the braff group

marketWATCH 2011

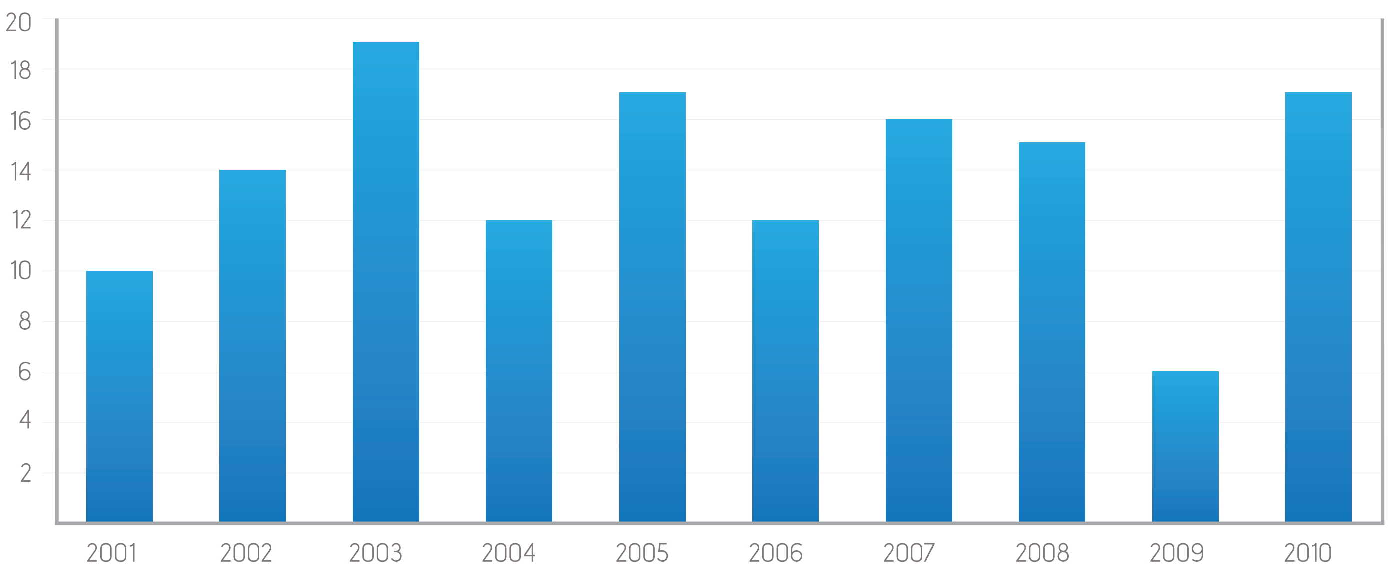
SPECIALTY PHARMACY

Based upon proprietary Braff Group research, after a down year in 2009 in which Specialty Pharmacy Service (SPS) deal flow hit its lowest point since we began tracking the sector in 2001, transaction volume roared back in 2010 with 17 deals, the highest level since 2005 and only two deals shy of the record 19 completed in 2003.

What fostered this substantial turnaround?

Specialty Pharmacy Deal Trends

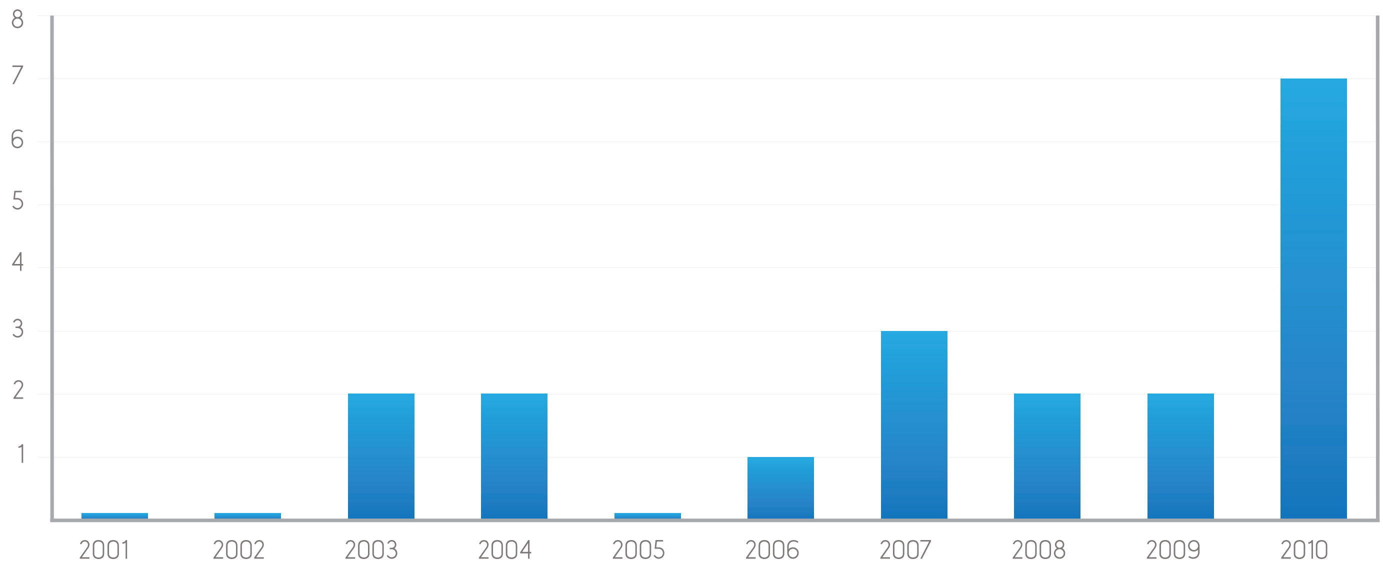
After a down year in 2009, SPS transaction volume roared back in 2010 with 17 deals, the highest level since 2005.



