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# SPECIALTY PHARMACY NEWS

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## With Eye on Pharma Pipeline, Walgreens Purchases Express Scripts Infusion Unit

At a time when specialty pharmacy providers are making sure they are able to manage the huge amount of infusibles in the pharmaceutical pipeline, one company continues to increase its presence in home infusion, while another continues to buck this industry trend and instead focus on its PBM and specialty pharmacy.

On June 10, Express Scripts, Inc. said that it was selling its subsidiary CuraScript Infusion Pharmacy, Inc. to OptionCare Enterprises, Inc., a Walgreen Co. subsidiary. And if the deal has a sense of déjà vu, it should, as this wasn't the first time the PBM has shed its infusion division. In fact, in 2001, Express Scripts sold its then-infusion unit — to OptionCare.

The new deal was completed July 1. Walgreens did not disclose the terms of the agreement.

Express Scripts, though, wasn't done with this transaction. Three days after announcing the infusion deal, it unveiled an agreement it had made to purchase the workers' compensation-focused Pharmacy Services Division of Medical Services Company (MSC). Through the agreement, which was made with private-equity firm Monitor Clipper Partners, Express Scripts will acquire MSC's pharmacy and ancillary units. The companies also entered into a cooperative marketing agreement.

The firms did not release any terms of the agreement, and Express Scripts says the deal should close after the Hart-Scott-Rodino Act waiting period expires.

Express Scripts tells *SPN* that it has no comment on the deals beyond the press releases it has issued on them. A Walgreens spokesperson tells *SPN* that the company was focused on its recently made quarterly earnings announcement and was not able to respond to questions on the acquisition by *SPN* press time.

### Been There, Done That

In selling its infusion pharmacy, Express Scripts "has been down this path before," notes Dexter Braff, president of The Braff Group, a health care mergers and acquisitions company. In 2001, the PBM sold Express Scripts Infusion Services to OptionCare, discontinuing its acute home infusion business.

Then in early 2004, Express Scripts acquired CuraScript (*SPN* 3/04, p. 5). That same year, Priority Healthcare Corp. acquired Integrity Healthcare Services (*SPN* 7/04, p. 1). And in 2005, Express Scripts purchased Priority and combined it with the CuraScript business (*SPN* 8/05, p. 1). Headquartered in Louisville, KY, with 12 infusion pharmacies across six states, Integrity became CuraScript Infusion Pharmacy after the Priority deal, bringing another infusion unit to Express Scripts.

That Express Scripts sold its infusion division, which had revenues of \$104.2 million in 2007, was certainly no surprise. After determining that "the infusion business was not a strategic fit with our core PBM and specialty pharmacy operations," according to President, CEO and Chairman George Paz, the PBM classified that business as a discontinued operation during the fourth quarter of 2007. In its Form 10-Q filed with the Securities and Exchange Commission (SEC) for first-quarter 2008, the company reported a net loss of \$1.1 million for the division.

"While we are not insiders to the transaction, it is our understanding that the company was experiencing some financial challenges, which would be consistent with the notion that they designated it as a discontinued operation earlier this year," says Braff. At the end of the day, he says, the firm "has played in the infusion therapy arena before. They didn't like it before, and they don't like it now."

Braff points to an industry continuum by which PBMs can move into the specialty pharmacy arena, and then from there can move into the home infusion arena. But they can't move from being a PBM to being a home infusion pharmacy. "We've seen providers successfully move one degree of separation," he says, as in when Express Scripts moved into specialty pharmacy or when a specialty pharmacy provider expands into home infusion. But "there are two degrees of separation" between PBMs and home infusion companies, he says. So while such a move "is not impossible, it is not an area where people find a great deal of success," he says.

Express Scripts "is clearly bucking the tide in their decision to divest their remaining infusion locations around the country," says Bill Sullivan, founder and principal consultant with Specialty Pharmacy Solu-

tions LLC. "They must see something that the rest of the specialty pharmacy market doesn't."

Still, he tells *SPN*, "unlike Walgreens, which has been strategically building a specialty infusion core for more than four years, Express Scripts appears ready to run with a classic specialty pharmacy model — *sans* infusion."

The PBM is "extraordinarily efficient in distributing specialty drugs with its big call centers," says Braff. Home infusion care is "not their business. They are much more transactional, process people, not clinical caregivers." High-touch care is "inefficient for them," he says. "It involves things that don't come easy. But this is also the reason why people are interested in infusion therapy. There are real margins here, but you need a human component, a high-touch approach." And according to data from consulting firm BioMedical Insights, Inc., of the 101 unique biopharmaceuticals in late-stage development in the U.S., about 70% will require administration by a health care provider.

"Express Scripts is unique and can run a sustainable specialty pharmacy-only model for a couple of important reasons," maintains Sullivan. "First, the CuraScript specialty pharmacy hopper is replenished regularly due to the millions of lives that the PBM generates, and second, they continue to win limited-distribution deals for big-ticket specialty drugs. [This is] a smart way to control both supply and demand."

The deal follows numerous acquisitions by Walgreens over the last few years, punctuated by the \$850 million purchase of specialty pharmacy and home infusion heavyweight OptionCare last September (*SPN* 8/07, p. 1). That deal put Walgreens in contention for the No. 2 position in the home infusion industry behind Coram, Inc., which was purchased by home medical equipment provider Apria Healthcare Group Inc. only a few months after the OptionCare acquisition (*SPN* 11/07, p. 1). At the Sanford C. Bernstein & Co. Strategic Decisions Conference on May 28, Walgreens Chairman and CEO Jeffrey Rein said that the company would be in the No. 1 position in the home infusion industry "pretty soon."

During a May 23 conference call to discuss third-quarter 2008 earnings, Walgreens President Greg Was-

son said that with the CuraScript deal, the company will have almost 100 home infusion locations in more than 30 states. Braff says he would consider the new infusion pharmacies' locations — Kentucky, Ohio, Indiana, Missouri, Alabama and Tennessee — to be "strong states" for infusion. "In general, they have a pretty stable elderly population" and are "moving in the direction of higher utilization." The deal will provide OptionCare with "a nice core of folks," and the area "is not as inundated with competitors as you see in other areas," such as the mid-Atlantic, he adds.

In Express Scripts' 2008 Form 10-K, filed with the SEC and released in February, the company said that the infusion division recorded revenues of \$23.6 million in 2005, \$106.0 million in 2006 and \$104.2 million in 2007. This size transaction is "pretty big — not everyone can acquire" a company of this size, Braff says.

Walgreens, he says, could "leverage its infrastructure" to make the infusion pharmacy "more viable" by "wiping out lots of corporate overhead." He adds that "Walgreens' interest in growing its core infusion business is very high."

And while the infusion industry has seen a lot of interest from private-equity groups over the past couple of years (*SPN* 11/07, p. 5), this "would not have been a good initial acquisition" for such a company, which is looking for "operational infrastructure," he explains. "This would make for a difficult deal for a private-equity group."

The fact that Walgreens has made a number of deals in this industry recently will help with the incorporation. While such deals are "not rocket science, they are equally not easy," Braff asserts. Walgreens is "committed to the infusion therapy arena, and their experience has made them a lot more confident to look at something with some challenges."

The bottom line, says Sullivan, is that "infusion delivery is hard work, and harder still on a national basis. Not only does it require lots of expensive clinical overhead, but reimbursement rates, billing accuracy and receivables are ongoing headaches. Unless you can run a tight ship, specialty infusion is a very challenging sea to navigate."

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