

INSIGHT



PHARMACY SERVICES

2019 Valuation Report

January 2020

BOURNE PARTNERS

Comp./Spec. Pharmacy – Transaction Comps

Compounding/Specialty Pharmacy – Transaction Comps

USD in millions

Announced Date	Target	Target Description	Buyer	Geographic Location	Enterprise Value	LTM Revenue	LTM EBITDA	EV / LTM Revenue	EV / LTM EBITDA
Dec-19	Home Health, Specialty Pharmacy and Infusion Services of Advanced Home Care, Inc.	The US Home Health, Specialty Pharmacy, and Infusion Services businesses of Advanced Home Care	BrightSpring Health Services	USA	NA	NA	NA	NA	NA
Dec-19	Diplomat Pharmacy, Inc.	Independent specialty pharmacy and PBM for the US	OptumRx, Inc.	USA	\$897.3	\$5,206.3	\$54.3	0.2x	16.5x
Oct-19	KnippeRx Inc.	Operates as an independent specialty pharmacy chain, offering rare, orphan, and ultra orphan drug categories	Court Square Capital Partners	USA	NA	NA	NA	NA	NA
May-19	Belmar Pharmacy	Compounding pharmacy located in Golden, CO. Provides patient-specific preparations of various pharmaceutical products	MedEquity Capital, LLC; Webster Equity Partners	USA	NA	NA	NA	NA	NA
May-19	Specialty Pharmacy Business Assets of Premier, Inc.	Comprises the specialty pharmacy business/operations and related assets of Premier, Inc.	Procure Pharmacy, L.L.C.	USA	42.3	NA	NA	NA	NA
Mar-19	BioScrip, Inc.	Provides infusion and home care management solutions in the United States	Option Care Health, Inc.	USA	NA	NA	NA	NA	NA
Oct-18	Avella Specialty Pharmacy	Operates a chain of retail pharmacies that provide specialty medications to patients across the US	OptumRx / UnitedHealth Group	USA	NA	NA	NA	NA	NA
Nov-17	Salus Pharmacare Inc.	Specialty pharmacy offering medication management services to assisted living and LTC facilities	Centric Health Corporation	Canada	3.2	NA	0.5	NA	6.8x
Aug-17	Quantum Pharma Plc	Develops, manufactures, and supplies niche pharmaceutical products to the retail pharmacy, pharmaceutical wholesaler, hospital, and homecare markets	Clinigen Group plc	United Kingdom	199.9	119.5	8.2	1.7x	24.4x
Apr-16	Diplomat Specialty Pharmacy of Los Angeles County, Inc.	Stocks, dispenses, and distributes prescriptions for various biotechnology and specialty pharmaceutical manufacturers	Diplomat Pharmacy, Inc.	USA	75.7	400.0	9.0	NM	8.4x
Apr-16	Integrity Compounding Pharmacy, LLC	Develops and provides compounded pharmaceutical products	True Nature Holding, Inc.	USA	1.0	0.9	NA	1.1x	NA

Notes:

NA - Not Available

NM - Not Meaningful

Median	\$59.0	\$259.8	\$8.6	1.1x	12.5x
Mean	203.2	1,431.7	18.0	1.0x	14.0x
Min	1.0	0.9	0.5	0.2x	6.8x
Max	897.3	5,206.3	54.3	1.7x	24.4x