Source: The Braff Group

Private Equity interest in Specialty Pharmacy Platform Transactions Surged in 2010.

As illustrated in the chart below, according to TBG data, private equity investment in specialty pharmacy platform transactions surged in 2010 with seven deals, by far the greatest number of such transactions in the past 10 years.



In the aftermath of the recession that both rattled investors and constrained access to credit, while total health care service transaction volume fell only 9% (from 281 at its peak in 2005 to 255 in 2010, owing to the counter-cyclical strength of health care services), the size of deals completed fell meaningfully in 2008-2009. With SPS providers tending to be large in size (greater than $50M in revenues or more), the sector was disproportionately hurt by the flight from larger deals to smaller ones that were both easier to finance and less risky (i.e. smaller "bets" in an unsettled market).

Once the economy bottomed out and began to show signs of improvement and access to credit began to ease (particularly to fund large deals with $10M or more in EBITDA), SPS emerged as an extremely attractive investment opportunity. This was particularly the case for private equity, which, after two years of turning inward and focusing on protecting and developing its existing portfolio companies, had both substantial unspent cash and the desire to deploy it quickly. Enter specialty pharmacy to fill the void.

Buyers returned to the hemophilia market.

During the early 2000s, we saw many transactions involving providers of blood factor to the hemophilia community. However, these transactions all but dried up over the past five years as many buyers voiced concerns regarding the payor streams, the high revenues per patient and the risk associated with losing just a few of these clients. Additionally, many buyers expressed concern with the very common business model in which some employees of providers are customers as well, which both increases (a) the firm's risk profile should these employeesleave post-transaction and (b) claims exposure for larger buyers that are self-insured.

While these fundamental issues remain pretty much unchanged, there were several, high profile factor company deals completed this year, again, notably, by private equity that didn't bring a self-insured model to the table. Moreover, our sense is that while the sector has its unique attributes, the lure of large providers with an annuity-like revenue stream, in a sector that has been largely overlooked for the past five years represented too much of an opportunity to continue to pass on. As such, we anticipate continued consolidation in the hemophilia arena over the next 12-24 months.

Buyers see substantial opportunity in several key drug therapies.

While buyers have long valued the drug pipeline with its promise for new treatments, new patients, increased utilization and ultimately sustained long-term growth, several therapies have emerged as particularly attractive to buyers today. In addition to oral oncologics, which have exploded on the SPS scene over the recent past, the industry is enthusiastic about developments and treatment options for multiple sclerosis and rheumatoid arthritis, as well as expanded use of IVIG (long an attractive, high margin therapy) in non-traditional conditions. With these expanded revenue opportunities now being realized, and others on the horizon, specialty pharmacy is in the midst of a re-birth of investor enthusiasm.

The pipeline of attractive acquisition candidates has expanded.

In such a specialty niche in which there are a limited number of providers, after the sustained period of consolidation we saw from 2002-2008, it should come as no surprise that the number of attractive acquisition candidates ready to test the market diminished. But with many providers drawn into the market during the peak consolidation years now reaching maturity,

With expanded revenue opportunities from the drug pipeline now being realized, and others on the horizon, specialty pharmacy is in the midst of a re-birth of investor enthusiasm.

and after a down year in 2009, the pipeline of potential targets has begun to refill, and will likely continue to grow over the near term. This increase in supply, paired with increased demand driven by the factors suggested above, could fuel another sustained period of vibrant acquisition activity in specialty pharmacy.

The Outlook

Considering all of the above, as well as expectations that (a) the private equity firms that made platform investments in 2010 will aggressively seek "follow-on" acquisition targets to expand and enhance their service offerings, and (b) the economy will continue to improve enhancing both investor optimism and access to credit, we may very well be on the cusp of a surge in M&A activity in specialty pharmacy over the next 12-36 months.

THE BRAFF GROUP DIFFERENCE

The Braff Group is the leading merger and acquisition advisory firm specializing in health care services including home health care, hospice, infusion therapy, specialty pharmacy, behavioral health and social services, health care staffing, and home medical equipment.

We provide an array of transaction advisory services including sell side representation, debt and equity recapitalizations, strategic planning, and valuation. Headquartered in Pittsburgh, PA, The Braff Group has satellite offices in Atlanta, Chicago, Ft. Lauderdale, and Palm Springs.

According to Thomson Reuters, for the three years ended 2010 –The Braff Group was ranked number one in Health Care Services merger and acquisition transaction volume.

Winner, Health Care Deal of the Year, 2004, 2005, 2006, and 2009.

Chuck Gaetano Atlanta	Reg Blackburn Atlanta	Ted Jordan Atlanta	Mark A. Kulik Atlanta	Nancy Weisling Chicago	Pat Clifford Chicago	Bob Leonard Ft. Lauderdale	Steven Braff Palm Springs
888-723-9263	866-455-9198	888-290-7080	888-922-1838	888-290-7237	888-922-1834	888-922-1836	888-922-1833