

SPECIALTY PHARMACY NEWS

M&A Activity in Home Infusion Surges With Spate of Recent Deals

2007 has seen unprecedented growth in the home infusion space through the first three quarters, and the pace is showing no signs of slowing down any time soon, as evidenced by some recent activity.

On Oct. 15, Apria Healthcare Group, Inc., which provides home medical equipment (HME), said that it planned to acquire Coram, Inc., a home infusion and specialty pharmacy services provider, for \$350 million in cash. On Sept. 10, dialysis company DaVita Inc. said that it had acquired 85% of the outstanding stock of infusion provider HomeChoice Partners, Inc. for about \$65 million in cash. Walgreen Co. said on July 2 that it was purchasing specialty pharmacy and infusion services provider OptionCare, Inc. for approximately \$850 million (*SPN 8/07, p. 1*). And on Oct. 11, home infusion provider Critical Homecare Solutions, Inc. (CHS) filed for a \$125 million initial public offering (IPO) of stock.

Dexter Braff, president of The Braff Group, a health care mergers and acquisitions (M&A) company, notes that the home infusion market "has been growing, but has taken a big upward jump" more recently. With the Apria/Coram deal, in the span of about three months, arguably the largest home infusion providers — Coram and OptionCare — have been snapped up.

According to Braff Group data, there has been a long trend of IV M&A activity, but even this year's activity — which includes 23 deals as of Oct. 22 — is eclipsing the numbers seen in years past (see table, below). And private-equity-sponsored transactions, either initial or follow-on transactions, have also exploded — from one deal only in 2003, 2004 and 2005 to seven deals in 2006 (*SPN 11/06, p. 5*) and 12 deals so far this year.

"When you look at the market and see numbers like these, it is so abundantly obvious that there is something significant going on," he says.

While many of the spotlighted companies may have specialty pharmacy components, they are still traditional home infusion companies, contends Braff. So why are firms so interested in the infusion therapy space?

"It is an interesting dynamic," says Braff. "For the most part, the underlying economics in the infusion arena have been there a long period of time, but have been overlooked" in favor of other home care capabilities. But why the interest now?

(1) Relatively stable reimbursement climate: Home infusion is "not government reimbursed to a large extent. The levels have been relatively consistent for a long period of time," Braff notes.

(2) Medicare Part D reimbursement potential: After the Part D drug benefit was implemented in January 2006, while nothing changed in the coverage for patients who were already being infused under Part B, coverage for patients who would be covered under Part D was extended to the drug only — not the nursing visit or the per-diem cost, which includes all services, supplies, equipment and other related costs. While various groups, including the National Home Infusion Association, have tried to get that changed (*SPN 7/07, p. 1*), it has yet to occur. Although "we are not hearing that these people are going without," the issue, says Braff, "has a lot of sex appeal."

(3) Growing pipeline of therapies that need human intervention: Many patients prefer the convenience of infusion at home, and this site of administration is usually the most cost-effective one. With literally hundreds of high-cost specialty infusibles expected to hit the market over the next few years (*SPN 5/07, p. 1*), companies with the capability to administer these drugs will be in the spotlight.

(4) Attractive entry point into the home care arena: Braff says that if you look back to the beginning of 2000, there has been a "sustained interest" in the home health market. First, attention focused on the medical device/HME industry, and then it shifted to hospice firms, he says. Industry pricing "has surged and remains at extremely high levels," he says, and companies are looking at ways to enter the home care market. Home infusion has become the most recent focus.

"Momentum begets momentum," says Braff. "The industry is on a roll, as buyers follow other buyers."

While he contends that the current home infusion M&A environment is one of "frenzied activity," Braff adds that "frenzies usually don't last too long." He expects the activity to continue for "another 12 months, maybe 18." But "if something goes bad — not much could — but if some major infusion player fell on hard times," that might put an early stop on the activity. "But there is nothing out there that suggests this could occur," he asserts. A change in government reimbursement of home health "could have a fallout. But it could not affect the broad sector immediately and desperately, even for someone highly leveraged."

Activity Indicates Variety of Trends

According to Braff, the activity in the home infusion industry points to various trends. With its purchase of OptionCare, Walgreens made "a major play into the market" by looking to "more fully develop their business as a complement to an existing business." DaVita, an "unre-

lated player," viewed HomeChoice as a "new growth engine," he says. Apria was a "related player in home care" that already had infusion capabilities and was looking to boost its portfolio, says Braff. And the IPO by CHS — which was initially funded by private-equity group Kohlberg & Co., LLC (*SPN 2/07, p. 8*) — was a "private-equity-backed consolidation play."

"All of this activity plays together," Braff contends. And it fuels private-equity groups' interest, as they seek a return on investment by growing their business so it gets acquired or goes public. Each time a new private-equity group "enter[s] the fray... this has more than an arithmetic impact — it has a geometric impact," he maintains.

Braff predicts that the CHS IPO will be an indication of the viability of the home infusion market. "If the CHS

IPO comes up at a high valuation, we believe the market will burst. This could be a seminal event," he says. But "on the other side, if the IPO is not successful, or if it comes off at a low valuation, this would put a crimp in the mind's eye of the investment community. This IPO will say a lot about what will happen over the next two-year period" in the home infusion space.

Ultimately, says Braff, "it is about supply and demand, and demand might be considered unprecedentedly high now. Demand coming from the investment community, strategic players and ancillary players makes for an exceedingly dynamic market."

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