the braff group

marketWATCH

PHARMACY SERVICES

PHARMACY SERVICES DEAL VOLUME MIRRORS A CONTINUED SLIDE IN HEALTH CARE M&A

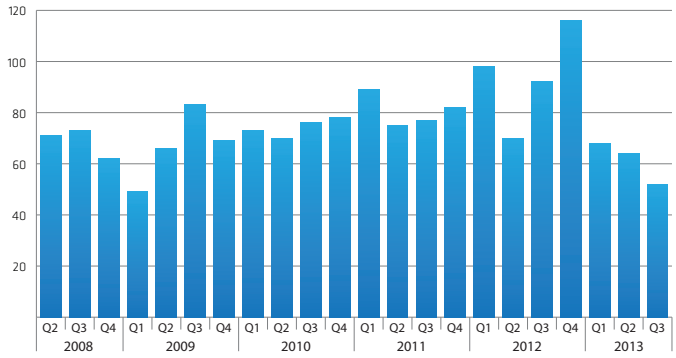
Across all health care sectors in aggregate, the first nine months of mergers and acquisitions activity in 2013 have been pretty bleak. Based upon proprietary data collected and analyzed by The Braff Group, after the tax incentive inspired surge in activity at the end of 2012, we have seen deal flow slide for three consecutive quarters, closing out Q3 2013 at the lowest levels since the first quarter of 2009. While private equity investment in all industries is generally down from a year ago, it has, more or less, leveled off. Not so in the health care service sectors we cover, where PE sponsored deal activity has plunged to its lowest level since the second quarter of 2010. Moreover, according to Thomson Reuters, over the first three quarters of the year, the aggregate M&A value of all health care transactions (including pharmaceuticals, medical devices, senior housing, etc.) has fallen 65%.

Not surprisingly, the conventional wisdom is that the "across-the-board" plunge is due to the extraordinary uncertainty regarding the initiation of health care reform. This is undoubtedly true. However, there is almost certainly another factor at work here.

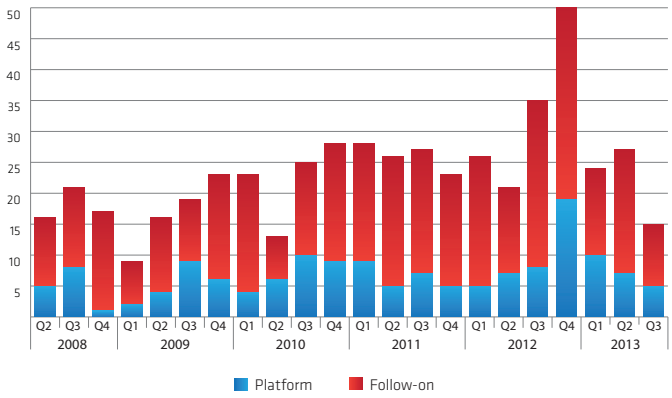
Distraction.

As The Braff Group vividly illustrated in its analysis of investment trends, pre- and post-technology bubble of 2001, health care investment tends to run counter to technology. When technology is down, stock market and corporate buy-out money rushes to comparatively safer, demand resistant, health care vehicles. But, when technology is up, the market becomes all a-twitter (pun intended) about the latest "billion dollar opportunity du jour." Even though the majority of these opportunities turned into "quicksilver" (remember pets.com, etoys, webvan?), the rush is on once again to chase the likes of twitter and its spawn, which has likely siphoned off some M&A demand in health care services.

All Health Care Services Deal Trends



Private Equity Investment in Health Care Services



Source: The Braff Group

This may be particularly so in pharmacy services.

Again, based upon proprietary transactional data amassed by The Braff Group and presented in the chart below, there is remarkable correlation between private equity sponsored investment in pharmacy services and aggregate sector deal volume. This illustrates quite clearly that private equity has been a driving force in the pharmacy arena. Where private equity goes, so does pharmacy services M&A. And, when a company like Snapchat, which has no revenues, reportedly turns down an all cash buy-out offer from Facebook for $3 billion, we should not be surprised to see a whipsaw-like head turn from the megatrends of pharmacy, to the mega-valuations of technology – at least temporarily.

The good news is that "long view" money will always be in health care, especially when there are opportunities to capitalize on market disruptions such as health care reform.

