marketWATCH

PHARMACY SERVICES

AMIDST WIDESPREAD DECLINES IN M&A ACTIVITY, RX SERVICES PRODUCES A STRONG Q1

Based upon proprietary mergers and acquisitions data collected and analyzed by The Braff Group, pharmacy services tallied another strong quarter of transaction activity with 12 deals, one tick below the 13 recorded at year end 2013.

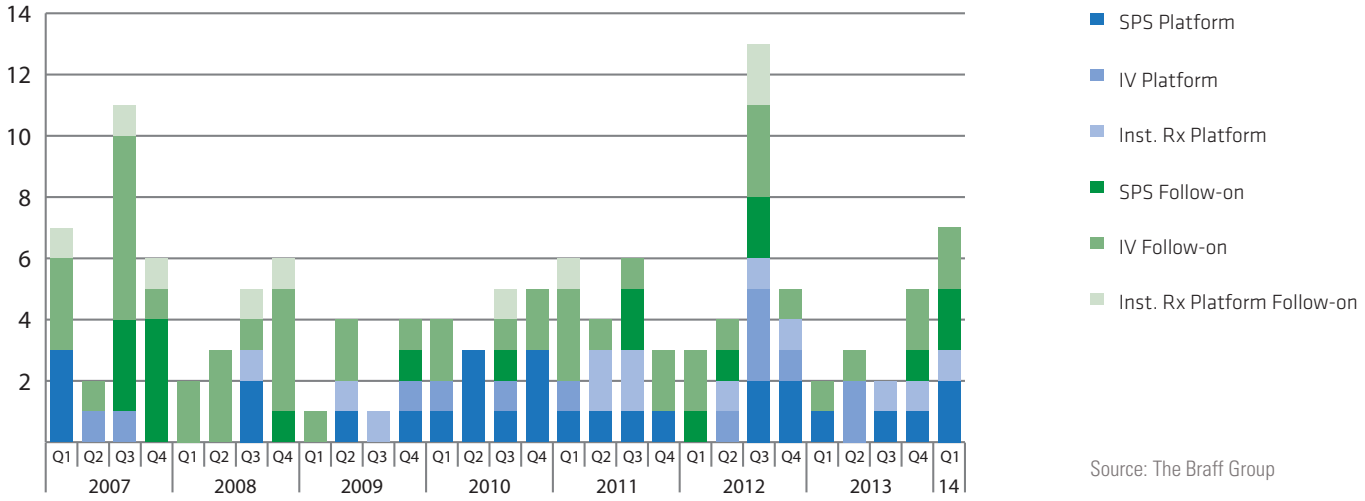
Illustrating continued, unabated long-term enthusiasm for the sector, private equity played a large role during the period, accounting for more than half of the quarter's deal flow. Moreover, of the seven PE sponsored deals, three were new platform, market-entry transactions – deals that will likely produce multiple follow-on acquisitions over a typical, three to seven year investment horizon.

These results are particularly notable in that they run counter to what was experienced virtually across-the-board in M&A circles.

Consider the following:

- **Based upon data collected from Thomson Reuters, overall middle market (below $500M) mergers and acquisitions activity fell 14% in the first quarter of 2014.**
- **According to Pitchbook Platform, a firm that tracks private equity transaction activity, PE deal volume overall fell 7% in Q1.**
- **Based upon our own proprietary data, aggregate deal volume for all of the health care service sectors that we track (behavioral health and social services, home health care, hospice, pharmacy services, home medical equipment, and health care staffing) fell 20%, from 99 deals in Q4 to 79 in the first quarter of this year.**
- **Similarly, our data shows that private equity investment activity in Q1 across all these sectors fell 13%.**

Private Equity Investments in RX Services



Source: The Braff Group

While we'd love to proffer some compelling insight to explain this widely felt downturn, the fact of the matter is that, beyond some strained and pained parsing of largely anecdotal observations, there is simply little out there to decode the malaise.

In fact, there is far more evidence to predict an upswing than there is to explain a downturn:

We have a rocking stock market with seemingly no end in sight. Gads of private equity money sitting around un-invested and just waiting to produce Wolf of Wall Street like returns. Debt markets that are opening up to levels that we haven't seen since the market melt-down in 2008. And giddy optimism that values technology companies with zero revenues at billions of dollars.

That's why the conventional wisdom among M&A observers is that despite a sluggish start, market conditions are increasingly ripe for a strong year. Conditions, we might add, that also bode well for the pharmacy services niche.

Deals of Note

There we several deals completed during the quarter that reflect wider investment themes in health care services.

First, we note **Home Solutions Infusion Therapy's acquisition of the home infusion therapy division of Riverside Health System.** In a soon to be published article by The Braff Group entitled ***Emerging Health Care Trends Begin to Upend Traditional M&A Strategies,*** we note the increasing frequency of joint equity transactions between hospitals and post-acute providers. "In doing so, acute care providers, which tend to struggle in managing post-acute endeavors, gain a partner that can shore up operations, generate revenue enhancing and cost-reducing synergies, and turn deficits into surpluses. Moreover, under such an arrangement, [the hospitals] remain well positioned to seamlessly route patients to [post-acute providers], as appropriate, to an existing or planned accountable care organization (ACO) or other coordinated care program." While this transaction does not appear to be an equity sharing arrangement between the parties, we surmise that at least some of rationale for the transaction is rooted in similar thinking. Furthermore, in the piece we note that there are far fewer of these kinds of deals in the pharmacy services arena. Here, then, is a notable and interesting exception.

Second, **Nautic Partners' acquisition of QoL Meds** caught our eye for two reasons. The deal was yet another platform acquisition by a PE sponsor in the specialty pharmacy/institutional Rx space. Perhaps, even more noteworthy, QoL focuses on providing prescriptions management and services to the mental health community – a subsector of behavioral health care, which is arguably the most vibrant space in health care services M&A. **Two premium markets in one transaction.**

Finally, from a somewhat different perspective, we reflect on **BioScrip's divestiture of Deaconess Homecare to LHC Group**. Deaconess was a large, regional provider of both home infusion therapy and home health care. In 2007, Critical Homecare Solutions, a PE sponsored consolidator of IV companies, acquired Deaconess primarily for its attractive infusion operations. However, the firm decided to hold onto to its home health business because of its profitability. When BioScrip acquired CHS in 2010, it did so as part of a strategic transformation from a specialty pharmacy company to one focused on home infusion therapy. And, like CHS before it, BioScrip decided to hold on to the lucrative Deaconess homecare assets. Finally, in February of this year, amidst tightening margins and growing administrative burdens, BioScrip decided to divest the Deaconess homecare division to LHC Group, a publicly traded provider of home health care. BioScrip becomes an even purer-play infusion therapy provider, and Deaconess Homecare completes the final leg in a multi-step M&A journey.

What a long, strange, trip M&A can be.

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