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THE DIVESTITURE OF CAREPOINT PARTNERS.

THE END OF AN ERA? OR THE BEGINNING OF A NEW ONE?
When BioScrip recently announced their acquisition of CarePoint Partners, it marked a turning point in an extraordinary era of infusion therapy mergers and acquisitions. While the sector has gone through consolidation cycles in the past, the concentrated influx of PE sponsored “roll-ups” that started 7 years ago transformed the IV M&A market from overlooked and under priced to in the spotlight and on the rise.

Based upon proprietary data compiled and analyzed by The Braff Group and presented below, as the sector became more “visible” with an up-tick in activity between 2003 and 2005, and private equity groups swelled in cash and access to debt in a pre-recession, hyper-economy, several of these investors “rushed” the IV market at virtually the same time.

Between 2006 and 2007, there were five, well financed entries into the market (others have followed). And with a blueprint of assembling industry talent and acquiring platform sized companies that have the infrastructure to support “follow-on” transactions, PE was largely responsible for the spike in deal volume between 2006 and 2008. And even though the recession slowed down activity in 2009 and 2010, the sector quickly regained its footing in 2011 and 2012.

With a typical “holding period” of three to seven years, it was both predictable and inevitable that if an ample group of sponsors entered the market about the same time, they could very well exit at about the same time.

And indeed they did.

Culminating with the BioScrip-CarePoint Partners transaction, six private equity groups have cashed in on their investments between 2010 and 2013.

So this begs a critical and timely question:

**Does the CarePoint exit mark the end of an era, or the beginning of a new one?**

Well, the recent series of transactions provide valuable clues regarding the IV M&A market going forward. First, it is extremely instructive that two of the divestitures were PE to PE transactions, i.e. two of the buyers of these private equity sponsored consolidators were PE investors themselves. While near simultaneous exits (with one after only 3 years) might otherwise signal expectations that infusion therapy has “topped-out”, such “secondary buyouts” by two highly regarded PE companies clearly suggests long-term confidence in the space.

It is also quite instructive that as part of a complete makeover from a predominately specialty pharmacy to one focused primarily on home infusion, three of the “roll-ups” were acquired by BioScrip. With SPS margins under relentless assault, and an extremely favorable response from Wall Street to their strategy (even with the market tumble in 2008, shares of BioScrip have risen 111% since it acquired ITS in 2006), we may see other specialty pharmacy companies consider acquisitions of IV companies to both diversify risk and pump up margins. Furthermore—and for similar reasons (margin and risk diversification)
Together, then, we can see that the demand for IV therapy acquisition candidates has not waned with the recent exits of some of the sector’s most active buyers. In fact, not only have we seen a “second wave” of private equity sponsored buyers, but we’ve also seen a widening of the types of buyers – and strategic rationales – for pursuing IV deals.

One might anticipate, however, that the second wave will be more limited to sizeable acquisition candidates – providers with $20M to $50M, or more in revenues. Such might be the case – if it were possible. The reality is that in such a highly specialized, service-intensive, and hence fragmented industry, the pool of such mid-size IV therapy companies was essentially created by the first wave of PE investors; a pool that is now largely depleted.

As a result, many second wave buyers will have to, perhaps reluctantly, commit to a long-term series of smaller transactions – the type of deals that have created such a vibrant market. Or, they can wait for new private equity sponsored consolidators to aggregate and integrate providers for them.

With the confidence that a diverse stream of downstream buyers will be out there and eager to monetize another wave of investments – we’re sure to see this cycle again.

The Circle of Life, PE-style.

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