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# SPECIALTY PHARMACY NEWS

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## Boosted by Wider Product Lines, Allion Agrees to Be Purchased

Allion Healthcare, Inc., which went public in 2005, said last month that it has agreed to be purchased by private-equity group H.I.G. Capital, LLC. Industry experts contend that Allion's decision is wise, and they point to the specialty pharmacy services provider's 2008 purchase of another specialty company as having a positive impact on the new planned transaction.

The new deal is valued at \$278 million, including the assumption of about \$79 million in debt. It is expected to close in the first quarter of 2010.

Through its MOMSParmacy, Allion provides specialty pharmacy services to HIV/AIDS patients. It also furnishes other specialty medications and services to chronically ill patients. In its most recent Form 10-Q filed with the Securities and Exchange Commission (SEC) Nov. 9, the company notes that since the beginning of 2003, it has acquired seven specialty pharmacies in California and two in New York. But it was the acquisition last year of Biomed America, Inc. that really was noteworthy, says Chuck Gaetano, managing director of The Braff Group, a health care mergers and acquisitions company. Allion broadened its focus to therapies including intravenous immune globulin and clotting factor for hemophilia in 2008 when it acquired Biomed for \$117.8 million—\$99.4 million in cash and stock, and the assumption of \$18.6 million in debt (*SPN 4/08, p. 6*). Following that purchase, the company operated its business in two segments: the original Allion as Specialty HIV and Biomed as Specialty Infusion.

"Allion's overall financial picture and corporate worth improved by acquiring Biomed," contends Bill Sullivan, principal consultant with Specialty Pharmacy Solutions, LLC. "It diversified their product portfolio and was financially accretive. In short, it made Allion a more attractive/stable acquisition candidate."

### Company First Considered Sale in January

In its Schedule 14A filed with the SEC on Nov. 2, Allion notes that "in light of market, economic, competitive, regulatory and other conditions and developments," the company's board of directors began exploring the possible sale of the company this past January. Through Raymond James Health Care Invest-

ment Banking Group, the company executed confidentiality agreements with 51 potential buyers in February. Initial proposals from various companies included prices ranging from \$4.25 to \$6 per share, with a later proposal offering between \$7 and \$7.50 per share. By May, however, H.I.G. was the only remaining potential buyer. The 14A document details the price-per-share negotiations in which the companies engaged. In H.I.G.'s initial letter of intent in June, it offered \$5.50 per share. But after requesting that H.I.G. increase the price and faced with an offer of only \$6 per share, Allion decided to terminate negotiations in early September. The companies resumed negotiations at H.I.G.'s request a couple of weeks later, and Allion disclosed the planned deal on Oct. 18.

A handful of law firms and an investor advocacy group have said they have begun investigations of the deal. They charge that the \$6.60 per share that Allion stockholders are slated to receive from the transaction is unfair to investors. They point out that Allion shares traded at \$7.74 as recently as July 31, the company's book value is \$6.62 per share, and \$9 per share is the median price target set by securities analysts for the company's stock.

According to Allion's 14A document, "Both the Special Committee and our Board of Directors have determined that the merger agreement and the merger are fair to and in the best interest of the Company and our affiliated stockholders."

The agreed-upon amount "seems like a pretty good price," Gaetano says. According to Sullivan, "There have been thousands of deals that shareholders have thought were undervalued."

He adds that "H.I.G. would not have pulled the trigger unless they thought [the price was reasonable], and they have a small army of Ivy League MBAs making those kinds of evaluations."

As of *SPN* press time, Allion had not announced the date for its shareholder vote. Shareholders with approximately 40% of Allion's shares have agreed to vote in favor of the merger.

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The timing of the deal is good, says Sullivan. "The fact that Allion had not been able to achieve impressive growth in HIV pointed to the need to shake things up," he says. "The acquisition, probable access to new capital and external management expertise can be a good prescription for any company needing a boost." In addition, says Gaetano, health care "is not a very good industry to be [a] public [company] in" because of the intense scrutiny health care firms receive. Sullivan agrees. "Being publicly held places a lot of limitations on a company like Allion," he says.

Once the deal is final, Allion could continue to expand its product lines, says Gaetano, perhaps in an

area such as growth hormone. Sullivan tells *SPN* that potential developments could include "horizontal and/or vertical integrations through acquisitions, mergers, investment in new technology, marketing, staffing, etc. Or they could be simply looking to spruce up the place, develop a stronger EBITDA [i.e., earnings before interest, taxes, depreciation and amortization] line and sell to one of the big specialty pharmacies for a nice profit."

Contact Gaetano at (888) 723-9263 and Sullivan at [wsullivan@specialtyrxsolutions.com](mailto:wsullivan@specialtyrxsolutions.com). ✧