Sector Report
Specialty Pharmacy Industry
June 2013
Discussion Outline

- Industry Overview
  - Distribution and Reimbursement System
  - Value Proposition

- Current Market Dynamics

- Market Comps

- Industry Outlook
  - Market Forces
  - Growth in Specialty Arena

- In Summary

- Firm Overview
Industry Highlights

**Market Overview**

- Specialty pharmaceutical sales are expected to reach $160 billion for 2013, which accounts for 18% of the global pharmaceutical market (1)

- Specialty pharmaceuticals offer a robust pipeline (1)
  - Over 1,300 new specialty drugs in the pipeline
  - Over 600 in late-stage development

- Fast growth with an affordable price tag (2)
  - The top 13 fastest growing specialty pharmacy companies had an average 3-year growth rate of over 160% in 2011
  - Of those 13, only one (Diplomat) had revenue of over $500 million in 2011
  - In fact, median revenue for the 13 was under $70 million in 2011

**Market Share by Therapeutic Class (3)**

- Oncology
- Multiple Sclerosis
- Inflammatory Conditions
- HIV/AIDS
- Pulmonary Hypertension
- Hemophilia
- Hepatitis C
- Other

**Market Overview continued**

- **M&A Activity (4)**
  - Recent trends show both traditional and non-traditional retail pharmacies are acquiring specialty pharmacies to bolster margins in the highly competitive retail pharmacy industry (see Select Transaction on slide 21)
  - Deal specifics are being closely guarded as the marketplace intensifies, but historical multiples suggest that now is an attractive time to acquire the limited number of large-scale specialty pharmacy operations in the U.S.

Source:
(1) IMS Health, “Changing the Channel: Developments in U.S. Specialty Pharmaceutical Distribution”
(2) Drug Channels 13 Fastest Growing Private Specialty Pharmacy Companies
(3) SpecialtyPharmaJournal.com
(4) Bourne Partners Internal Research; CapitalIQ April 2013; Irving Levin 2007-12
Industry Overview
Industry Overview

- Specialty pharmacies offer access to and support for most pharmaceutical and biologic products that have high acquisition costs, are difficult to manage, and present reimbursement challenges.

- In addition to filling prescriptions, specialty pharmacies offer other value-added services including compliance monitoring, support services, reimbursement processing, and drug utilization reviews for patients with rare conditions that require special care.

- Specialty pharmacies focus on serving narrow patient populations with chronic conditions that require high levels of support and the use of higher-than-average prescription prices as opposed to the retail drugstore model of selling high volumes of lower margin drugs.

- Three-fourths of health plans currently use specialty pharmacies in a further push to manage costs and increase access outsourcing.

- Following the implementation of the Medicare Prescription Drug Improvement and Modernization Act of 2003, there has been an increase in the number and scope of products that specialty pharmacies handle.\(^{(1)}\)

\(^{(1)}\) Department of Health and Human Services, “Competitive Acquisition of Outpatient Drugs and Biologicals”
Industry Overview

- Specialty pharmacies also help streamline the delivery process of drugs that often require strict inventory control, while helping make other services more efficient, such as carrying out prescription drug billing and expediting reimbursement.

- The use of technology has become an integral part and differentiating factor for specialty pharmacies when compared to traditional competitors by assisting and improving the coordination of the following processes:\(^{(1)}\)
  - Data collection
  - Outcome measurement
  - Therapeutic regimen monitoring
  - Prescription information delivery
  - Patient-adherence tracking

- Healthcare claims creation, adjudication, and payment support are executed by a growing number of specialty pharmacies as well\(^{(2)}\)

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\(^{(1)}\) Alliance for Health Reform, “The Rise and Role of Specialty Pharmacy”
\(^{(2)}\) Bloomberg Businessweek, “Health Care Technology”
Benefits Across Distribution Channels

- As shown below, specialty pharmacies offer a platform of services that other distribution channels are unable to effectively provide.

- These services include offering high-touch pharmaceuticals, access to knowledgeable pharmacist staff, compliance monitoring, nursing services, clinical management of disease-specific programs, coordination of home care, medical benefit management, and billing/reimbursement expertise.

