It was the best of times.
It was the worst of times.
Pretty much sums up the state of pharmacy services mergers and acquisitions – an M&A market that continues to garner interest from a broad base of strategic and financial buyers yet struggles to find any measure of consistency.

Let’s explain.

Based upon proprietary data collected and analyzed by The Braff Group, the most consistent aspect of pharmacy services M&A is, well – its inconsistency.

Unlike virtually all the other health care service sectors we cover – behavioral health care, home health and hospice, digital health, health care staffing, and home medical equipment – in which there are very discernible trends, pharmacy services M&A tends to jump around like a five-year-old in a ball pit. Full of energy, but in no apparent direction.

But don’t let the disorder fool you. Just like the above-mentioned sectors whose deal trends are readily explainable, so too are the “un-trends” in pharmacy services.
Supply and Demand are Run Dry and Shorthand

When we think of issues that drive mergers and acquisitions activity – the economy, access to debt, health care economic policy, reimbursement, utilization patterns, and more – we tend to forget the role that simple supply and demand can play.

Take demand.

Although the players may come and go, there is still ample demand for pharmacy services companies. From private equity, to same-sector strategics, to cross-sector strategics, to insurance companies, and even grocery store chains, buyers still want in. The problem is, there just aren’t as many of them as there were in the past. As we wrote extensively about in a marketWATCH publication entitled, “The Fine Young Cannibals of Pharmacy M&A,” the past few years have seen a wave of buyers acquiring other buyers, taking a nice bite out of a number of players simply in the game.

On the supply side of the ledger, although we’re sure there must be some out there, new start-ups in home infusion therapy are harder to find nowadays than a phone number for customer support. Entrepreneurial pharmacists are far more likely to chase after specialty pharmacy, with its glistening pipeline and eye-popping revenues. To them, we imagine that mixing is as cutting edge as the mortar and pestle. And without the start-ups, there just aren’t many traditional infusion companies out there to buy.

So, with the mojo in specialty pharmacy services (SPS) you might expect a decent and constantly replenishing supply of providers.

And you would be right, to a point.

While a shortage of companies may be less acute, most are just not big enough to “move the needle” for the most acquisitive of buyers. Especially after the buyers themselves have consolidated, the acquirers in SPS are billion-dollar babies — or well on their way. So even a provider with $50-100 million or more in revenues (a unicorn in most health care services, but in specialty Rx, as rare as Instagram postings of cats) doesn’t generate much interest.

Put them together – fewer buyers chasing fewer suitable acquisition candidates – it’s no wonder that deal flow, well, ebbs and flows.

The good news here?

Even though supply and demand may be retracting, they are moving more or less in lock-step – retaining the balance necessary to keep pricing at, or near, the elevated levels that have characterized the past decade.

Size, Margins, and Acquisition Schizophrenia

As we suggested earlier, in pharmacy services, if you want to roll with the big boys, you want to be in specialty pharmacy, where you have to get to $100 million in sales just to be small (ok, we’re being a bit facetious here, but you get the point).

Ah, but the margins.

So, what’s a specialty pharmacy to do to prop up the profits? Well, acquire infusion therapy companies which regularly generate EBITDA margins of 15-20 percent or more. But not too many that you morph into an IV firm.

Perhaps you see where we’re going here.

If you want to be big, you have to be in specialty Rx. But if you want to be profitable, infusion therapy is the ticket. So, should we be surprised that deal volumes in each sector jump around, as buyers jump back and forth between specialty Rx and infusion – and institutional Rx and infusion, for that matter – to generate profitable growth?

Rx Services Isn’t Partying Like it’s 2018

As we wrote about extensively in a marketALERT article titled, “Step Away From the Bargaining Table: There’s a New Holy Trinity in Health Care M&A,” buried among the thousands of pages that was the Affordable Care Act (ACA) were the seeds of change that have radically altered the course, strategies, and volume of health care M&A.

