



PHARMACY SERVICES

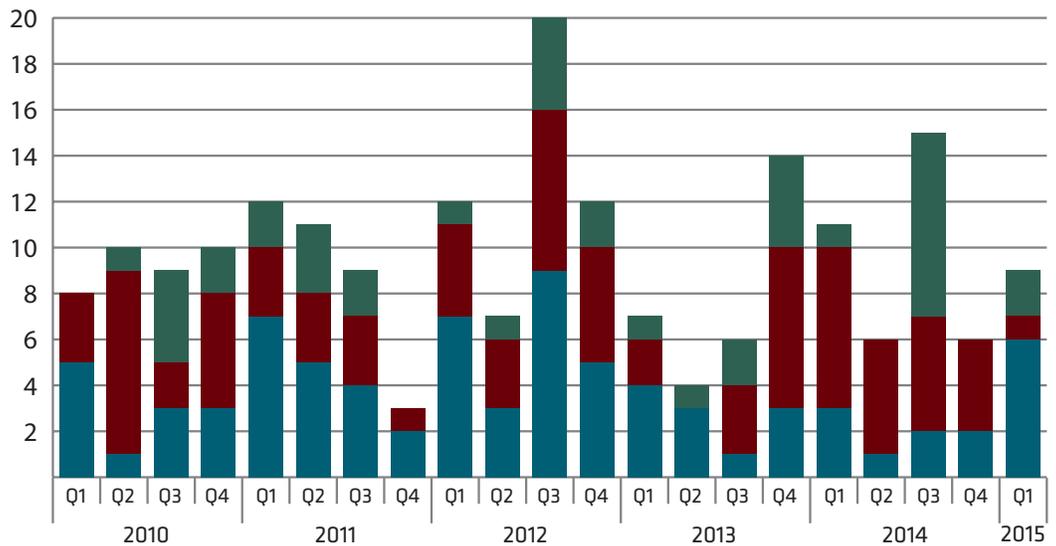
2015 M&A ROUNDUP: BIG DEALS REIGN SUPREME AS PHARMACY SERVICES ROCKS HEALTH CARE M&A

At first glance, it would appear that mergers and acquisitions activity in pharmacy services was relatively sedate to open 2015. Yes, there were six home infusion transactions completed during the period, the highest tally in more than two years. And yes, with nine deals completed, volume was up substantially over a particularly lackluster performance in Q4 2014. However, in infusion, after seven consecutive quarters of three or fewer deals, in a sector whose risk-return fundamentals remain healthy, an uptick comes as no surprise. And in aggregate, the nine deals completed pale in comparison to the stellar figures recorded over the four quarters ended Q3 2014.

Now that we dosed these figures with Prozac, a little bit of sunshine: Q1 produced some of the largest and noteworthy transactions we have seen in pharmacy services in many, many years – **deals which say a lot about where the market is today, and where it is likely headed in the future.**

Pharmacy Services Deal Trends

- Institutional Pharmacy
- Specialty Pharmacy
- IV



Source: The Braff Group



Diplomat Specialty Pharmacy acquires BioRx [Price: \$315M]

A play to boost margin.

The acquisition of BioRx by Diplomat Specialty Pharmacy is particularly noteworthy as it shines a bright light on the yin and yang of specialty Rx. With the introduction, and increased utilization, of high cost biologics, providers that obtain distribution rights to the “latest and greatest” therapies can grow from start-up to revenues of \$100M or more in relatively short order. That’s the yin. In specialty pharmacy, however, the yang looms large in the form of margins that are thinner than Donald Trump’s comb over. Consider industry leader Diplomat, which currently generates EBITDA margins of plus/minus 1% on revenues of \$2B plus, as in billion. So what do you do if you want to quickly add some snap, crackle, and pop to earnings? Buy a complementary business that’s close enough to the core that it doesn’t compromise organizational focus, but produces higher margins. Enter the acquisition of BioRx, a \$227M provider with fat margins of 10% (\$23M in EBITDA) that effectively **doubles** Diplomat’s current EBITDA of plus/minus \$21M.

We’ve seen this strategy before – BioScrip’s acquisition spree of home infusion therapy providers from 2012-2013; Pharmerica’s acquisition of Amerita; and Omnicare’s on again/off again flirtation with infusion. And we’re likely to see it again as specialty pharmacy continues to operate on the razor’s edge of profitability.