<table>
<thead>
<tr>
<th>Specialty Distribution Channels (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory Available</td>
</tr>
<tr>
<td>Specialty Distribution Channels</td>
</tr>
<tr>
<td>Retail Pharmacy</td>
</tr>
<tr>
<td>Home Delivery Pharmacy</td>
</tr>
<tr>
<td>Specialty Pharmacy</td>
</tr>
<tr>
<td>Physician Office</td>
</tr>
<tr>
<td>Outpatient Clinic/Hospital</td>
</tr>
<tr>
<td>Home Infusion</td>
</tr>
</tbody>
</table>

(1) PharmaStrategies, “Specialty Pharmacies”
While considerably different in business model and service offerings, the specialty pharmacy system in the United States utilizes specialized providers and benefit managers in a distribution and reimbursement schematic similar to the retail pharmacy network.

United States Specialty Pharmacy Distribution and Reimbursement System

(1) Pembroke Consulting, “Economic Report on Retail and Specialty Pharmacies”
**Value Proposition**

- Specialty pharmacies offer patients, physicians, payers, and manufacturers significant benefits to traditional retail pharmacies that can be measured by the indicators in the table below.

- These services not only make specialty pharmacies more competitive than their retail counterparts, but they realign the traditional configuration of the broader pharmacy value chain, shifting focus of ancillary services from partner businesses to the pharmacy point of contact.

### Specialty Pharmacy Value Proposition\(^{(1)}\)

<table>
<thead>
<tr>
<th>Specialty Pharmacy Benefit</th>
<th>Patient</th>
<th>Physician</th>
<th>Payer</th>
<th>Pharmaceutical Manufacturer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 24 hour clinical support</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Benefits verification</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Direct home delivery</td>
<td></td>
<td></td>
<td></td>
<td>• Shipping and delivery</td>
</tr>
<tr>
<td>• Internet community</td>
<td></td>
<td></td>
<td></td>
<td>• Patient and office assistance</td>
</tr>
<tr>
<td>• Clinical extension of office</td>
<td></td>
<td></td>
<td></td>
<td>• REMS execution</td>
</tr>
<tr>
<td>• Compliance management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Customized dose delivery</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Reimbursement coordination</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Patient education services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Coding and billing assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Competitive pricing</td>
<td></td>
<td></td>
<td></td>
<td>• Patient satisfaction</td>
</tr>
<tr>
<td>• Customized programs</td>
<td></td>
<td></td>
<td></td>
<td>• Prescriber satisfaction</td>
</tr>
<tr>
<td>• Reduction in wasted drug</td>
<td></td>
<td></td>
<td></td>
<td>• Improved patient access</td>
</tr>
<tr>
<td>• Dedicated payer/sales support</td>
<td></td>
<td></td>
<td></td>
<td>• Regulatory compliance</td>
</tr>
<tr>
<td>• Coding and billing assistance</td>
<td></td>
<td></td>
<td></td>
<td>• Increased sales</td>
</tr>
</tbody>
</table>

### Indicator

<table>
<thead>
<tr>
<th>Specialty Pharmacy Benefit</th>
<th>Patient</th>
<th>Physician</th>
<th>Payer</th>
<th>Pharmaceutical Manufacturer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicator</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Improved outcomes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Increased satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Time savings</td>
<td></td>
<td></td>
<td></td>
<td>• Patient satisfaction</td>
</tr>
<tr>
<td>• Patient satisfaction</td>
<td></td>
<td></td>
<td></td>
<td>• Prescriber satisfaction</td>
</tr>
<tr>
<td>• More patients</td>
<td></td>
<td></td>
<td></td>
<td>• Improved patient access</td>
</tr>
<tr>
<td>• Cost savings</td>
<td></td>
<td></td>
<td></td>
<td>• Regulatory compliance</td>
</tr>
<tr>
<td>• Member satisfaction</td>
<td></td>
<td></td>
<td></td>
<td>• Increased sales</td>
</tr>
</tbody>
</table>

\(^{(1)}\) IMS Health, “Changing the Channel: Developments in U.S. Specialty Pharmaceutical Distribution”
### Addressing Key Stakeholder Challenges

- Specialty pharmacies address a significant number of key challenges stakeholders face regarding procurement, distribution, payment, compliance, and management of specialty drugs