The ACA authorized the creation of the Centers for Medicare and Medicaid Innovation which was charged, in part, to rethink the way health care services are utilized and reimbursed. Well, the agency lived up to its name, introducing a host of new payment schemes, the common theme of which was establishing some form of global payment to cover all the health care services attendant to a specific population or surgical procedure. This radically upended the financial incentives of health care from volume to efficiency, from disintegrated services to coordinated care, from income to outcome.
In such an environment, value is no longer created by simply amassing armies on a map, like a game of RISK. It is created by coordinating and directing care, across many disciplines (from primary, to acute, to post-acute services), in multiple settings, over a geographic footprint consistent with a defined population (be it covered lives or patients undergoing targeted surgical procedures) to improve outcomes while, at the same time, reducing costs.

What was once a narrowly focused, multi-location, size play, is fast becoming a multi-discipline, efficiency (clinically and financially), density play.

So, in this new environment, it made sense for...

- UnitedHealthcare to acquire MedExpress to incent beneficiaries to ditch the ER when urgent care will do;
- HealthSouth to buy home health and hospice provider Encompass, to create a more seamless post-acute continuum;
- Medicare-focused Amedisys to acquire Associated Home Care to add long-term, paraprofessional services to fill in the gaps left by intermittent skilled care; and
- for countless hospitals to once again affiliate, partner, or buy ancillary service providers – urgent care, Medicare and private duty home health, behavioral health, and other upstream and downstream providers – to position themselves to go at-risk in accountable care organizations, population health contracts, and bundled payment initiatives.

So where do pharmacy services fit in this new equation?

Well, for the most part, nowhere.

Sure, we have the big insurers getting cozy with the national retail drug chains and a smattering of large specialty pharmacies. But unlike the wave of new activity that has filtered down to various health care providers of all sizes, we’re not seeing much “cross-border” activity in home IV and specialty Rx.

The question, of course, is why?

In specialty Rx, the reason is pretty clear.

At its core, SPS is a high volume, limited therapy, wide geographical business. Accordingly, it just doesn’t fit well with coordinated care footprints that are more localized, support far lower volumes, and value diversity of product offerings vs. specialization.

And what about home infusion therapy? As a far less costly alternative to hospital administered infusion, it should be a valuable component of a coordinated care delivery strategy. And it is; many hospital systems have fully integrated post-acute solutions that include sizable infusion therapy operations.

No, the issue in infusion therapy is not the role it can play in the health care delivery continuum; that is clear. It’s simply that the players that can benefit most from its strategic deployment – regional hospital systems – already have fully developed infusion operations as part of their highly profitable (under fee-for-service while it lasts) in-house pharmacies. Accordingly, these “would-be” buyers do not have to rely upon acquisitions to round out their service offerings.

So why is all this so relevant to our discussion regarding the pharmacy service consolidation trends – or lack thereof?

Quite simply, the move toward coordinated care has been the most significant drive of widespread increases in deal flow by new buyers across the health care spectrum over the past three to five years and will continue to be so for the foreseeable future. But with pharmacy services on the outside looking in regarding this consolidation strategy, it lacks the foundational demand that undergirds much of the sustained – and predictable – consolidation trends we are seeing today.

So, from an M&A perspective, is the sector doomed?

Not at all.

There are enough players out there to keep the deals coming.

But are there reliable trends that you can bank on to predict go-forward changes in demand, volume, and ultimately valuation – as is clear in areas such as autism services, substance use disorder, home health care, hospice, health care staffing, digital health, physician practices, yada, yada, and yada?

Well, in a word –

Nope.

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1We note that this already happened many years ago between skilled nursing and institutional Rx, but as a vertical integration strategy vs. efforts to coordinate care and direct patients to the most clinically and cost-effective setting that we are seeing today.
Intelligent Dealmaking® in Health Care M&A

The Braff Group is the leading health care services mergers and acquisitions advisory firm specializing exclusively in health care services, including pharmacy services, home health and hospice, digital health, behavioral health, urgent care, health care staffing, home medical equipment, and ancillary health care services.

Since being founded in 1998, The Braff Group has completed more than 325 transactions. According To Thomson Reuters, The Braff Group has repeatedly been ranked among the top 5 health care mergers and acquisitions advisory firms.

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