



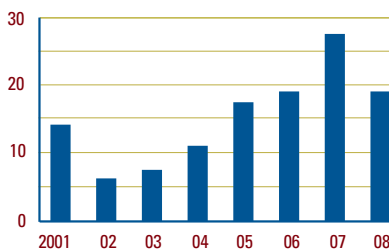
2009

Home Infusion Therapy and Specialty Pharmacy Services

Home Infusion Therapy

As illustrated in **Chart A**, after setting a record for transaction volume in 2007, the home infusion therapy sector could not completely escape the worldwide downturn in merger and acquisition activity. According to Thompson Reuters, in the wake of a global recession and limited access to debt capital, deal volume in the United States fell 37% in 2008. Viewed in that light, the near 30% decline in infusion M&A activity this past year is somewhat less troublesome. We also note that some of the fall-off may be due to timing, as many would-be 2008 closings have been slowed as buyers and lenders are being more cautious in their deal making, ratcheting up scrutiny in all areas of due diligence. Finally, with 19 deals, 2008 equals the second best tally for infusion therapy M&A activity (tied with 2006) since we began tracking deal volume trends in 2001.

CHART A:
Home Infusion Therapy M&A Transaction Trends

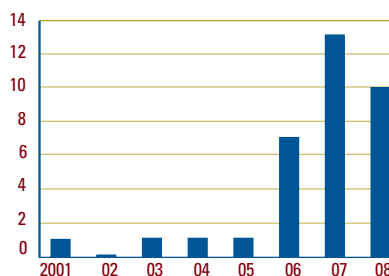


Source: The Braff Group

So acquisition demand remains strong.

Private Equity Remains Bullish on Home Infusion: Private equity continues to aggressively target infusion therapy – even in a more challenging credit market that makes it more difficult for these financial buyers to generate the returns they are accustomed to (see **Chart B**). According to proprietary Braff Group research, in 2007, private equity groups (PEGs) accounted for 48%, or 13 of the year's 27 transactions. Demonstrating their continued interest in a sector that continues to exhibit (a) strong growth opportunities, (b) solid margins that reflect a "value-add" service component of home IV, and (c) demand that is largely non-discretionary in nature (and therefore less subject to diminish the wake of a recessionary economy), PEGs accounted for 52%, or 10 of 19 deals in 2008.

CHART B:
Private Equity Sponsored Home Infusion Therapy Transaction Trends



Source: The Braff Group

The Blackstone Group "Backs Into" Infusion: Additionally, of particular note, was private equity leader Blackstone Group's acquisition of Apria Homecare Group in 2008. While not included in our IV M&A data (Apria derives more of its revenues from home medical equipment), we firmly believe that what Blackstone actually coveted was Apria's \$800 million in infusion revenues. A transaction, we might add, that may have been quite "opportunistic" from a pricing perspective given the slumping value of home medical equipment.

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The Braff Group is the leading investment banking firm specializing in the home health care, hospice, infusion therapy, specialty pharmacy, health care staffing, and home medical equipment market sectors.

The firm provides an array of transactional advisory services including sell side representation, debt and equity recapitalizations, strategic planning, and valuation.

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Infusion Acquisition Demand Exceeds Supply: With sustained demand from financially driven and strategic buyers alike, perhaps the greatest limitation to transaction volume in 2008 (and beyond) is the supply of attractive, established, mid-size (\$5-10 million in revenues) acquisition candidates. After a five year run-up in transaction activity, in this relatively small health care service niche where The Braff Group estimates there are less than 1,000 infusion focused providers (compared to, say, the home health arena in which there are more than 10,000), there is simply not enough potential sellers to meet buyers' demand. The good news is that with demand exceeding supply, valuations continue to remain robust. The bad news is that, unlike, again, the home health industry in which there is substantial evidence of numerous new start-ups that will eventually fill the M&A pipeline of the future, we do not sense a surge of new entrants in the home infusion arena (except, we note, where established buyers that would otherwise prefer acquisitions are turning to start-ups to meet their expansion goals). While the rate of new independent start-ups remains to be seen, such a trend could have a dampening effect on M&A activity over the coming years