#### Challenges Stakeholders Face with Specialty Drugs

<table>
<thead>
<tr>
<th>Traditional Pharmacy</th>
<th>Prescriber</th>
<th>Patient</th>
<th>Payer</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High cost of inventory</td>
<td>• Ability to gain access to products: sources constantly changing</td>
<td>• Access to products from traditional pharmacies</td>
<td>• Member dissatisfaction</td>
</tr>
<tr>
<td>• Inability to have same/next-day delivery</td>
<td>• Multiple vendors</td>
<td>• Delays/interruptions in therapy created from uncommitted supply channels</td>
<td>• Prescriber dissatisfaction</td>
</tr>
<tr>
<td>• Special storage and delivery capabilities</td>
<td>• Decreasing reimbursement by payers</td>
<td>• Varied coverage: medical and pharmacy benefit</td>
<td>• Major medical “usual and customary” payment vs. managed care pricing</td>
</tr>
<tr>
<td>• Reimbursement: pharmacy or medical, inability to bill major medical</td>
<td>• Formulary approval delays/billing risks</td>
<td>• Prior authorization processes</td>
<td>• Lack of national consensus guidelines/formulary controls</td>
</tr>
<tr>
<td>• Pharmacist knowledge of injectables</td>
<td>• Personnel required to oversee prescription ordering</td>
<td>• Higher out-of-pocket expenses/copayments/deductibles</td>
<td>• Hidden billing codes</td>
</tr>
<tr>
<td>• Patient counseling and support limitations: compliance, injection training</td>
<td>• Increasing cost of labor/nursing shortages</td>
<td>• Difficult coordination of deliveries to treatment settings</td>
<td>• Prior authorization and approval-criteria processes and associated labor</td>
</tr>
<tr>
<td>• Unwillingness to break package sizes</td>
<td>• High cost of inventory, if held by physician</td>
<td>• Product safety: storage and stability issues</td>
<td>• Collection of proper copayments, co-insurance, deductibles</td>
</tr>
<tr>
<td>• Administration tools not included (needles, syringe, alcohol swabs)</td>
<td>• Accounts receivable drain cash; uncertain collections</td>
<td>• Counseling and support needed around the clock</td>
<td>• Tracking and auditing utilization, showing return on investment of control programs</td>
</tr>
</tbody>
</table>

(1) Alliance for Health Reform, “The Rise and Role of Specialty Pharmacy”
Current Market Dynamics
Market Overview

- **Vast Global Market**\(^{(1)}\)
  Global market is expected to grow to $160 billion this year and represent nearly half (44%) of global drug spend by 2030

- **Dramatic Revenue Growth**\(^{(2)}\)
  In 2012, almost half of the top 10 drugs in worldwide revenue were specialty pharmaceuticals. By 2016, this is expected to balloon to 8 of the top 10

- **Robust Pipeline**\(^{(3)}\)
  600 new drugs in late-stage development within the specialty pharmaceutical pipeline, nearly half of which are oncology focused. Likewise, of new indications and NDA applications filed with the FDA in 2012, over half were for specialty drugs, and two-thirds of the drug approvals this year have been specialty products

- **Covered Lives in the U.S. expanding rapidly**\(^{(2)}\)
  PPACA will lead to an estimated 32 million new covered lives by 2019. Based on national averages (<1% of the U.S. population utilize specialty pharmaceuticals) this will lead to what we estimate will be at least 300,000 additional patients at current utilization rates

Source:
(1) IMS Health, “Changing the Channel: Developments in U.S. Specialty Pharmaceutical Distribution”
(2) SpecialtyPharmaJournal.com
(3) EMD Serono Specialty Digest 2013
Aging Population

- 40.3 million or roughly 13% of Americans are over age 65\(^{(1)}\)
- More than 10,000 baby boomers turn 65 each day\(^{(2)}\)
- By 2030 71.5 million Americans will be over 65\(^{(1)}\)
- Over-85 population predicted to grow from 5.3 million in 2006 to 21.0 million in 2050\(^{(1)}\)
- Americans over the age of 65 take an average of 4.5 medications each day\(^{(2)}\)
- Over 500 million or roughly 8% of people worldwide are over the age of 65\(^{(1)}\)
- This group is expected to grow to over 1 billion (13% of population) by 2030\(^{(1)}\)
- The most rapid increases in elderly populations are occurring in developing countries

Source:
(1) Department of Health & Human Services Administration on Aging
(2) AARP
Market Trends

The aging population will drive growth across healthcare, but specialty pharmaceuticals should see rapid growth as patients age and better therapies become available.

Adherence is the key to effectiveness of treatment as well as industry growth.

Cancer medications will continue to dominate the landscape.

Rapid growth in more easily administered therapies for specific classes will fuel positive outcomes for patients, better adherence, and more profit for specialty pharmaceutical companies.

