

Industry-Related Trading Multiples⁽¹⁾

	TEV / LTM EBITDA				TEV / LTM Revenue			
	Jun-16	Sep-16	Dec-16	Mar-17	Jun-16	Sep-16	Dec-16	Mar-17
PBMs								
Express Scripts (NasdaqGS:ESRX)	9.2x	8.8x	8.2x	7.3x	0.62x	0.58x	0.55x	0.52x
Magellan Health (NasdaqGS:MGLN)	8.4x	7.5x	8.6x	8.3x	0.37x	0.33x	0.42x	0.41x
Median	8.8x	8.1x	8.4x	7.8x	0.49x	0.46x	0.49x	0.46x
Average	8.8x	8.1x	8.4x	7.8x	0.49x	0.46x	0.49x	0.46x
Pharmacies								
CVS (NYSE:CVS)	10.6x	9.9x	8.5x	8.1x	0.80x	0.73x	0.63x	0.59x
Rite Aid (NYSE:RAD)	11.1x	11.9x	13.3x	9.8x	0.45x	0.46x	0.48x	0.35x
Walgreens Boots (NasdaqGS:WBA)	12.6x	11.8x	12.3x	12.4x	0.86x	0.83x	0.84x	0.85x
Median	11.1x	11.8x	12.3x	9.8x	0.80x	0.73x	0.63x	0.59x
Average	11.4x	11.2x	11.4x	10.1x	0.71x	0.68x	0.65x	0.60x
Distributors								
Mckesson (NYSE:MCK)	10.3x	9.2x	8.1x	8.5x	0.25x	0.22x	0.18x	0.20x
Cardinal Health (NYSE:CAH)	9.3x	9.0x	8.7x	9.6x	0.24x	0.23x	0.21x	0.23x
Amerisource Bergen (NYSE:ABC)	10.9x	11.7x	9.1x	10.2x	0.13x	0.15x	0.13x	0.15x
Median	10.3x	9.2x	8.7x	9.6x	0.24x	0.22x	0.18x	0.20x
Average	10.2x	10.0x	8.6x	9.4x	0.21x	0.20x	0.18x	0.19x
Managed Care								
United Health (NYSE:UNH)	12.5x	12.1x	12.7x	12.6x	0.96x	0.91x	0.97x	0.99x
Anthem (NYSE:ANTM)	9.0x	9.2x	9.4x	9.8x	0.62x	0.59x	0.63x	0.67x
Aetna (NYSE:AET)	8.7x	7.7x	7.6x	7.7x	0.77x	0.72x	0.72x	0.75x
Cigna (NYSE:C)	8.9x	9.6x	9.9x	10.3x	0.93x	0.93x	0.92x	1.00x
Humana (NYSE:HUM)	12.0x	11.3x	10.1x	14.7x	0.52x	0.52x	0.51x	0.55x
Median	9.0x	9.6x	9.9x	10.3x	0.77x	0.72x	0.72x	0.75x
Average	10.2x	10.0x	9.9x	11.0x	0.76x	0.73x	0.75x	0.79x
Specialty Pharmacy								
Diplomat (NYSE:DPLO)	24.5x	18.9x	10.3x	16.5x	0.64x	0.49x	0.23x	0.27x
Bio Scrip (NasdaqGS:BIOS)	67.2x	28.1x	26.5x	27.0x	0.79x	0.79x	0.67x	0.77x
PharMerica (NYSE:PMC)	8.5x	9.5x	8.8x	9.2x	0.54x	0.60x	0.56x	0.57x
Median	24.5x	18.9x	10.3x	16.5x	0.64x	0.60x	0.56x	0.57x
Average	33.4x	18.8x	15.2x	17.6x	0.66x	0.63x	0.48x	0.54x

Due to the lack of pure-play publicly traded PBMs, Bourne Partners tracked the equity performance of various companies in related sub-sectors over the last 12 months.

- Over the last 12 months, we’ve seen valuations drop slightly in each of the sub-sectors along with pharma at large
- However; valuations peaked in 2015 and 2016 and current valuations are in-line with historical norms
- Express Scripts’ valuation has been negatively impacted by potential contract loss and litigation with one of its largest customers
- While we have seen declines in the space in the last 24 months, PBM performance has been much more stable than that of the pharmaceutical manufacturers

Additional historical trading multiples within our limited PBMs basket are broken out further on the reverse side.

⁽¹⁾S&P Capital IQ April 11, 2017

Market Trends & Industry Developments

Below are some recent trends and market intelligence:

Market Fragmentation: Due to the highly fragmented nature of the PBM industry beyond the three largest players, we expect to see a high volume of M&A in the coming years as large and mid-sized PBMs seek scale, and differentiated services and customer bases