Legislation Could Plug Medicare Coverage Gaps and Increase Utilization of Home IV: As it relates to home infusion therapy, under the landmark Medicare Part D prescription drug coverage that was initiated in 2006, only the drugs, and not the essential pharmacy, distribution, nursing, and administrative supplies and services, are reimbursed. As such, IV providers can generally not afford to offer these services. Instead, they are provided to patients in substantially more expensive hospitals and other institutional settings at substantially higher and costly reimbursement rates. The industry has long tried to raise both the public's and Congress' awareness of this problem and get legislation enacted to plug this apparent gap in coverage. They may finally be gaining traction.

In October, in an article entitled "As Home IVs Grow, Medicare Patients Miss Out," the *Wall Street Journal* reported on the problem in detail, indicating that a "gap in Medicare coverage is making it harder for older and sicker patients to swap hospital stays for home care" and citing industry research that the 10 year \$1.5 billion it would cost to cover home IV adequately, would be more than offset by an estimated \$7.4 billion in savings it would generate, assuming that 10% of patients being treated at hospitals are, instead, treated at home. Additionally, there are two bills before Congress – Senate Bill 254 and House Bill 574 – that are designed to address these coverage gaps. While similar legislation has been before one or both houses of Congress in the past, under an Obama administration in which health care reform is likely to be a priority – especially if it leads to reduced spending – the industry is more optimistic than ever that the legislation may finally be enacted. And with it, we would anticipate a meaningful boost to utilization.

Specialty Pharmacy Services (SPS)

As **Chart C** indicates, since we began tracking merger and acquisition activity in the specialty pharmacy services sector, we have seen no real peaks or valleys in transaction volume, with the past year being no different. In 2008, The Braff Group identified 13 transactions, three less than that of 2007 but proximal to the average number of deals we have seen over the past seven years



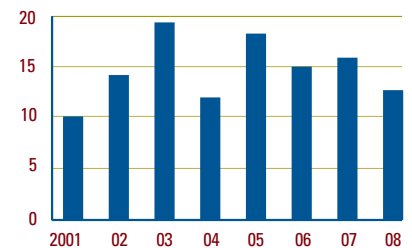
Changing Margins Drive Operating Strategies, Acquisition Interest, and Value: While all pharmacy products and services are under pricing pressure, with its greater revenue enhancing service component, margin compression in home IV has been far less acute than that in many areas of specialty pharmacy. Consider oral oncology medications. While the utilization of oral oncology drugs has led to near stratospheric revenue growth for providers that specialize in this niche, with gross margins often in the single digits, from an M&A perspective, these acquisition candidates can be somewhat risky. With reimbursement changing for specialty drugs all the time – often as a result of increased utilization (and provider revenues and profits) – a high flying drug today can easily become a laggard tomorrow

As such, the operating model for the most attractive specialty pharmacy services provider is changing. Where buyers once targeted – and highly valued – specialists in single product categories, the most sought after SPS acquisition candidates are often those that (a) offer a more diverse array of specialty drugs, (b) have a demonstrated track record of developing and promoting new drug lines, particularly early in their roll-out when margins tend to be at their highest, (c) have forged service driven exclusive relationships with drug manufacturers that limits competition, and (d) have a fully developed operating and sales infrastructure to capture, service, and retain customers across a variety of chronic clinical conditions that may require vastly different drug regimens.

Furthermore, in an effort to boost margins, we are seeing some specialty providers expanding across the service continuum to include specialty infusion and traditional home infusion products and services. We should point out, however, while such a strategy may increase revenues and profits, given (a) the challenges of operating a more diversified service entity and (b) the tendency, at least in the current market, for buyers to target specialty pharmacy, or infusion therapy, (but rarely both), it may not deliver a *proportionate* increase in value.

CHART C:

*Specialty Pharmacy Services
M&A Transaction Trends*



Source: The Braff Group



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The Undisputed Leader in Home Infusion Therapy and Specialty Pharmacy M&A

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