Don’t expect new biologics to stem the growth within specialty pharmaceuticals any time soon.

Adherence is Key(1)

- Patient adherence drives drug efficacy and helps to reduce waste within the healthcare system.

- One-third to one-half of U.S. patients are non-adherent.

- $290 B in avoidable costs
  - 23% of biologic prescriptions go unfilled
  - 49% non-adherence for inflammation related patients
  - 37% non-adherence for oral oncology products

- Positive effect throughout supply chain
  - Manufacturers – Increased revenue and profits
  - Retailers – Higher fill rates
  - Payers – Cost savings
  - Patients – Better outcomes

340B Discounts and Public Backlash

- The 340B program allows certain covered entities the ability to purchase drugs at a dramatic discount.

- Covered entities Include high volume, disproportionate share hospitals (DSHs), federally qualified health centers, and several other service providers for niche therapeutic areas (e.g. AIDS) or patient populations (e.g. Native Hawaiians).

- Current Landscape:
  - Large hospital groups are purchasing all of their cancer medications at the 340B price, forcing non-governmental payers to pay retail pricing, and maintaining the spread as "profit".
  - The government argues this is tantamount to fraud, but hospitals argue that the spread supplements the below-market reimbursement they currently receive for the targeted patients.

Source:
(1) EMD Serono Specialty Digest
Growth Trends

Rapid Growth in Hepatitis C Treatments\(^{(1)}\)
- Most common blood borne viral infection in U.S.
- An estimated 3.2 million Americans have Hepatitis C
- Symptoms may not show for 20-30 years, which makes early diagnoses and treatment next to impossible
- 75% are undiagnosed
- Poor screening of blood supply and organs for donation led to large amount of infections
- 2 million of those infected are baby boomers

Patient warehousing:
- Significant factor pre 2011 when Incivek and Victrelis (oral component of “triple therapies”) released
- Expected to continue as 7 more orals are expected to enter the market in 2014
- Adherence is crucial; Failure to follow dosing schedules may lead to viral resistance

Source:
(1) EMD Serono Specialty Digest
(2) Specialty Pharmacy Journal Online

Robust Pipeline of Oncology Products
- Over 600 specialty oncology products currently in development\(^{(1)}\)
- 70% contain biomarkers or genome specific targeting\(^{(2)}\)

<table>
<thead>
<tr>
<th>Pipeline Cancer Products(^{(1)})</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lung</td>
<td>121</td>
</tr>
<tr>
<td>Lymphnode</td>
<td>117</td>
</tr>
<tr>
<td>Breast</td>
<td>111</td>
</tr>
<tr>
<td>Prostate</td>
<td>94</td>
</tr>
<tr>
<td>Skin</td>
<td>67</td>
</tr>
<tr>
<td>Colorectal</td>
<td>66</td>
</tr>
</tbody>
</table>

Bourne Partners
Market Comps
Industry M&A Activity in General

- M&A has become both a viable and very popular exit strategy for capital or resource constrained private companies.
- Many of the larger companies are able to leverage their balance sheets in order to enter new markets as opposed to investing time and capital into building de novo.
- A growing number of acquisitions have been forecast to be nearly immediately accretive, leading to rising share prices not only for the acquiree but also for the acquirer.
- As traditional retail pharmacy margins are compressed, national retail pharmacies, grocers, and superstores are acquiring specialty pharmacies as a way to alleviate some of this pressure.
Trading Comps

