

Ten ways to increase M&A value

In no particular order ...

Move from compiled to reviewed or audited financial statements. Amid a troubled economic climate, buyers, more than ever, are looking to reduce their margin for error. Accordingly, the value of more highly scrutinized and accurately reviewed or audited financial statements has never been greater — particularly for specialty pharmacies where properly recording revenues from numerous contracts with varying fee schedules can be particularly challenging. With accuracy comes reduced risk, and with reduced risk comes higher multiples — and price.

Develop a strong middle-management infrastructure and a professional sales and marketing organization. The more confident a buyer is in the stability of the target's ongoing operations and revenue stream — especially should an owner depart — the lower the risk of the transaction, and hence the higher the value. No surprise, then, that firms that have a well-developed management and sales infrastructure capable of sustaining and growing the business post-transaction command premium market pricing.

Watch the out-of-network revenues. While out-of-network revenues often bolster gross profit margins and profits, know that even if a buyer also can enjoy out-of-network pricing, the assumption is that such advantage will be short lived. As such, profits attributable to out-of-network revenues are discounted to reflect in-network expectations. Accordingly, while an excellent, short-term profit enhancer, out-of-network development strategies do not build long-term equity.

Pursue contractual relationships with drug manufacturers. Some of the most valuable specialty pharmacy providers have developed exclusive or semi-exclusive distribution relationships with drug manufacturers. Not only is this an excellent strategy to drive revenues, develop competitive advantages and create barriers to entry, it also can drive greater rebates, which, in turn, create higher gross profit margins.

Diversify revenue sources. While you can and should work hard to cultivate and develop high-volume referral sources, distribution contracts and payer agreements that increase your access to new, potential patients, it also is important not to become overly dependent on just a few for your success, given the risk associated with the possible loss of these relationships — risk that often is heightened post-transaction. Accordingly, ideally, no revenue source or contract should account for more than 10% of total revenues.

Develop multiple therapy lines. In the past, the mantra was narrow product line focus with its attendant marketing, operational and clinical efficiencies. Today, however, with increased fear regarding ever-shrinking margins, while there may be some loss in efficiencies

— hence profits — buyers ascribe more value to specialty pharmacies that have developed a diversified “portfolio” of product line offerings. This particularly is so for providers that have demonstrated the ability to identify and market new drug therapies early in their evolution when margins — and resulting profitability — often are at their highest.

Take care with restrictive agreements. Beware of any agreements (i.e., partnerships, joint ventures, franchise arrangements, distribution alliances, rights of first refusal, etc.) that potentially can inhibit a potential exit. While they may seem innocuous when you first consider them, even the most minor restrictions can seriously impair the value — or even the feasibility — of a divestiture.

Be scrupulously compliant. Perhaps nothing can compromise value more swiftly and significantly than a lapse in clinical, regulatory or reimbursement compliance. Rather than result in a reduction in price, most buyers simply will walk away from an acquisition candidate with compliance problems and the attendant risk of exposure later on. That's why the best-prepared sellers bring in experts to conduct a “mock” due diligence before they ever go to market in order to uncover — and address — any problems that may exist.

Get the timing right. A critical factor in maximizing value is getting the timing of an exit right — when 1) a company's position on the growth curve, 2) M&A market dynamics and 3) individual goals and objectives are optimal and in perfect alignment. Accordingly, the best-prepared sellers constantly monitor these three “decision spheres” as part of their exit planning strategy.

Carefully consider an auction strategy. Once the decision is made to divest, unless there is a compelling reason to pursue a deal with a preidentified, specific buyer, the key to maximizing value is to conduct a strategically developed and orchestrated “auction” in which multiple buyers essentially compete for your company. Not only does an auction give you the greatest opportunity for the best purchase price and terms to emerge; if carefully, respectfully and skillfully initiated, potential “back-up” buyers also can be identified. By doing so, sellers create and enhance their negotiating leverage — key to *closing* a transaction at the price and terms originally proffered.

Dexter Braff is president of The Braff Group, the leading investment banking firm specializing in the specialty pharmacy, infusion therapy, home health care, hospice, healthcare staffing and home medical equipment market sectors. The firm provides an array of transactional advisory services, including sell-side representation, debt and equity recapitalizations, strategic planning and valuation. Braff can be reached at (888) 922-5169 or at dbraff@thebraffgroup.com. For more information, visit TheBraffGroup.com.



By Dexter Braff,
president, The Braff Group