Specialty Pharmacy Mergers & Acquisitions: Trends, Strategies, and Opportunity

Monday, October 14th
4:15pm-5:15pm
In this session, we offer a glimpse behind the curtain of the world of specialty pharmacy services mergers and acquisitions (M&A). In doing so, we will present proprietary data on trends in specialty pharmacy services M&A activity over the past few years, and discuss the role that private equity has played in industry consolidation. We will also discuss the characteristics of an ideal acquisition candidate, and what providers can do to maximize their opportunities in this dynamic market.

Universal Activity# 0761-9999-13-340-Lo4-P
1.0 Contact hours; Knowledge-based activity

Faculty:
Reg Blackburn, MBA
Managing Director,
Infusion Therapy & Specialty Pharmacy
The Braff Group
Specialty Pharmacy Mergers & Acquisitions:
Trends, Strategies, and Opportunity
DISCLAIMER

The information within this CME/CE activity is for continuing education purposes only, and is not intended to substitute for the medical judgment of the healthcare provider. Recommendations for use of any particular therapeutic agents or methods are based upon the best available scientific evidence and clinical guidelines. Reference in this activity to any specific commercial products, process, service, manufacturer, or company does not constitute its endorsement or recommendation.
Faculty Biography

25+ years healthcare experience - senior executive in both the home care and medical device sectors

In 2006 joined The Braff Group - Healthcare M&A advisory firm. Managing Director for specialty pharmacy, home infusion, and institutional pharmacy

Previously - VP of Business Development/Sales/Marketing for Proxima Therapeutics, a start-up cancer treatment technology company. Managed product development, FDA clinical studies, commercial launch and eventual sale.

Prior positions - established 20+ home infusion facilities throughout the United States

BS Business Wake Forest University/MBA - Temple U.
DISCLOSURES

I do not intend to discuss an off-label use of a product during this activity.

I have not had any relevant financial relations during the past 12 months to disclose.
OBJECTIVES

1. Discuss the recent trends in Specialty Pharmacy M&A, and what these trends suggest for future activity.

2. Identify the key characteristics of ideal specialty pharmacy acquisition candidates – characteristics that drive acquisition strategies, demand, and ultimately valuation.

3. Describe strategies providers can employ to maximize their opportunities in SPS M&A.
Recent Trends in SPS M&A
Pharmacy Services Deal Trends
Buyer Types

1. Strategic
   • Currently in specialty
   • Not in pharmacy and/or specialty
   • Very large or regional

2. Financial (Private Equity)
   • Platform acquisition

3. Hybrid – Private Equity Backed Pharmacy
   • Add-on acquisitions
SPS M&A Deal Trends
Trend: Organic vs Acquisition

1. Payer/PBM owned Specialty Pharmacy
   - Aetna, Humana, Catamaran, ESI, Cigna, CVS Caremark, United, Prime Therapeutics
   - Very rapid organic growth
   - Focus is existing patients/clients

2. Large pharmacy operators
   - Few targets large enough to “move the needle”
   - Mostly buy for strategic value, not volume
   - Kroger acquisition of Axium
Private Equity Investment Trends in SPS

![Bar chart showing investment trends in SPS from 2006 to 2012. The chart compares platform and follow-on investments over the years.]
Platform vs Add-on

- Apothecary Shops of Arizona
- Platform for Riordan Lewis
- Add-ons: Greater Sacramento Pharmacy and Colorado Pharmacy

- Specialty Therapeutics
- Platform for Enhanced Equity
PE Case Study

Add Management Team

ITS

Prosperity Specialty Pharmacy
Infrastructure

Add Pharmacy/Accounting Systems and Rebrand

Exit via sale to Strategic
Characteristics of Ideal SPS Acquisition Candidates
Product Line Diversification
2013 ESI Trend Report -- By Therapy Class

Commercial Payer Top 10

- Inflammatory Conditions
- Multiple Sclerosis
- Cancer
- HIV
- Hepatitis C
- Growth Deficiency
- Anticoagulant
- Pulmonary Hypertension
- Respiratory conditions
- Transplant
2013 ESI Trend Report by Therapy Class

Medicare Top 10 (open network)

- Cancer
- Multiple Sclerosis
- Inflammatory Conditions
- HIV
- Pulmonary Hypertension
- Anticoagulants
- Hepatitis C
- Immune Deficiency
- Blood Cell Deficiency
- Osteoporosis
Exclusive Contracts

• Payer Contracts
• Manufacturer - Limited Distribution
Infrastructure
Infrastructure

- Pharmacy Systems
- Accounting Systems
- Sales and Marketing
- Patient Compliance
- Data Tracking and Reporting
- Experienced Management
- Multi-state Licensure
Size
Ideal vs Reality

• VERY limited number of independent specialty pharmacy companies meet all the above
Opportunities DO Exist

• BUT there are other value drivers
  • Strong geographic position
    • “Any willing provider” states
  • Local payer contracting
  • Provider - ACO – 340b
  • Reputation with referral sources
  • Sales force
  • Therapy line strength
    • Specific disease(s)
    • Infused drugs
    • Higher margin – transplant, fertility
Opportunities

**DO Exist**

- Specialty – Retail Pharmacy category
  - Avella and CarePlus model
  - Numerous independents
- Do best in situations with:
  - Any willing provider – ie AMMO in NY
  - Medicaid brick-and-mortar requirement
  - Disease/Patient base that demand higher touch service (ie HIV in California)
How to Maximize your Opportunities in SPS M&A
Numbers, Numbers, Numbers

You MUST get the numbers right

INNACURATE NUMBERS ARE BY FAR THE #1 REASON DEALS FAIL
The Numbers: Where Providers Get Them Wrong:

PRICE SCHEDULES

Gross Profit Margin
The Numbers: Where Providers Get Them Wrong:

INVENTORY

Gross Profit Margin
Internal Audit?

- Virtually no one does it
- Virtually everyone needs it
- As part of a 12-24 month divestiture strategy
- *the ROI on a pre-market audit is extraordinary*
Extend Contracts

The further the expiration of a payer or exclusive distribution contract -

• the lower the risk
• the higher the value
Compliance Program
BUYER’S PERSPECTIVE

Expected ROI of any acquisition should be measured against *multiple options*:

- Alternative transactions
- Start up
- Product line extensions

Implication: Valuation is *CONTEXTUAL*, not *ABSOLUTE*
SELLER’S PERSPECTIVE

See previous slide:

Valuation is **CONTEXTUAL**, not **ABSOLUTE**

Implication:

- DIFFERENT buyers will value the SAME opportunity **DIFFERENTLY**
- The SAME buyer will value DIFFERENT opportunities **DIFFERENTLY**

Value is *uncovered* by exploring *options*

Value is *protected* by developing *backups*
Get the Timing Right

Decision Sphere One:
Position on Growth Curve

Decision Sphere Three:
Personal Goals and Objectives

Decision Sphere Two:
M&A Market Dynamics

As the Decision Spheres move towards the bulls-eye, the firm moves closer to the optimal time to divest.
Thank you!
Discussion / Q & A