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PHARMACY SERVICES
SPRING 2016

HAS SPECIALTY RX M&A BECOME TOO BIG TO BUY?

You're probably quite familiar with the concept of "Too Big to Fail." You know, the point at which a business that is vital to our nation becomes so large that a failure would be catastrophic, requiring that the government step in with funding to ensure its survival. In 2008, it was the banks that were too big to fail. For your teenage kids, it might be Facebook.

In specialty Rx, however, it's not a case of too big to fail.

But too big to buy? That's another story entirely.

Now contrary to what you're probably thinking, we're not talking about a company that becomes so big that no one can afford to buy it. There's always some well-heeled private equity firm with cash to burn that wants to make a splash. Or there's always Donald Trump.

No. We're talking about a situation in which a buyer becomes so big that it becomes increasingly difficult to find an acquisition target large enough to move the proverbial "needle."

Such is rapidly becoming the case in specialty Rx.

In a sector in which it is ***relatively*** easy to go from start-up to $50M between releases of the newest iPhone, but more difficult to grow it to $500M than it is to hack Apple's password protection, specialty Rx has become a version of "Occupy Wall Street." There are the one percenters (CVS Caremark, Accredo, Walgreens Specialty Rx, OptumRx, Diplomat, among several others) and everyone else.

And when you generate a couple of billion (with a B) in sales, you have to find, buy, and digest a whole lot of tapas to satisfy an acquisition appetite.

So who are ya gonna call?

Smart, nimble, opportunistic, private equity.

We've seen it in other sectors. And we've seen it on a limited basis in specialty Rx.

When there's a shortage of sizeable acquisition candidates, private equity "tweeners" that inhabit the investor space between the blue collars and the bluebloods simply creates them. They do so by identifying, evaluating, due diligence-ing, lawyering, closing, and integrating down-market providers to create the inventory for the next buyer up the food chain.

Consider the story of Salveo Pharmacy. Started and funded by four different PE sponsors, over a short four year period, the company acquired Echo Pharmacy[1] (2011) and Mission Road Pharmacy[1] (2012), leveraged investment capital to ramp up operations, and flipped the business to Catamaran Rx for a cool $260M (Source: PitchBook).

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Then there's BelHealth Investment Partners, which acquired Town Total (2013) and Special Design Healthcare[1] (2013), integrated and developed them under the Aureus Health Services brand, and subsequently sold Aureus to Meijer in 2015. What's more, the agile team at BelHealth is at it again, acquiring Apothecary by Design[1] in 2015, and Healy Pharmacy[1] in 2016.

Others are pursuing a similar strategy. But it's worth mentioning that we've seen far more of this kind of activity in other sectors we cover – notably Medicare home health, hospice, and in pharmacy - home infusion therapy.

So why the hesitance of other PE firms to rush in and fill the void in specialty Rx M&A? Our best guess is that the gap between the dominant players and the emerging providers is so large that the pathway from down-market consolidation to divestiture may seem more daunting.

Perhaps.

But we can say, unequivocally, that the greatest opportunity to consolidate the specialty Rx market lies in the lower middle market.

So in a market where the players are "Too Big to Buy," you might want to be "Too Bright to Fail to Buy to Become Big and Bail. "

Or something like that.

[1] The Braff Group clients

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The Braff Group is the leading health care services mergers and acquisitions advisory firm with a team of dealmakers focused exclusively on pharmacy services.

For more than fifteen years, we have provided sell-side only transaction services to the pharmacy and infusion therapy provider community.

With more than 280 transactions completed, The Braff Group is ranked #1 in health care mergers & acquisitions.[2]

But we never forget that **your deal** is the one that matters to you.

Let us make it a great one.

[2] Source: Thomson Reuters, based on number of deals between 2007 and 2015.

FOR MORE INSIGHT INTO THE M&A MARKET FOR PHARMACY SERVICES AND WHAT IT MAY MEAN TO YOU, CONTACT OUR PHARMACY SERVICES TEAM:

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