

AGGREGATE PHARMACY SERVICE DEAL VOLUME SLIDES TO LOWEST LEVELS SINCE Q4 2011

As we have reported in the past, after the run up in deal volume toward the end of 2012 (as sellers sought to take advantage of favorable tax treatment set to expire December 31st), we fully anticipated a substantial fall off in the first quarter of 2013. We further anticipated a relatively slow recovery, with deal volumes approaching “normal” levels towards the back end of the year.

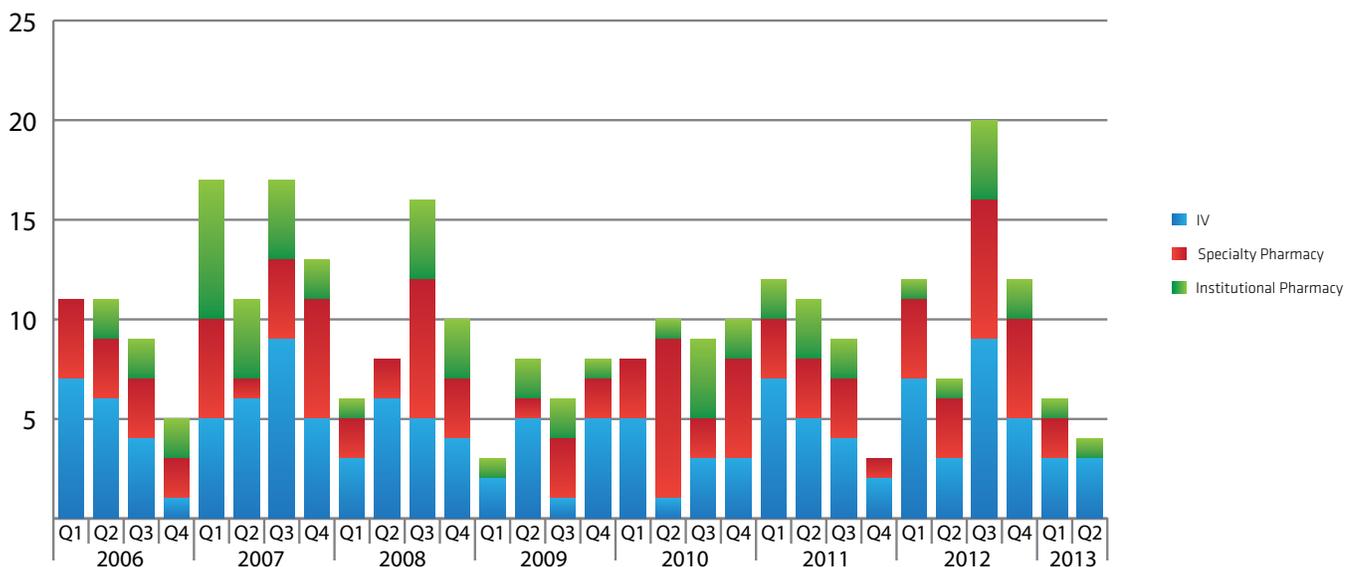
Bearing this in mind, while aggregate transaction volume for home infusion therapy, specialty pharmacy services, and institutional pharmacy slid to its lowest levels since the 4th quarter of 2011, the decline would appear to be part of a malaise being felt throughout the overall mergers and acquisitions environment.

Based upon proprietary data collected and analyzed by The Braff Group, while aggregate **health care service** transactions ticked upwards slightly in the second quarter of 2013, it was still one of the lowest quarterly totals since early 2009 when the recession was in full swing.

Moreover, deal volume for all industries across the US middle market (below \$500M) dipped once again after the first quarter “correction.”

The figures are even more pronounced when we look at private equity trends, which, over the past three quarters look very much like what we have seen in pharmacy services. This is particularly noteworthy given the substantial role private equity has played in pharmacy service consolidation.

Pharmacy Service Deal Trends



Source: The Braff Group

When we add in the fact that there has been little in the way of systemic **changes** in the market that would cause such a tumble (shrinking margins, unsettled health care reform, and shortage of acquisition candidates all impact M&A activity, but they are not unique to the recent past), the takeaway is that there really isn't much to "take away" from the past four quarters of pharmacy service transaction activity, at least in terms of **volume**.

But, in terms of the **nature** of the deals that were completed – that's a different story.

Most notable was the acquisition of private equity sponsored CarePoint Partners by BioScrip, the last in a string of five exits of PE sponsored consolidators that entered the market around the same time. Their collective success not only led a resurgence in home infusion therapy M&A, their exits create a void that will likely draw in new private equity entrants looking to duplicate their experience — and returns. It also put an exclamation point on the

transformation of BioScrip from a specialty pharmacy to a leading, nationwide provider of IV – a strategy we may see other specialty providers consider to offset substantial margin compression. (See our most recent issue of **viewPOINTS** for a more extensive review of this deal and its implications for pharmacy services M&A.)

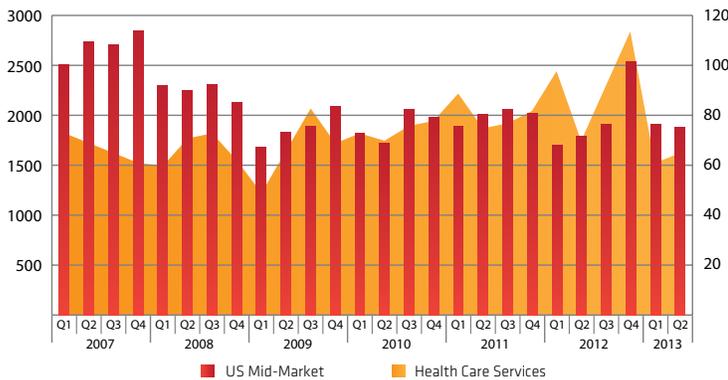
Finally, it's worth noting that almost immediately after a sixth PE sponsored pharmacy service provider exited after an unusually short holding period (presumably because the returns were too attractive to pass up), the same sponsor turned around almost immediately and invested in another specialty infusion opportunity.

So, all things considered, don't read too much into what is now a six month fall off in M&A activity. At least not yet.

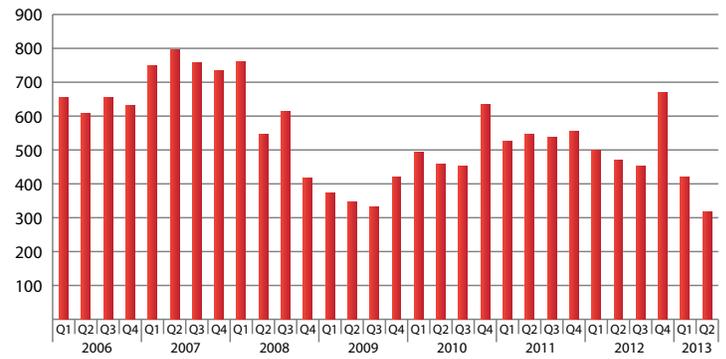
It is not without precedent.

And the deals that have gotten done have been impressive.

US Middle Market Deal Trends – All Sectors



Private Equity Deal Trends for All Industries



THE BRAFF GROUP DIFFERENCE

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