PBM/Managed Care – Transaction Comps

PBM/Managed Care – Transaction Comps

USD in millions

Announced Date	Target	Target Description	Buyer	Geographic Location	Enterprise Value	LTM Revenue	LTM EBITDA	EV / LTM Revenue	EV / LTM EBITDA
Dec-19	Enclara Pharmacia, Inc.	Full service mail order supplier of medications and clinical services and PBM, primarily focused on hospice and palliative care industries	Humana Inc.	USA	NA	NA	NA	NA	NA
Dec-19	Diplomat Pharmacy, Inc.	Independent specialty pharmacy and PBM for the US	OptumRx, Inc.	USA	\$897.3	\$5,206.3	\$54.3	0.2x	16.5x
Mar-19	WellCare Health Plans, Inc.	Provides government-sponsored managed care services	Centene Corporation	USA	17,300.0	20,414.1	915.2	0.8x	18.9x
Sep-18	Genoa Healthcare, LLC	Genoa Healthcare is the largest provider of pharmacy, outpatient telepsychiatry and medication management services	OptumRx, Inc.	USA	2,500.0	NA	NA	NA	NA
Aug-18	Excel Managed Care & Disability Services Inc.	Provides occupational and non-occupational medical case management, utilization review, and return-to-work services	Genex Services, LLC	USA	NA	NA	NA	NA	NA
Mar-18	RxAdvance Corporation	RxAdvance is a national full-service PBM that helps to manage standard formulary, specialty pharmaceutical, and biologics usage	Centene Corporation	USA	NA	NA	NA	NA	NA
Mar-18	Express Scripts Holding Company	Express Scripts is one of the largest PBMs in the US	Cigna Corporation	USA	68,671.4	100,064.6	7,132.5	0.7x	9.6x
Dec-17	Aetna Inc.	Aetna is one of the largest managed healthcare companies in the US	CVS Health Corporation	USA	69,643.0	60,535.0	5,685.0	1.2x	12.3x
Nov-17	Leehar Distributors, Inc.	Provides pharmacy benefits services for health insurance agents and consultants; third party administrators; and self-insured organizations	Diplomat Pharmacy, Inc.	USA	595.6	NA	NA	NA	NA
Nov-17	National Pharmaceutical Services	Designs performance network pharmacy concepts in the US	Diplomat Pharmacy, Inc.	USA	47.0	32.0	5.4	1.5x	8.7x
Nov-16	Integrated Prescription Solutions, Inc.	Provides PBM and ancillary healthcare services in the US	Mitchell International, Inc.	USA	NA	NA	NA	NA	NA
Jan-16	Helios Comp	Helios Comp is a PBM focused on workers' compensation and auto no-fault cost containment	OptumRx, Inc.	USA	1,600.0	NA	NA	NA	NA

Notes:

NA - Not Available

NM - Not Meaningful

Median	\$2,050.0	\$20,414.1	\$915.2	0.8x	12.3x
Mean	20,156.8	37,250.4	2,758.5	0.9x	13.2x
Min	47.0	32.0	5.4	0.2x	8.7x
Max	69,643.0	100,064.6	7,132.5	1.5x	18.9x

Comp./Spec. Pharmacy – Trading Comps

Compounding/Specialty Pharmacy – Trading Comps

USD in millions

Company	Ticker	Enterprise Value	LTM			Margin Analysis			Enterprise Value/			Debt/		
			Sales	EBITDA	EBIT	Gross Profit	EBITDA	EBIT	Sales	EBITDA	EBIT	Enterprise Value	Equity Value	EBITDA
Diplomat Pharmacy, Inc.	NYSE:DPLO	881.3	5,206.3	54.3	(6.4)	6.0%	1.0%	NM	0.2x	16.2x	NM	66.6%	193.5%	10.8x
Fagron NV	ENXTBR:FAGR	1,878.6	564.6	101.9	90.2	44.9%	18.1%	16.0%	3.3x	18.4x	20.8x	22.6%	27.1%	4.2x
Harrow Health, Inc.	NasdaqCM:HROW	190.4	49.9	(1.2)	(3.2)	65.4%	NM	NM	3.8x	NM	NM	10.6%	10.3%	NM
Median						44.9%	9.5%	16.0%	3.3x	17.3x	20.8x	22.6%	27.1%	7.5x
Mean						38.8%	9.5%	16.0%	2.4x	17.3x	20.8x	33.2%	77.0%	7.5x
Min						6.0%	1.0%	16.0%	0.2x	16.2x	20.8x	10.6%	10.3%	4.2x
Max						65.4%	18.1%	16.0%	3.8x	18.4x	20.8x	66.6%	193.5%	10.8x

- Few publicly traded Compounding/Specialty Pharmacies exist on the market today
- As these markets continue to mature and experience consolidation, we expect to see more companies looking to the public markets as a capital source
- Q4 2019 was marked by Optum’s acquisition of Diplomat Pharmacy in December
 - Under the agreement, Optum will pay Diplomat \$300mm in cash (\$4.00 per share) and assume more than \$560mm in debt
 - This remains consistent with UnitedHealth Group’s strategy of acquiring more medical care providers and services through its Optum unit
 - Optum is expected to contribute more than half of UnitedHealth’s profits in 2020
- As of the end of Q4, the median EV multiples for this sector were 3.3x and 17.3x for LTM Sales and EBITDA, respectively