Madison Dearborn acquires a controlling interest in Walgreens’ infusion therapy business [Price: \$1.25B]

A chance to be a big time player in IV and an opportunity for Walgreens to hedge its bet on the sector.

This deal was notable not only because Walgreens’ IV business was one of the largest in the country, but because (a) the acquirer was yet another PE company looking to make its mark in pharmacy services, and (b) the fact that Walgreens felt strongly enough about the future of the business that it retained a “significant minority interest” and secured board representation. What’s

more, Madison Dearborn subsequently decided to rebrand the business as Option Care, resurrecting the legacy of Walgreens platform acquisition in infusion therapy. All of which suggests that while traditional infusion doesn’t have the sex appeal of specialty pharmacy with its gaudy growth and tip-top top lines, it’s still very much a sound acquisition play.

OptumRx, a subsidiary of UnitedHealth Group, acquires PBM and specialty Rx provider Catamaran Corp. [Price \$12.8B]

Another step toward coordinated care and population management.

This is a theme we wrote about extensively in our viewPOINTS white paper entitled, “Emerging Health Care Trends Begin to Upend Traditional M&A Strategies.” In it, we make the case on how the emergence of accountable care organizations, “bundling,” and other coordinated care/population management initiatives have ushered in new, innovative thinking in health care deal making. The goal? To create organizations that can seamlessly direct patients to the most effective therapies and settings in order to (1) manage costs, (2) improve outcomes, and (3) enhance patient satisfaction – the “triple aim.” In combination with OptumRx’s recent acquisition of MedExpress, one of the nation’s leading urgent care providers, it’s abundantly clear that UnitedHealth is developing its capacity to more effectively manage and direct the care of its beneficiaries.

The deal also represents one of three varying strategies in the PBM space.

According to Joshua Golden with consulting firm Pharmaceutical Strategies Group LLC in an article published by Atlantic Information Services entitled “UnitedHealth’s Play for Catamaran Marks a Test of Strategies.” “The market will be dominated by three companies with very different business models. CVS Health offers a ‘vertical integration’ of the PBM and retail businesses. OptumRx [UnitedHealth Group subsidiary] offers ‘horizontal integration’ of pharmacy into broader health care services. And ESI [Express Scripts Holding Co.] offers the independence of a **standalone solution**,” he says. “The next few years will really be a laboratory test of each of these models in the PBM marketplace.”



CVS Health acquires Omnicare, one of the nation's leading institutional pharmacies [Price: \$10B]

A related market-entry play that can provide new growth opportunities and risk diversification.

This deal is particularly instructive in that our sense is it's the kind of deal that at first glance seems a natural – but makes you go “hmmmm” when you look a little closer. Sure, CVS and Omnicare are both big-time players in pharmacy. But does that alone make it a value enhancing fit? CVS is largely a consumer oriented business that requires the understanding of customers that may value them more as a fully stocked convenience store than a purveyor of prescriptions. Omnicare, on the other hand, is an institutional provider in which the keys to success are purchasing, automation, distribution, and efficiency – two very different marketing messages and operational skill-sets. Cross selling opportunities are limited. CVS retail customers aren't likely to choose a nursing home provider because they like their institutional pharmacy vendor, nor will nursing home patients be persuaded to become

retail customers because of a CVS brand that is likely to fade into the background in an institutional setting. Yes, when you add Omnicare's considerable drug spend with that of CVS, they may be able to wrangle further volume incentives from pharmaceutical companies. However given the billions CVS spends now, it's hard to imagine there's much room for further rebates.

The above notwithstanding, the deal certainly adds volume, profits, and product line diversification, and Wall Street gave it a warm welcome with shares rising 3% on the announcement.

And one more thing.

Lest you think these billion dollar transactions have little to do with you, know that what makes these deals most noteworthy are not the dollars being spent, but the emerging strategies that inform them –

– Strategies that can be executed up and down the size continuum.

Just like the billi_n d_ llar _nes, with a few less zeros.





INTELLIGENT DEALING IN PHARMACY SERVICES M&A

The Braff Group is the leading health care services mergers and acquisitions advisory firm with a team of deal makers 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 250 transactions completed, The Braff Group is ranked #1 in health care mergers & acquisitions¹.

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

Let us make it a great one.

¹Source: Thomson Reuters, based on number of deals between 2008 and 2014.

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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