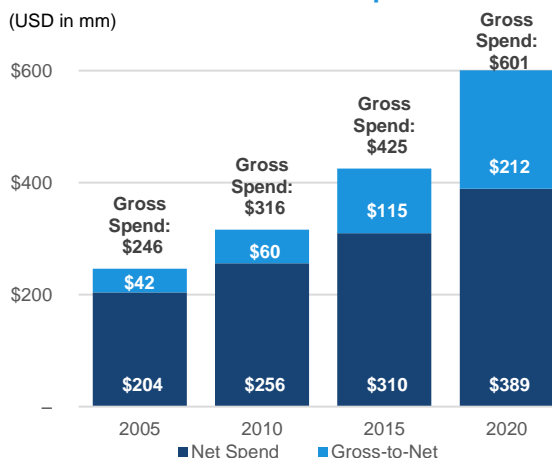
Revenue Growth Drivers: The industry is expected to see meaningful top-line growth due to key revenue drivers such as drug price inflation (expected to grow ~5% annually in the next 5 years), growth in prescriptions, and rebate pool growth; much of this growth is represented in the continued expansion of pharmaceuticals gross-to-net spend (see table below)

Specialization: Smaller PBMs with specialized services and access to smaller employers are likely to see growth as more small businesses move to self-funded plans

Value-Based Reimbursement: As demand for value-based reimbursement continues to grow, PBMs with the ability to effectively manage total patient care and measure outcomes will see increased valuations

Regulatory Pressure: while the PBM industry has been the target of scrutiny from pharmaceutical manufacturers and some regulators, the cost savings produced from the PBMs make negative legislative change unlikely; the congressional budget office estimated that PBMS save as much as 30% in total drug costs

US Pharmaceutical Spend⁽¹⁾



⁽¹⁾Barclay’s Equity Research March 2017

Precedent Transactions Analysis⁽¹⁾

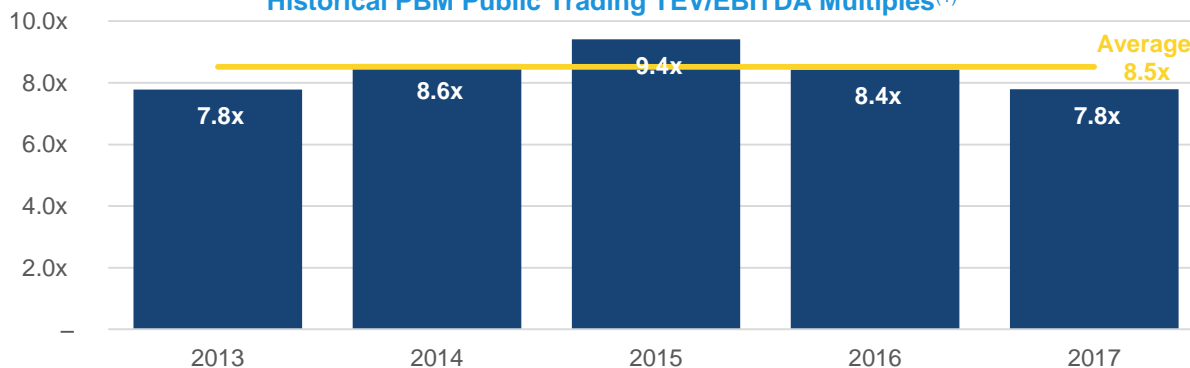
(USD in mm)

Announced Date	Target	Buyer	TEV	TEV / EBITDA
January 27, 2016	Helios Comp	OptumRx	\$1,600	11.3x
March 30, 2015	Catamaran Corporation	OptumRx	\$13,215	15.6x
February 26, 2015	Healthcare Solutions	Catamaran Corporation	\$405	12.0x
February 11, 2015	Envision Topco Holdings	Rite Aid Corporation	\$2,011	21.5x
October 8, 2014	Salveo Specialty Pharmacy, Inc.	Catamaran Corporation	\$260	13.0x
April 1, 2014	CDMI	Magellan Rx Management	\$365	10.1x
September 6, 2013	PMSI	Helios Comp	\$408	12.8x
August 1, 2013	Restat	Catamaran Corporation	\$410	9.0x
July 8, 2013	Envision Pharmaceutical Holdings	TPG Capital	\$885	10.0x
April 18, 2012	Catalyst Health Solutions	SXC Health Solutions	\$4,333	19.9x
		Max	\$13,215	21.5x
		Min	\$260	9.0x
		Average	\$2,389	13.5x
		Median	\$647	12.4x

⁽¹⁾S&P CapitalIQ, April 11, 2017

While there is a lack of data on publicly traded PBMs, we do have a meaningful dataset of M&A transactions in the space over the past 5 years. The dataset above shows healthy valuations in recent years where the average EBITDA multiple is 13.5x. Precedent transactions valuations represent a more analogous reference to companies considering potential M&A or a capital raise.

Historical PBM Public Trading TEV/EBITDA Multiples⁽¹⁾



⁽¹⁾S&P CapitalIQ, April 11, 2017; basket consists of the only two publicly traded pure-play PBMs, Express Scripts (NasdaqGS:ESRX) and Magellan Health (NasdaqGS:MGLN)

Bourne Partners is a healthcare-focused investment banking advisory and strategic capital firm based in Charlotte, North Carolina that advises* and invests in companies within the pharmaceutical services, specialty pharmaceuticals, and consumer health segments. Our firm's management team is composed of healthcare executives and experienced investment professionals with broad experience and expertise in healthcare investing and business development activities. The firm also invests opportunistically in select private equity funds and in companies and products that align with the firm's strategic initiatives. For more information on market activity in the PBM industry or to discuss how Bourne Partners may be able to add value to your company, please contact: xsmith@bourne-partners.com

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