
SPECIALTY PHARMACY NEWS

In Bid to Broaden Services Across Care Continuum, BioScrip Says It Will Buy CHS

One of the largest independent specialty pharmacy services providers has signed an agreement to acquire a home health company in a deal that industry sources say will result in a company well-suited for the future. BioScrip, Inc. said Jan. 25 that it will pay \$343.2 million in cash and stock for Critical Homecare Solutions (CHS), which is owned by Kohlberg & Co., a private-equity group. The companies expect the deal to close by the end of March.

In its most recent earnings report, BioScrip said it had net income for the nine months ending Sept. 30, 2009, of \$13.4 million, or 34 cents per share. Revenue for the same period was \$988.0 million. BioScrip says that CHS generated net revenue of about \$252.0 million in the 12-month period ending Sept. 30, 2009.

CHS brings "specialty and home care setting expertise" to BioScrip, says F. Randy Vogenberg, Ph.D., co-founder of pharmaceutical consulting firm Employer-based Pharmaceutical Strategies, LLC. CHS "broadens their service profile and competencies as the market moves more towards specialty products and personalized medicine."

According to Dexter Braff, president of The Braff Group, a health care mergers and acquisitions company, CHS "is one of the — if not the — largest independent non-publicly traded infusion companies available." Such a company is a "rare asset" for "people looking to establish a quick footprint into home infusion therapy"

"These opportunities don't come around that often," says Russell Gay, principal with 2020 ConsultRx, LLC, a health care investment consulting firm. "I think for the direction that I believe BioScrip wants to head, it's really the only opportunity out there." Bill Sullivan, principal consultant for Specialty Pharmacy Solutions LLC, agrees. "There are few midsized providers like CHS left in the market, which makes them more attractive. It takes a lot of work to stitch together many small operators into a seamless service offering," as CHS has done.

Founded in 2006 when Kohlberg purchased a pair of midsized infusion providers, CHS offers specialized and traditional home health care services. The company has made numerous acquisitions of specialty pharma-

cies, infusion providers, and home health care and hospice firms since its inception and now has 68 branch and satellite locations. In 2008, MBF Healthcare Acquisitions was poised to buy CHS (*SPN 9/08, p. 12*), but the deal fell through.

BioScrip President and Chief Operating Officer Rick Smith tells *SPN* that by adding CHS's infusion pharmacies to BioScrip's nine owned and 17 affiliated infusion pharmacies, the company now will have 61 total. The deal "will allow us to leverage our managed care relationships," he says. In particular, BioScrip will be able to more fully service UnitedHealthcare members through a national agreement the companies have.

"We've primarily grown up as a specialty pharmacy" whose home infusion division offers a lot of chronic therapies such as intravenous immune globulin, says Smith. CHS brings more of a concentration of traditional home infusion drugs, such as anti-infectives and nutrition therapies, he explains. The combination of the companies' competencies means more capacity to treat both chronic and acute episodes. "We'll increase our ability to offer services across the care continuum," he maintains.

CHS also brings 450 direct payer relationships, and most of those contracts have existed for some time, he adds. This gives BioScrip "great opportunities to expand our relationships with those companies, as well as opportunities to cross-sell our specialty pharmacy capabilities," Smith says.

However, Elan Rubinstein, Pharm.D., founder and principal of consulting firm EB Rubinstein Associates, cautions that while BioScrip says it has "access to" these payer relationships, that is not necessarily meaningful. As evidence, he points to another specialty pharmacy he worked with in a similar situation that said the same thing, but the "relationship was responsible for zero patient volume, as far as I know."

Nevertheless, Nick Opalich, consultant with Strategica Health Care Solutions, contends that the CHS acquisition is good for BioScrip because "in the specialty pharmacy and home infusion sectors, it's all about contracts, contracts and contracts. Contracts are the result of location, access, clinical services and the ability to grow revenue and take cost out."

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Because infusion services and pharmacy services are contracted separately, "most likely, CHS can submit for infusion services under the medical benefit and may not be able to submit a pharmacy claim at all," says Sullivan. "Nonetheless, having a contractual relationship with a payer is better than none at all, so these contracts could be door openers to a pharmacy contract to enable them to submit pharmacy claims for specialty products."

Opalich notes that in addition to the 35 infusion pharmacies that CHS brings, it also has 33 nursing locations. Through BioScrip's "inherent ability to leverage a cross-sell approach on a national basis...the company can better serve the local physician and payer community on an expanded geographic level." That ability is critical, he maintains, because of the importance of providing services for in-office physician administration of infusible and injectable drugs. "This sector is under tremendous reimbursement pressure, as physicians have realized that the profit on the drug is inadequate to cash flow their practice," Opalich tells *SPN*. "Approximately 50% of the total annual specialty drug spend occurs in this sector."

Will Therapies Shift to Patients' Homes?

Whether these infused therapies can be shifted to the patient home will be a large part of the success of this deal, says Rubinstein. Many payers reimburse on an average sales price-based model, and although it may be insufficient for physicians, "BioScrip and other specialty pharmacies can do nicely on ASP+ reimbursement," he tells *SPN*.

Smith also points out that the pharmaceutical pipeline has drugs with a mix of administration routes — oral, injectable and infusible — but that "a significant number need [to be] infused, which requires alternate sites of administration and high-touch nursing capabilities. This positions us well," he says. Furthermore, "home infusion is the most cost-efficient site of treatment," as well as being safe and clinically sound, he says. With all of the focus on making health care services more affordable without sacrificing quality, this also puts BioScrip in a good situation, he contends.

Ultimately, says Braff, if BioScrip "commits to developing their nursing footprint to provide a comprehensive platform," this could give them a competitive advantage, as this sort of patient management is not typically seen among similar companies.

