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The leader in Health Care Services Mergers & Acquisitions

INSIGHT INTO HEALTH CARE SERVICES MERGERS & ACQUISITIONS

THE BRAFF REPORT

Acquisition Interest in Continuous Glucose Monitoring Providers Soars

CGM is a fast-growing market

For many years, mergers and acquisitions interest in diabetic products and supplies was rather sleepy.

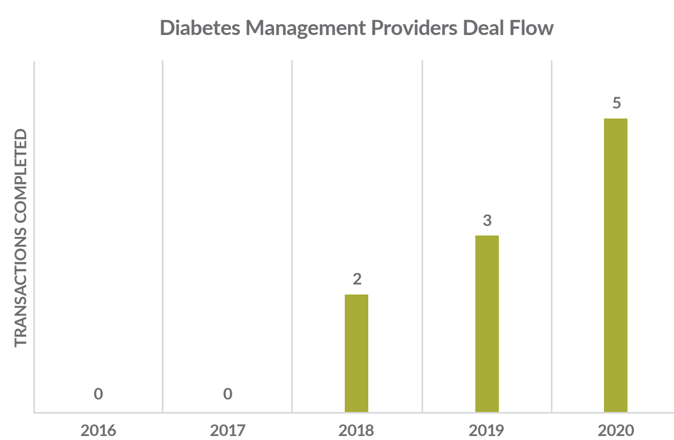
It was a highly competitive business with **thin margins** and, with all the money in the resupply of test strips, **not much of an opportunity to differentiate** and create sustainable customer loyalty. So, the big players spent heavily on advertising, cycling patients back and forth between them. They made money. But not the stuff of investor dreams.

But then came the development of affordable continuous glucose monitoring. A technology driven solution to repeated daily pin pricks and endless test strips. A solution that offers continuous monitoring, can integrate with smartphone systems, and provides critical insights as to whether glucose levels are going up, or down, and how fast.

And herein lies the clinical underpinning of why acquisition interest in CGM has fast become a thing in health care mergers and acquisitions.

In addition to demonstrated efficacy, there are other factors that boost acquisition interest in the space.

CGM monitors are differentiable. In a presentation to the American Diabetes Association in 2019, one of the presenters compared four systems on nine different features. Among them, implantation method, sensor life, calibration, decision support, and accuracy.[1]



Suddenly, patients could find a system they like, and have reason to stick with it.

> **"[CGM] is well suited to be at the center of a comprehensive diabetic management program."**

CGM offers opportunities for enhanced margins. More than just a monitoring system, the technology is well suited to be at the center of a comprehensive diabetic management program that can include reminders, on-the-spot education, integration with insulin pumps, communication with caregivers, predictive artificial intelligence and more. Accordingly, not only does CGM do a better job at helping users manage their diabetes, it provides substantial opportunities to develop meaningful competitive advantages, and hence better margins.

But wait, there's more.

[1] MedCity News; "Quick comparison of Medtronic, Abbott, Dexcom, Senseonics CGMs from ADA 2019," June 10, 2019

CGM is a fast-growing market. For clinical reasons, CGM became the standard of care for Type 1 diabetes in 2016. But "high costs and uncertainty over efficacy and necessity have kept CGM from widespread use in people with T2D."[2] But recently, *"the newest CGM models… have begun to overcome many of these technical barriers to use of CGM systems."*[3] And according to the CDC, *"more than 34 million Americans have diabetes (about 1 in 10), and approximately 90-95% of them have type 2 diabetes."*[4] **Talk about growth opportunity.**

It's an annuity. Currently there is no cure for diabetes. So, companies that stay on top of the latest technology and provide value-added customer support and education can enjoy long term and sustainable revenue streams that propel growth and reduce risk, which, together drives up valuation.

Size really does matter. If a provider can grow large enough to purchase monitors and supplies directly from manufacturers versus distributors – thereby reducing their cost of goods sold – they can pick up an additional 10-12% of profit margin. This creates enormous incentives to grow quickly through acquisition. What's more, if placed in a competitive auction to acquire a target, buyers could have equally enormous incentives to offer extraordinary premiums to drive the cost of goods down for their entire operation.

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The Consolidation Play

So, who's buying – or should be?

Private Equity. Well, given its narrow focus, opportunities to leverage technology and logistics to drive down costs, and clear pathway to growth, increased profitability, and value, CGM is a near perfect roll-up play for private equity.

Traditional HME providers. It's also a natural product line extension for the existing large players in the home medical equipment and respiratory market. With AdaptHealth's successful initial public offering, and the recent announcement of a pending IPO for Apria, should Linde seek a similar opportunity for Lincare, we may very well see an all-out brawl for size, market share, and growth, reminiscent of the late 90s and early 2000s – all of which could be fed substantially with CGM.

CGM is a near perfect roll-up play for private equity.

CPAP providers. Given their experience in customer acquisition, retention, and re-supply, we also see CGM as an excellent product line extension for those companies that focus primarily on CPAP products and supplies.

The Punchline

So, what does this all mean if you are a growing provider of CGM? Undoubtedly, most if not all of you have been contacted by at least one or two potential acquirers from the group above. That's what happens when there is a sudden groundswell of interest in a space. Perhaps the most important takeaway then is that there are far more buyers out there then the "usual suspects" – and more likely to come.

Accordingly, to maximize value and surface the greatest premium the market will allow, there is simply no short-cut to pursuing a pro-active, strategically orchestrated auction process with multiple buyers competing for your business at the same time. Only then will buyers be "forced" to fully consider all the synergies and supply vs. demand, market timing, purchasing power, and other factors and intangibles to determine just how much of a premium they would be willing to pay to complete a transaction.

Wink, wink.

[2] AJMC; "A New Era: Increasing Continuous Glucose Monitoring Use in Type 2 Diabetes;" March 31, 2019
[3] Ibid
[4] CDC; Type 2 Diabetes; https://www.cdc.gov/diabetes/basics/type2.html

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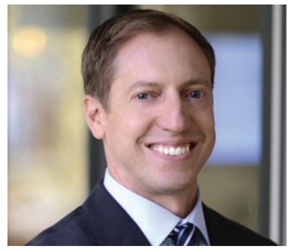

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20 YEARS & COUNTING

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