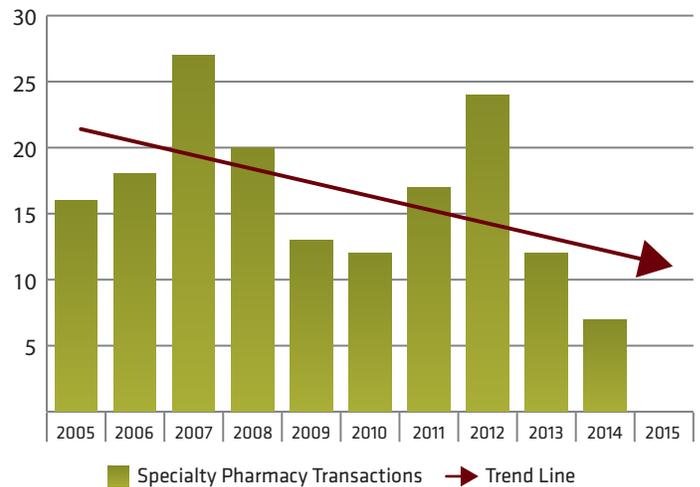


So why the otherwise depressing downward dog? As any reader of Braff Group publications on the sector knows all too well, we have repeatedly pointed out the dearth of supply of potential acquisition candidates. This time, however, let's put some numbers out there. Based upon our proprietary analysis of the home infusion therapy sector, after a decade in which we identified at least 180 infusion transactions, there are likely less than 200 providers nationwide that would meet the acquisition criteria of a reasonable number of buyers targeting the sector. If 20% of these providers (which is probably a high figure) **might** be inclined to consider an exit at any given time, the potential pool shrinks to less than 40 prospects. And when you eliminate those that don't quite fit, or have little growth potential, or don't have a manager in place to run the business, or struggle to pass due diligence, or can't come to price and terms acceptable to both parties (to name just a few reasons deals don't get done), it's no surprise that, demand notwithstanding, the number of deals completed each year is limited.

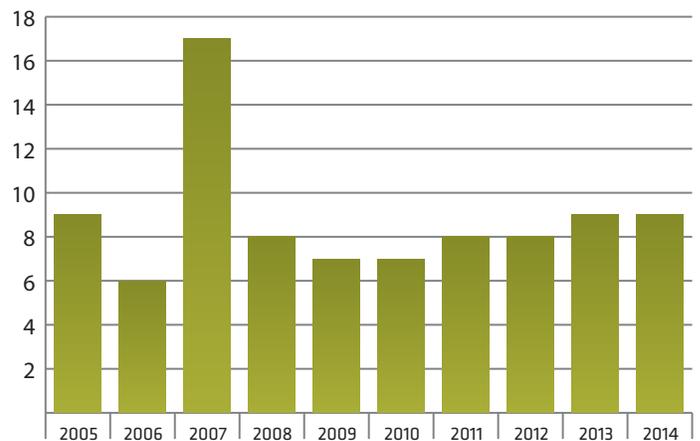
### Institutional Pharmacy

As we detailed extensively in our viewPOINTS publication, *How Urgent Care Consolidation May Play-Out....and Play-In To Your Strategies*, consolidation cycles typically proceed along a fairly predictable path. In the latter stages, "the biggest and most successful players begin to reach saturation in the markets they wish to serve. Deal volume begins to decline and valuation begins to soften, signaling the onset of MARKET MATURITY. During this phase, deals continue to get done, but they tend to be more opportunistic in nature. Furthermore, we begin to see forays toward DIVERSIFICATION, as established players look for complementary products and services to sustain long term growth." Such is the state of institutional pharmacy. Companies such as Omnicare, Pharmerica, and NeighborCare (which itself was acquired by Omnicare) have been consolidating the institutional pharmacy market for as many as 20 years or more, giving rise to the recent extended, and somewhat sedate, seven year run of seven to nine deals per year. Moreover, as indicated above, we have seen moves towards diversification. Omnicare dabbled in infusion, but ultimately (and somewhat creatively) wound up swapping this business line for Walgreens institutional business in 2010. And in 2012, Pharmerica acquired PE-backed infusion consolidator Amerita. Unless we see a tectonic shift in the pharmacy landscape, though we may see some modest supply driven peaks and valleys of deal flow, institutional Rx consolidation will likely continue to ride into the sunset.

### Home Infusion Therapy Deal Trends



### Private Equity Investment in Pharmacy



Source: The Braff Group



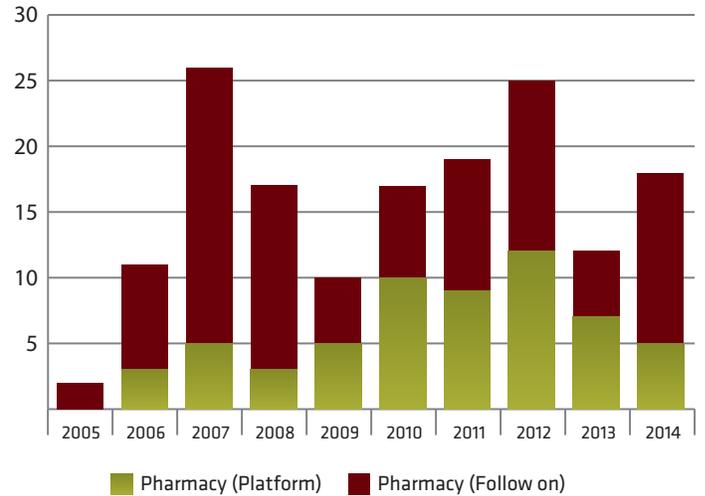
## Private Equity

One final observation as we look back at 2014. After a substantial fall-off in private equity investment in pharmacy services in 2013, PE deal flow rebounded nicely with a 50% gain year-over-year. With more than a billion in dry powder, increasingly attractive debt markets, transaction sizes, particularly in specialty Rx, getting larger and larger, and visions of a Diplomat-like exit opportunity dancing in their heads, private equity will continue to be a driving force in Rx consolidation in the coming years.

All things considered, then, 2014 was roaring, mooring, boring, restoring, and alluring.

We can work with that.

## Private Equity Investment in Pharmacy



Source: The Braff Group

## THE BRAFF GROUP DIFFERENCE

Since the firm's inception in 1998, we have closed more than 250 transactions, more than any other mergers and acquisitions advisory firm covering like sectors.

According to Thomson Reuters, The Braff Group ranked # 1 in health care mergers and acquisitions advisory services in 2009, 2011, 2012, and 2013. Four Time Winner Health Care Deal of the Year.

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