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# SPECIALTY PHARMACY NEWS

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## M&A Activity in SP, Home Infusion Forecast to Remain Strong in 2007

Although mergers and acquisitions activity in both specialty pharmacy (SP) and home infusion declined slightly last year from the 2005 levels, the M&A market in these sectors remains strong, according to one expert. And private-equity groups will continue their expansions into these industries, especially in home infusion, he adds.

The fourth quarter of 2006 saw two M&A deals in SP, compared with seven during the year-ago period, according to M&A consultant The Braff Group (see table below). So far the firm has counted 15 deals in 2006, down from 18 in the prior year. Dexter Braff, president of The Braff Group, tells *SPN* that by midyear, the company may find a few more transactions that happened last year and have not been counted yet. The home infusion industry had one M&A deal in the fourth quarter of 2006, compared with two in the year-ago period, according to Braff. There were 16 home infusion deals in 2006, versus 17 in the prior year. When both categories are totaled, their 31 transactions in 2006 represent an 11% decline from the 35 that occurred in 2005.

Braff maintains that even though the deal volume "in terms of raw numbers" is down, the M&A market in these two industries remains strong. "The numbers are too small to draw any real differences between 2006 and 2005," says Braff. "While the numbers are down slightly, in reality we see 2006 being pretty much a mirror image to 2005, which was an extremely strong year."

Expect "more of the same" for 2007, with about 15 to 20 deals in SP and an "uptick" in home infusion, predicts Braff. "We are seeing the results of more investors creating critical mass in the home infusion arena, upon which they will layer on additional transactions," he says. Private-equity groups used 2005 and 2006 to create a foundation in the marketplace, Braff explains, and their next steps are secondary acquisitions and/or start-ups. These companies are entering that portion of their plans, "so anticipate an uptick being driven by buyers that weren't previously in their development portion of their strategies," he adds.

The sustainability of this interest by private-equity groups remains high for two reasons, says Braff:

**(1) Margins are relatively predictable.** Although SP and home infusion are funded by some government programs, private insurance generally covers the majority of

the services, he says. From a reimbursement standpoint, it is a fairly efficient market, in which margins are relatively predictable, he adds. "Investors are not looking at a sector where strokes of pens can take healthy business models and all of a sudden put them on death's door....Sustainability and predictability are crucial."

**(2) There is an exodus of interest from other segments,** especially the home medical equipment and respiratory sectors. Braff contends that enthusiasm around the home health arena has "pushed up prices so high," and that there is a "subtle backlash against the extraordinary premiums that home health care providers have been receiving." Investors interested in home care services wish to enter the market with valuations that are not as high as those in home health care, he says.

One firm to watch is Critical Homecare Solutions, Inc. (CHS), says Braff. The private-equity group Kohlberg & Co., LLC financed the development of CHS and is "investing money with an idea of creating a very sizable home infusion therapy company." Kohlberg was behind the consolidation of home medical equipment companies under the name American Homecare Supply, LLC, which it divested to Air Products and Chemicals, Inc. in 2002 (*SPN 11/06, p. 5*).

CHS CEO Bob Cucuel told *SPN* on Jan. 23 that the firm acquired Deaconess HomeCare Inc. a few weeks ago for an undisclosed amount. DHC is an infusion therapy provider, private-duty nursing and home health agency with locations throughout the Midwest and south-central U.S., and ranks among the top 10 largest private or publicly held home care corporations in the nation based on revenues, says Cucuel. According to its Web site, the firm employs more than 2,500 people. "We saw a very solid platform and a great company with growth opportunities and a fantastic management team," he says.

Since its inception in 2006, CHS acquired Specialty Pharma, Inc. and New England Home Therapies last September, adds Cucuel. The firm will continue its growth and development this year and beyond, he says. "We're looking to become a \$250 to \$300 million home infusion therapy provider predominantly east of the Mississippi," he says. "We will build through acquisitions and *de novo* start-up locations and will have coverage throughout the eastern U.S." Cucuel adds that CHS will have sites in Texas with the DHC union.

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**Not Much Impact From Caremark/CVS Merger**

The proposed merger of Caremark Rx, Inc. and CVS Corp. would not likely have a significant impact on the specialty pharmacy and home infusion industries, Braff tells *SPN*. "If there is any fallout at all, it's going to come from the specialty pharmacy side," he says. CVS will have the ability to focus attention on mail-order-type prescriptions and then divert those services to its SP, PharmaCare Specialty Pharmacy, explains Braff. "From that perspective it creates more buying power and control of lives," he adds.

For home infusion providers, "that's the area where PBMs [pharmacy benefit managers] can't really address,"

says Braff. They offer a "higher intervention type of service" that is outside the parameters of PBMs, and that is how they have maintained their "niche status within the pharmacy distribution paradigm," he says.

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