PBM/Managed Care – Trading Comps

PBM/Managed Care – Trading Comps

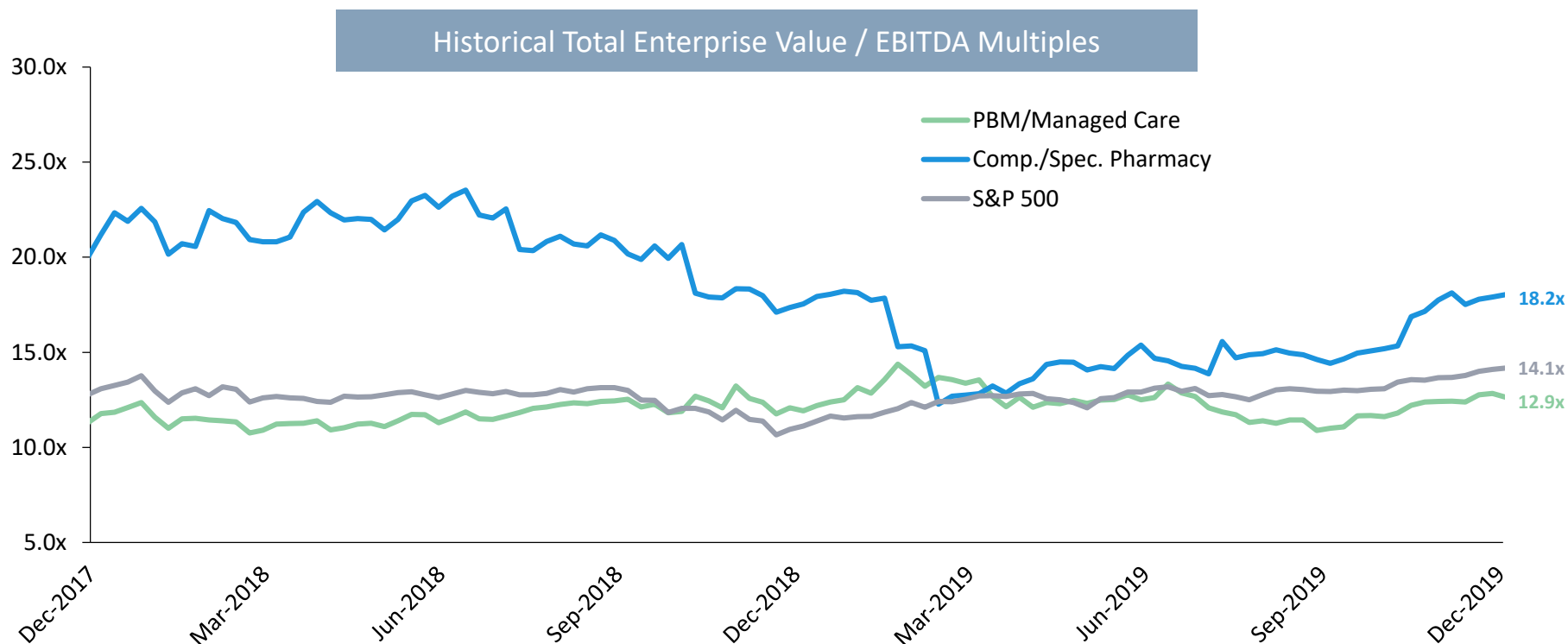
USD in millions

Company	Ticker	Enterprise Value	LTM			Margin Analysis			Enterprise Value/			Debt/		
			Sales	EBITDA	EBIT	Gross Profit	EBITDA	EBIT	Sales	EBITDA	EBIT	Enterprise Value	Equity Value	EBITDA
Anthem, Inc.	NYSE:ANTM	\$93,728.8	\$100,165.0	\$6,742.0	\$6,154.0	20.8%	6.7%	6.1%	0.9x	13.9x	15.2x	22.8%	27.9%	3.2x
Centene Corporation	NYSE:CNC	27,629.4	68,369.0	3,208.0	2,592.0	17.1%	4.7%	3.8%	0.4x	8.6x	10.7x	28.3%	30.1%	2.4x
Cigna Corporation	NYSE:CI	111,194.8	129,660.0	10,497.0	7,855.0	17.8%	8.1%	6.1%	0.9x	10.6x	14.2x	35.4%	51.6%	3.8x
CVS Health Corporation	NYSE:CVS	178,799.6	243,331.0	15,751.0	11,669.0	17.5%	6.5%	4.8%	0.7x	11.4x	15.3x	50.2%	92.8%	5.7x
Humana Inc.	NYSE:HUM	49,790.8	62,761.0	3,618.0	3,366.0	17.8%	5.8%	5.4%	0.8x	13.8x	14.8x	13.6%	14.0%	1.9x
UnitedHealth Group Incorporated	NYSE:UNH	311,052.0	239,671.0	21,120.0	19,087.0	23.5%	8.8%	8.0%	1.3x	14.7x	16.3x	14.4%	16.1%	2.1x
WellCare Health Plans, Inc.	NYSE:WCG	16,349.2	26,983.3	1,173.3	991.9	13.0%	4.3%	3.7%	0.6x	13.9x	16.5x	14.1%	13.8%	2.0x

Median	17.8%	6.5%	5.4%	0.8x	13.8x	15.2x	22.8%	27.9%	2.4x
Mean	18.2%	6.4%	5.4%	0.8x	12.4x	14.7x	25.5%	35.2%	3.0x
Min	13.0%	4.3%	3.7%	0.4x	8.6x	10.7x	13.6%	13.8%	1.9x
Max	23.5%	8.8%	8.0%	1.3x	14.7x	16.5x	50.2%	92.8%	5.7x

- As mentioned on the previous slide, Q4 was marked by UnitedHealth's Optum unit continuing its flurry of acquisitions in the medical care and specialty pharmacy spaces
- Following the same trend as the year prior, 2019 was marked by its own mega-deal – the \$17.3bn proposed acquisition of WellCare Health Plans by Centene Corporation – highlighting an ever-increasing focus on consolidation within this industry segment