So, as fast as you can say "Myspace," we suspect these investors will be back.

Specialty Rx, in under 100 words. Speaking of megatrends, we note an article that recently appeared in the New York Times that sums up the yin-yang trajectory of specialty pharmacy. In an article on treatment options for hepatitis C, the Times highlighted what many providers have long known, and have eagerly awaited.

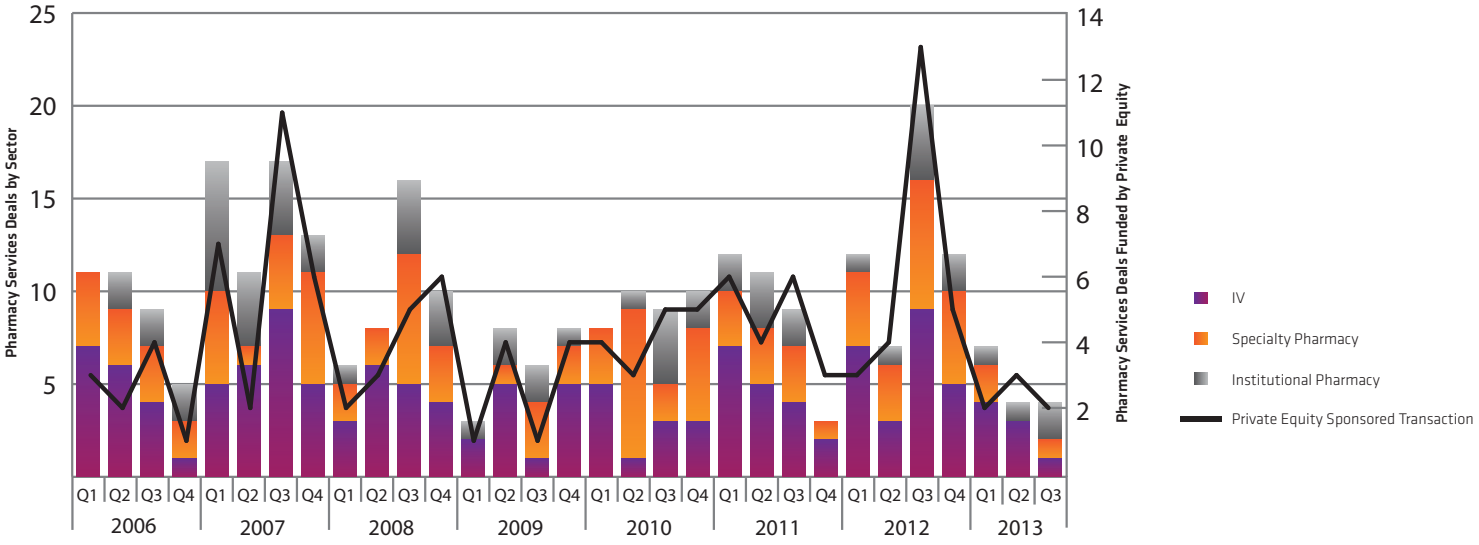
"Over the next three years, starting within the next few weeks, new drugs are expected to come to market that will cure most patients with the [hepatitis c], in some cases with a once-a-day pill taken for as little as eight weeks, and with only minimal side effects. But the new drugs are expected to cost from $60,000 to more than $100,000 for a course of treatment. Access could be a problem…"

Enormous opportunities…at enormous costs. A delicate balance that will continue to define the economics of Specialty Rx.

Score one for Infusion Therapy. One final observation of note. Effective October 13, 2013, Blue Cross Blue Shield plans will no longer require the "who's on first" routine of first obtaining a denial from Medicare for items that are readily known not to be covered, before submitting the claim to BCBS.

Hmmmm.

Pharmacy Services Deal Trends



Source: The Braff Group

Call us to see how we can put our experience to work for you.

Chuck Gaetano	Reg Blackburn	Ted Jordan	Mark A. Kulik	Nancy Weisling	Pat Clifford	Bob Leonard	Steven Braff
Atlanta	Atlanta	Atlanta	Atlanta	Chicago	Chicago	Ft. Lauderdale	Palm Springs
888-723-9263	866-455-9198	888-290-7080	888-922-1838	888-290-7237	888-922-1834	888-922-1836	888-922-1833