Publicly Traded Comparable Companies

<table>
<thead>
<tr>
<th>Specialty Pharmaceutical Companies</th>
<th>Enterprise Value</th>
<th>Sales</th>
<th>EBITDA</th>
<th>Gross Profit Margin</th>
<th>EBITDA Margin</th>
<th>EV/LTM Sales Multiple</th>
<th>EV/LTM EBITDA Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialty Pharmacies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Omnicare Inc.</td>
<td>$1,542.1 (1)</td>
<td>$6,450.5</td>
<td>$6,092.3</td>
<td>24.4%</td>
<td>11.5%</td>
<td>1.1x</td>
<td>9.2x</td>
</tr>
<tr>
<td>PharMerica Corporation</td>
<td>730.4</td>
<td>1,773.5</td>
<td>111.5</td>
<td>17.4%</td>
<td>6.3%</td>
<td>0.4x</td>
<td>6.5x</td>
</tr>
<tr>
<td>Diversified Pharmacies with Specialty Division</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Walgreen Co.</td>
<td>$51,505.2</td>
<td>$70,788.0</td>
<td>$4,609.0</td>
<td>29.0%</td>
<td>6.5%</td>
<td>0.7x</td>
<td>11.2x</td>
</tr>
<tr>
<td>CVS Caremark Corporation</td>
<td>81,828.7</td>
<td>123,098.0</td>
<td>9,355.0</td>
<td>18.7%</td>
<td>7.6%</td>
<td>0.7x</td>
<td>8.7x</td>
</tr>
<tr>
<td>Pharmacy Benefit Managers with Specialty Division</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Express Scripts Holding Company</td>
<td>$64,375.2</td>
<td>$107,788.5</td>
<td>$6,216.6</td>
<td>7.9%</td>
<td>5.8%</td>
<td>0.6x</td>
<td>10.4x</td>
</tr>
<tr>
<td>Catamaran Corporation</td>
<td>10,641.3</td>
<td>11,442.7</td>
<td>506.2</td>
<td>7.6%</td>
<td>4.4%</td>
<td>0.9x</td>
<td>21.0x</td>
</tr>
</tbody>
</table>

$ in millions
(1) Based on middle of blended valuation range shown on slide 24

- Based on the limited number of publicly traded pure-play specialty pharmacies, Bourne Partners analyzed 3 baskets of companies with a specialty pharmacy focus and/or dedicated specialty pharmacy business division.

- A blended average of the publicly traded comparable companies results in a median Enterprise Value / Last Twelve Months revenue multiple of 0.7x and Enterprise Value / Last Twelve Months EBITDA multiple of 11.2x.
Bourne Partners tracked the equity performance of companies comprising the basket of specialty pharmacies, diversified pharmacies with a specialty division, and pharmacy benefit managers with a specialty focus against the S&P 500 Index and the S&P 500 Healthcare Index.

Over the past 5 years the specialty pharmacy basket is up roughly 214% and has outperformed the broader healthcare market by 162% and the general market by 196%.

Rising valuations for specialty pharmacy companies indicate a potentially good market cycle to sell.
# Transaction Comps

## Comparable Precedent Transactions

<table>
<thead>
<tr>
<th>Announced Date</th>
<th>Target Company</th>
<th>Buyer</th>
<th>Geographic Location</th>
<th>Enterprise Value</th>
<th>Revenue</th>
<th>EBITDA</th>
<th>EV/LTM Revenue</th>
<th>EV/LTM EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-13</td>
<td>AcariaHealth, Inc.</td>
<td>Centene Corp.</td>
<td>United States</td>
<td>$152.0</td>
<td>NA</td>
<td>NA</td>
<td>2.0x(1)</td>
<td>NA</td>
</tr>
<tr>
<td>Oct-12</td>
<td>A-Med Health Care</td>
<td>Byram Healthcare Centers, Inc.</td>
<td>United States</td>
<td>38.2</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Jun-12</td>
<td>Bioscrip’s Community, Centralized, and Mail Service Specialty Pharmacies</td>
<td>Walgreen Co.</td>
<td>United States</td>
<td>173.7</td>
<td>NA</td>
<td>NA</td>
<td>0.8x(1)</td>
<td>NA</td>
</tr>
<tr>
<td>Jun-11</td>
<td>Assura Pharmacy Limited</td>
<td>Gorgemead Ltd.</td>
<td>United Kingdom</td>
<td>39.3</td>
<td>34.1</td>
<td>NA</td>
<td>1.2x</td>
<td>NA</td>
</tr>
<tr>
<td>Mar-11</td>
<td>Walgreens Health Initiatives, Inc.</td>
<td>Catalyst Health Solutions, Inc.</td>
<td>United States</td>
<td>525.0</td>
<td>105.0</td>
<td>NA</td>
<td>5.0x</td>
<td>NA</td>
</tr>
<tr>
<td>Sep-10</td>
<td>Southlake Regional Health Centre Institutional Pharmacies</td>
<td>Centric Health Corporation</td>
<td>Canada</td>
<td>6.8</td>
<td>6.2</td>
<td>NA</td>
<td>1.1x</td>
<td>NA</td>
</tr>
<tr>
<td>Dec-09</td>
<td>Integrity Pharmacy Services</td>
<td>PharMerica Corporation</td>
<td>United States</td>
<td>41.3</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Oct-09</td>
<td>Allion Healthcare, Inc.</td>
<td>H.I.G. Capital, LLC</td>
<td>United States</td>
<td>249.2</td>
<td>396.5</td>
<td>33.8</td>
<td>0.6x</td>
<td>7.4x</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Carmichael Cashway Pharmacy, Inc.</td>
<td>SunLink Health Systems Inc.</td>
<td>United States</td>
<td>22.9</td>
<td>42.2</td>
<td>3.6</td>
<td>0.5x</td>
<td>6.4x</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Biomed America, Inc.</td>
<td>Allion Healthcare, Inc.</td>
<td>United States</td>
<td>163.0</td>
<td>25.5</td>
<td>2.9</td>
<td>6.4x</td>
<td>NM</td>
</tr>
<tr>
<td>Oct-07</td>
<td>Coram, Inc.</td>
<td>Apria Healthcare Group Inc.</td>
<td>United States</td>
<td>362.0</td>
<td>504.5</td>
<td>9.7</td>
<td>0.7x</td>
<td>37.2x</td>
</tr>
<tr>
<td>Jul-07</td>
<td>Option Care Inc.</td>
<td>Walgreen Co. (NYSE:WAG)</td>
<td>United States</td>
<td>813.0</td>
<td>747.9</td>
<td>49.7</td>
<td>1.1x</td>
<td>16.4x</td>
</tr>
</tbody>
</table>

