
SPECIALTY PHARMACY NEWS

Outlook 2008

Mixed Outlook Seen for M&A Activity in SP, Home Infusion

Mergers and acquisitions (M&A) activity in the home infusion sector was more robust than it was in the specialty pharmacy industry for 2007, and most industry insiders expect the trend essentially to continue for 2008.

Although health care M&A company The Braff Group is still tallying deals from the past year, President Dexter Braff contends that "2007 will be a record-breaking year" with M&A activity in home infusion. And, he says, "2008 should equal or surpass 2007 in terms of the deal volume and activity." He adds that even after industry activity slows, "I don't think [infusion therapy] will go away. It has relatively long legs."

"I don't think the pace of acquisitions slows down" this year, says National Home Infusion Association Executive Director Russ Bodoff. "The dramatic changes of the past few months will carry into 2008." Due to factors such as the demographics of the aging population and the rich pipeline of infusion drugs, "a lot of folks are seeing the potential in the home infusion area," he says. Because "the largest players have all been involved" in deals so far, "we may see more smaller, regional acquisitions taking place," predicts Bodoff.

Investors Are Still Excited About Home Infusion

Continuing with the theme from 2007, "the investment community is still very excited about infusion therapy" for two reasons, according to Braff. First, home infusion companies themselves have "the opportunity for growth and the ability to sustain stronger, long-lasting margins." This quality, he says, contrasts with the specialty pharmacy industry, in which companies will usually see high margins for therapies for only a limited time. Second, a home infusion company may offer companies an "entry into the home care arena." Because the industry is not dependent upon Medicare reimbursement to a large extent, it has not suffered some of the problems seen in other home care areas.

What makes the home infusion sector interesting, says Braff, is that attention is coming from multiple strategic points — private equity, other infusion therapy companies and broader home care companies (*SPN 11/07, p. 1*). "This is a really strong signal for a healthy mergers and acquisitions market that has a broad base," he says.

Braff, however, says he is "not sure where the specialty pharmacy market is heading. I've seen a lot more

enthusiasm around it for many years." That enthusiasm, though, "seemed to shift from specialty pharmacy to traditional home infusion. We're seeing deals [in specialty pharmacy], but not unbridled enthusiasm."

The lukewarm response to specialty pharmacy is "largely a function of [profit] margin compression," asserts Braff, as "private payers clamp down on reimbursement. It didn't help that Tysabri didn't take off. And IVIG [i.e., intravenous immunoglobulin] and Synagis reimbursement were skinned down."

Still, he says, there is activity in that sector. And "a lot of mergers and acquisitions activity has a lot to do with intangible frenzy, desire, enthusiasm, momentum. It's a qualitative thing.... An observer of the mergers and acquisitions market would be well advised to watch for emotion and enthusiasm."

Oral Oncology Firms Are Gaining Traction

One area that Braff says has "seen some interesting activity" is among "certain providers in the area of oral oncology" (see story, p. 1). Some companies were "quadrupling in size" over the past year. Because of thin margins in this area, he says, a company must be efficient. Nevertheless, says Braff, "quite a few companies have gained market traction" and could see "enormous growth."

Mark Armstrong, a senior attorney in Houston with Squire, Sanders & Dempsey, LLP, says he expects to see more consolidation in the specialty pharmacy industry — and, consequently, more concern on the part of manufacturers, who are raising "a lot of questions as to the distribution of specialty pharmacy" drugs. Consolidation of specialty pharmacies with wholesalers — most recently seen in McKesson Corp.'s acquisition of Oncology Therapeutics Network (*SPN 11/07, p. 1*) — with other wholesalers following suit has been of particular concern to some drug companies, he maintains.

However, Kevin Gorman, managing partner and founder of Putnam Associates, a pharmaceutical and biotech consulting firm, says that "we will see a lot of digestion take place rather than a lot of acquiring" in 2008. Companies may be looking to "fill in holes" in their capabilities, he says. "We've gone through a few years of binging. Now it's time to digest and 'right size' organizations."

Although many of the larger companies acquiring smaller specialty pharmacies "are not doing anything to disrupt their services and are keeping their core compe-

tencies," says Debbie Stern, vice president of managed care consultant Rxpert, "if the care and quality start to decline, a new provider will pop up and compete with them. In the specialty pharmacy arena, as PBMs purchase major specialty pharmacies, there have been issues of service levels declining. New specialty pharmacies" continue to launch, many with an emphasis on "unique niche capabilities," she says. And while "one-stop shopping with PBMs is easiest for smaller companies...larger plans have the ability, staff and structure to support small providers."

There will always be a place for smaller providers, asserts Braff, who points to the home medical equipment

industry, in which providers have been consolidating for 20 years, and "there are still strong local, independent providers." He adds that there "likely will be more independent providers cropping up, new entrants with an entrepreneurial spirit. A strong, vigorous mergers and acquisitions market creates competition," which is good because capital is available, as are exit opportunities, Braff says.

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