 - The spike in M&A over the last handful of years has driven valuations – and will likely continue to do so – within the PBM/Managed Care segment as firms look to add niche services and compile more lives
- As of the end of Q4, the median EV multiples for this segment were 0.8x and 13.8x for LTM Sales and EBITDA, respectively

Valuation Trends – Last 3 Years



- The PBM/Managed Care segment stayed fairly steady in Q4, holding just below the S&P 500 index
 - As of the end of Q4, the sector was sitting at 12.9x LTM EBITDA
- The Compounding/Specialty Pharmacy index saw a slight lift over the last quarter but is still short of 2018 highs
 - As of the end of Q4, the sector was sitting at 18.2x LTM EBITDA

Comp./Spec. Pharmacy basket consists of: Diplomat Pharmacy, Inc. (NYSE:DPLO), Fagron NV (ENXTBR:FAGR), and Harrow Health, Inc. (NasdaqCM:HROW)

PBM/Managed Care basket consists of: Anthem, Inc. (NYSE:ANTM), Centene Corporation (NYSE:CNC), Cigna Corporation (NYSE:CI), CVS Health Corporation (NYSE:CVS), Humana Inc. (NYSE:HUM), UnitedHealth Group Incorporated (NYSE:UNH), WellCare Health Plans, Inc. (NYSE:WCG)

Valuation Trends (Current, 3 Year, & LTM Comparisons)

- Below are the current TEV / EBITDA multiples for each sector as of the end of Q4:
 - Compounding/Specialty Pharmacy: 18.2x (29.2% above current S&P multiple)
 - PBM/Managed Care: 12.9x (8.9% below current S&P multiple)
 - S&P 500: 14.1x
- Below are the average TEV / EBITDA multiples for each sector over the last 3 years:
 - Compounding/Specialty Pharmacy: 18.5x (47.1% above average S&P multiple)
 - PBM/Managed Care: 11.6x (7.2% below average S&P multiple)
 - S&P 500: 12.5x
- Below are the % change in TEV / EBITDA multiples for each sector over the last 3 years (and LTM):
 - Compounding/Specialty Pharmacy: +13.5% (up 1.7% in the last 12 months)
 - PBM/Managed Care: +23.5% (up 5.4% in the last 12 months)
 - S&P 500: +19.9% (up 24.1% in the last 12 months)