$ in millions

(1) Estimate from industry insider with unique perspective on transaction

(2) Estimate from combining analysis of two market aggregator sources

- Bourne Partners compiled a set of comparable precedent transactions of specialty pharmacies with disclosed transaction values located in North America
  - Median Enterprise Value / Last Twelve Months revenue multiple is 1.1x
  - Median Enterprise Value / Last Twelve Months EBITDA is 11.9x
### Select Transaction Profiles

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Announce Date:</strong> November 2012</td>
<td><strong>Announce Date:</strong> January 2013</td>
<td><strong>Announce Date:</strong> February 2012</td>
</tr>
<tr>
<td><strong>Acquirer:</strong> The Kroger Co. (NYSE:KR)</td>
<td><strong>Acquirer:</strong> Centene Corp. (NYSE:CNC)</td>
<td><strong>Acquirer:</strong> Walgreen Co. (NYSE:WAG)</td>
</tr>
<tr>
<td><strong>Region:</strong> United States</td>
<td><strong>Region:</strong> United States</td>
<td><strong>Region:</strong> United States</td>
</tr>
<tr>
<td><strong>Enterprise Value:</strong> N/A</td>
<td><strong>Enterprise Value:</strong> $152 million</td>
<td><strong>Enterprise Value:</strong> $173.7 million</td>
</tr>
<tr>
<td><strong>Revenue Multiple:</strong> N/A</td>
<td><strong>Revenue Multiple:</strong> 3.9x</td>
<td><strong>Revenue Multiple:</strong> N/A</td>
</tr>
<tr>
<td><strong>EBITDA Multiple:</strong> N/A</td>
<td><strong>EBITDA Multiple:</strong> N/A</td>
<td><strong>EBITDA Multiple:</strong> N/A</td>
</tr>
<tr>
<td><strong>Target Description</strong></td>
<td><strong>Target Description</strong></td>
<td><strong>Target Description</strong></td>
</tr>
<tr>
<td>▪ Specialty pharmacy that provides drug therapies and patient-support services to treat chronic, genetic, and other complex medical conditions</td>
<td>▪ One of the largest national comprehensive specialty pharmacy companies in the U.S.</td>
<td>▪ The community specialty pharmacy and centralized specialty and mail-order service pharmacy businesses</td>
</tr>
<tr>
<td>▪ Based in Lake Mary, Florida, but operates facilities throughout the U.S. and Puerto Rico to offer nationwide patient coverage</td>
<td>▪ National platform with industry leading technology</td>
<td>▪ Includes 30 community locations across 16 states primarily focused on HIV, oncology, and transplant patients</td>
</tr>
<tr>
<td><strong>Transaction Overview:</strong></td>
<td><strong>Transaction Overview:</strong></td>
<td><strong>Transaction Overview:</strong></td>
</tr>
<tr>
<td>▪ Axium continues to operate as an independent company within Kroger</td>
<td>▪ The transaction was financed through a combination of Centene common stock, cash on hand, and existing credit facilities</td>
<td>▪ The transaction’s total deal value was reported as $225 million, but BioScrip retained the rights to a large portion of its accounts receivable</td>
</tr>
<tr>
<td><strong>Strategic Rationale:</strong></td>
<td><strong>Strategic Rationale:</strong></td>
<td><strong>Strategic Rationale:</strong></td>
</tr>
<tr>
<td>▪ The move allows Kroger to better serve its growing pharmacy clientele while also reduce costs through operational efficiencies Kroger’s size and presence offer</td>
<td>▪ The acquisition offers Centene a unique pairing of pharmacy solutions by pairing AcariaHealth with its PBM, US Script.</td>
<td>▪ However, certain milestones over the next few quarters could increase or decrease the overall price</td>
</tr>
<tr>
<td></td>
<td>▪ The deal also offers Centene access to AcariaHealth’s relationships with specialty pharmaceutical companies and distributors</td>
<td>▪ The deal allows Walgreens to bring specialty services closer to its customers as it emphasizes its “Well at Walgreens” corporate initiative</td>
</tr>
</tbody>
</table>
Industry Outlook
Market Forces

