MARKET**ALERT**

the braff group

CVS ACQUIRES CORAM

STEP AWAY FROM THE LEDGE, IT MIGHT BE GOOD FOR YOU

As you are probably well aware of by now, on November 27, 2013, CVS Caremark announced a $2.1 billion acquisition of Coram, the infusion segment of Apria Healthcare (a portfolio company of Blackstone, a leading private equity group.)

According to a CVS Press Release, Coram is expected to generate revenues of about $1.4 billion in the twelve months **following** the completion of the transaction.

To some observers, this will look like one more step on the way toward market control by national providers – control that threatens local and regional companies.

Certainly a reasonable intuition.

An intuition, however, that we don't necessarily intuit.

Yes, as firms get larger and larger, they can likely capture volume price concessions from drug manufacturers and other vendors, allowing them more margin to compete with local and regional firms on price. But, with third party payers, insurance providers, and seemingly as many different plans as there are beneficiaries, health care has never been particularly well-suited to the kind of market **efficiency** and **transparency** that stimulates competition only on price. And, where it has – notably in managed care settings – low price bidders often get the contract, but they rarely keep it.

Furthermore, preferred agreements with insurers, managed care, emerging ACOs (Accountable Care Organizations), and other gatekeepers typically cover narrowly defined populations in concentrated geographic markets. As a result, when it comes to serving individual markets, national providers have little advantage versus an entrenched local or regional provider. And, arguably, the "nationals" may, in fact, be **disadvantaged** by the perception that they inherently can't match the one-to-one, personalized service a local independent provider can offer.

There's still a substantial role for independent providers.

So we don't see the CVS acquisition of Coram particularly as an industry threat.

What we do see is that the deal furthers the viability of infusion therapy as an attractive financial and strategic investment.

Consider these metrics.

Based upon reported annualized infusion revenues of $1.3B at the time of the announcement – volume that commands attractive **size premiums** – the price to revenue multiple is an impressive 1.6.

Furthermore, although we cannot know how, or even if, Blackstone valued the infusion business **separately** from Apria's home medical equipment segment when it initially acquired the company in 2008, after a detailed analysis conducted by The Braff Group of financial statements and transaction activity from the time Apria acquired Coram in 2007 to its sale in 2013, we estimate that the private equity sponsor garnered an annual rate of return on the infusion portion of their investment of 24% to 30%. Excellent returns – particularly, when you consider that, according to a July 2013 Journal of Finance Report entitled "Private Equity Performance: What Do We Know," the average internal rate of return for a fund that made its initial investment in 2008 (the year Blackstone made its investment in Apria and Coram) has thus far been only 3.2% amidst a limited number of exits given post-recession economic pressures.

With Blackstone and other private equity groups realizing successful exits from infusion therapy investments, particularly over the recent past (see Braff Group publication; viewPOINTS: The Divestiture of CarePoint Partners. The End of an Era. Or the Beginning of a New One?), we have, and will continue to see, acquisition demand coming from new or early stage PE sponsors.

Furthermore, although we have long seen large pharmacy chains flirt with infusion therapy, few, with the notable exception of Walgreens, have devoted substantial – and, sustained – resources to develop it as a core element of their development strategy.

With this move by CVS, we will likely see elevated – and, perhaps, more committed – acquisition demand from other national and regional pharmacy providers.

Infusion M&A lives.

Call us to see how we can put our experience to work for you.

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