Deal Could Help With Limited Distribution

Another benefit could come in the form of limited-distribution deals with manufacturers, Gay tells *SPN*. "BioScrip was looking for a national platform, because you can't be a preferred provider for a national health plan without one." With many specialty drugs avail-

able only through limited-distribution arrangements, a national offering will help the company secure more of these deals, he maintains. And while the company already had a solid injectables platform, it really needed to shore up its focus on infusibles for therapies such as oncology drugs, he says.

Geography also played a role in the deal, as the CHS facilities in 22 states in the Northeast, mid-Atlantic, Southeast and Midwest regions give BioScrip a concentrated East Coast market.

"BioScrip made consistent, measurable progress since the merger with Chronimed in 2005," says Opalich. "The company painstakingly rebuilt its core specialty infusion business quarter by quarter. When the company believed it was ready to renew growth in the infusion sector, it brought in a veteran infusion professional to serve as its president and chief operating officer," he says of Smith, who was appointed to the positions in late 2008.

BioScrip has hit a couple of rough patches over the years, most notably when it signed on as the only provider for the Medicare Part B Competitive Acquisition Program (CAP), an alternative to the buy-and-bill model for reimbursement of physician-administered drugs (*SPN 5/06, p. 1*). The program was plagued with problems from its July 1, 2006, start. When faced with the option of re-signing a contract for the second phase starting Jan. 1, 2009, BioScrip declined, citing an "unacceptable profit risk" (*SPN 8/08, p. 1*). Following that decision and what CMS called "contractual issues with the successful bidders," the agency postponed the program (*SPN 10/08, p. 1*), which is mandated by the 2003 Medicare reform law. CAP has yet to restart.

BioScrip, however, is moving forward, focused on integrating CHS. Smith contends that the companies form a "nice complementary fit. We envision the number of employees at the field level will stay, and we will have a field sales force of 140, up from the 50 we have today. This will give us strong competitive positioning." Accounting and human resources departments are expected to stay largely intact as well. "We'll leverage their strengths with our strengths," he says.

But when it comes to corporate positions, some of the people at CHS will move on because they are in jobs that are redundant with positions at BioScrip, says Smith. "We've spent the last year adding a very strong, seasoned team from the industry." CHS President and CEO Bob Cucuel "will be available to us for two years after closing," Smith says. "We're now talking about what his role would be." Cucuel was previously president and CEO of another Kohlberg company, American Homecare Supply, LLC, subsequently known as Air Products Healthcare, which the firm sold in 2002. "Suc-

cess follows success," says Braff of Cucuel, who notes that CHS marks Kohlberg's second acquisition and flip in home health care.

Smith says that Kohlberg will comprise 24% of BioScrip's shareholder group and that two people from Kohlberg will join BioScrip's board of directors. Kohlberg "has a good track record in terms of things it's done before," asserts Braff. In an acquisition, "the nature of the investor group is not insignificant."

For now, says Smith, "the focus is on getting integrated," a process that "should go pretty smoothly" because the companies have the same IT and clinical management systems. "We have 600 line items on our integration plan that we're coordinating across multiple

groups," he says. Because the companies aren't merging, moving or shutting down any locations, "we don't anticipate any disruptions."

"Suddenly BioScrip is emerging as not a regional player but as a national player," observes Gay. And "who would have thought it" following the CAP debacle?

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CHS's Locations Have Geographic Significance

BioScrip, Inc.'s planned purchase of Critical Homecare Solutions (CHS) would give the specialty pharmacy services provider a concentration of companies east of the Mississippi River. This area offers a couple of advantages, contend industry insiders.

CHS facilities are located in 22 states in the Northeast, mid-Atlantic, Southeast and Midwest regions. "There is a shortage of strong infusion providers, and the mid-Atlantic area is particularly vulnerable...because the players are always changing," says Russell Gay, principal with 2020 ConsultRx, LLC, a health care investment consulting firm. In addition, CHS's focus on a smaller area was smart because "there can be no efficiencies and no critical mass with disparate locations," contends Dexter Braff, president of The Braff Group, a health care mergers and acquisitions company. "When you're doing a consolidation play, you've got to be careful about having lots of dots on a very diverse map."

These locations are also significant because "there is a high concentration of the U.S. population in the areas CHS is in," BioScrip President and Chief Operating Officer Rick Smith tells *SPN*. "We hope to be a stronger partner with a greater local reach in a lot of these markets." And while this aspect might not be as important for specialty pharmacy firms, "with home infusion therapy, companies need a physical, local footprint," says Braff. "CHS allows BioScrip to do that."

However, according to Bill Sullivan, principal consultant for Specialty Pharmacy Solutions LLC, "By comparison to other 'national' specialty pharmacies, BioScrip had a large gap in their service offering by not having a comprehensive infusion solution. CHS only offers them a partial solution. A look at CHS's service area map clearly shows that less than half the country is covered by CHS locations."

For BioScrip, though, CHS is not the final piece of its acquisition plan. According to Smith, by increasing its concentration of stores in the eastern half of the U.S., this will allow the company to focus future expansion efforts on the West Coast and Rocky Mountain areas, he says.

That BioScrip has focused its consolidation efforts on the East Coast and will now look to the West comes as no surprise to Braff. "Consolidation strategies always move east to west" with home health care organizations. Companies first focus on states in the eastern part of the U.S., where there are "concentrations of elderly and population density." Then they focus on the Great Lakes states to achieve critical mass, he says. Following that, they "leap over the square states and go into the Western states. You can almost watch all consolidation strategies do this," he tells *SPN*.

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