- While nonspecialty drugs maintain year-to-year spending increases of between roughly 2% and 6%, specialty drug costs are increasing more rapidly, contributing to specialty pharmacy sales growth\(^1\)

- As a result of higher utilization owing to expanded indications and a strong pipeline, specialty pharmacy expenditures are expected to grow from $160 billion in 2013 to $1 trillion by 2030\(^2\)

### Market Forces Affecting Growth

<table>
<thead>
<tr>
<th>Headwinds</th>
<th>Tailwinds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continued scrutiny over abuses of the 340B system may harm smaller specialty pharmacies that rely extensively on government spending</td>
<td>Growing number of approved specialty products and utilization will increase specialty pharmacy revenues</td>
</tr>
<tr>
<td>Increasing product prices have led certain payers to limit or eliminate coverage of certain therapies or therapeutic classes, which could reduce the customer base and limit reimbursement</td>
<td>Aging U.S. population will rapidly expand specialty pharmacy client bases and continue to drive revenue and margin growth</td>
</tr>
<tr>
<td>Adherence issues may derail results and reduce the number of prescriptions actually filled; however, specialty pharmacies strategically focused on patient compliance and monitoring may seize this opportunity and grow their businesses</td>
<td>Acquisition and consolidation within the marketplace is expected to continue, which will allow the larger diversified firms to leverage their balance sheets and business overlaps to drive growth</td>
</tr>
</tbody>
</table>

Source:
\(^1\) Pharmacy Times, “The Pharmacy Benefit vs the Medical Benefit”
\(^2\) IMS Health, “Changing the Channel: Developments in U.S. Specialty Pharmaceutical Distribution”
Growth in Specialty Arena

- As the specialty pharmacy market continues to grow at an annual rate in the double-digits, driven by both the number and cost of new specialty product introductions, it has attracted the attention of managed care organizations and become a critical component of many health plans.

- Further examination of specialty products by health plans and other healthcare intermediaries, such as distributors, pharmacy benefit managers, and retail pharmacies, has contributed to several recent and notable trends, including market consolidation.

- The market has evolved through acquisitions and consolidation, resulting in five key specialty pharmacy business types shown below, with examples in the table:

  - **Pure-play**
  - **Distributor-affiliated**
  - **Pharmacy benefit manager-affiliated**
  - **Retail-affiliated**
  - **Managed care organization-affiliated**

<table>
<thead>
<tr>
<th>Business Model</th>
<th>Company</th>
<th>Specialty Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure-play</td>
<td>• Bioscrip • Amber Pharmacy • Diplomat</td>
<td>• Bioscrip • Amber Pharmacy • Diplomat</td>
</tr>
<tr>
<td>Distributor-Affiliated</td>
<td>• AmeriSource Bergen • Cardinal • McKesson</td>
<td>• AmeriSource Bergen Specialty Group • Cardinal Specialty Pharmacy • McKesson Specialty</td>
</tr>
<tr>
<td>PBM-Affiliated</td>
<td>• CareMark • Express Scripts • Medco</td>
<td>• CareMark Specialty • Curascript/Priority • Accredo</td>
</tr>
<tr>
<td>Retail-Affiliated</td>
<td>• CVS • Walgreens</td>
<td>• ProCare • Walgreens Specialty Pharmacy</td>
</tr>
<tr>
<td>MCO-Affiliated</td>
<td>• Aetna • Cigna • WellPoint</td>
<td>• Aetna Specialty • CIGNA Tel-Drug • Precision Rx</td>
</tr>
</tbody>
</table>

In Summary
Specialty Pharmacy Industry Summary

- Specialty pharmaceuticals are dominating development pipelines with sales forecast to grow at twice the rate of traditional products.

- With specialty drug spending projected to exceed $160 billion by 2013\(^{(1)}\), the systems that create, harness, and deliver these high-touch pharmaceuticals, including manufacturers, payers, providers, and pharmacies in particular, are also in a state of evolution\(^{(2)}\).

- While traditional retail pharmacy margins continue to decline as cost pressures intensify, patient involvement in the healthcare process increases, and safety standards rise, specialty pharmacies, including retail specialty pharmacies, mail order specialty pharmacies, and infusion specialty pharmacies, have positioned themselves as fast-growing, high-margin niche players in their competitive landscape by expanding their business models to include a wide variety of value-added services\(^{(1)}\).

Source:
(1) IMS Health, “Changing the Channel: Developments in U.S. Specialty Pharmaceutical Distribution”
(2) Medco, “2010 Drug Trend Report”
Firm Overview
Bourne Partners Information

**Life Sciences Merchant Bank**
- Investment banking advisory
- Direct investing
- Operational and management consulting

**Geographic Coverage**

**Segmentation**
- Healthcare services
- Specialty pharmaceuticals
- Consumer Heath
- Medical technology (devices)
- Distribution

**Advisory Services**
- Mergers & Acquisitions
  - Company and product focus
  - Primarily sell side with select buy side assignments
  - $10 – 250 million transaction focus
- Business Development Support Services
  - In/out-licensing of late stage and approved products
  - United States, European and Asian companies focused on partnering locally or in international markets
- Capital Raising
  - Mature spaces of healthcare (OTC, Specialty Pharmaceuticals, Generics, Medical Devices, Services)
  - $10 - 250 million raises
  - Debt and equity
  - Active calling effort on 75+ healthcare focused private equity and venture capital groups
Bourne Partners Information

Direct Investing
- Enterprise values of $10 – $250 million
- Direct portfolio companies
- Co-invests with other sponsors
- Buyout and venture fund commitments

Senior Deal / Operations-focused Resources
- Senior level attention and involvement in every project
- Mix of investment professionals and healthcare executives
- Over $5 billion in transactions completed globally
- Operations members provide enhanced support across investment life cycle and can fill management roles on transitional or permanent basis

Global Perspective
- Active tracking of over 500 healthcare companies worldwide
  - United States
  - Europe
  - Canada
  - Latin America
  - Asia
  - MENA

Select Advisory Clients

Representative Active Role Investments

Representative Passive, Fund, & Co-Investments
Bourne Partners Structure

Investment Banking & Advisory

- Financial Advisory
  - Mergers & Acquisitions
    - Seller Representation
    - Acquisitions
    - Divestitures
    - Asset Spinouts
  - Capital Sourcing/Private Placements
    - Recapitalizations
    - Management Buyouts
    - Growth Capital
  - Business Development Services
    - Advisory
    - In/Out-licensing
    - Strategic Studies
    - Strategic Consulting
  - Controlling Active Investments
    - BurnsAdler Pharmaceuticals
    - Theramed Corporation
    - Tanner Pharmaceuticals

Direct Investment

- BurnsAdler Pharmaceuticals
  - Irving Place Capital (2 funds)
  - The Carlyle Group (10 funds)
  - Cerberus Capital Management (1 fund)
- Private Equity Funds
  - Minority/Co-Invest
    - King Pharmaceuticals
    - Covis Pharma
    - Warner Chilcott (IPO)
    - Plainfield Energy
    - CommScope

Private Equity & Direct Investment

Bourne Partners Structure
Senior Team

Bourne Partners is comprised of experienced investment professionals, healthcare executives, and operating partners

- Over 50 years of combined pharmaceutical, medical device, biotechnology, and life sciences healthcare experience
- Over 60 years of combined investment banking and private equity transaction experience
- Transactions completed in more than 35 countries
  - Mergers & Acquisitions
  - Licensing Agreements
  - Product Divestitures
  - Distribution Agreements
  - Corporate Spin-offs
  - Capital Raising
  - Strategy Consulting
  - Fund Management
  - Direct Investing

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