


INSIGHT



PHARMACY SERVICES SECTOR SNAPSHOT

Q1 2020

BOURNE PARTNERS

Compounding/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
Mar-20	Navitus Health Solutions, LLC	Pharmacy benefit management company that offers specialty pharmacy, clinical care model, and cost management services	Costco Wholesale Corporation	USA	NA	NA	NA	NA	NA
Jan-20	InnovaCare Health Solutions, LLC	Provides managed care services, health plans, and physician network services	Summit Partners, L.P.	USA	NA	NA	NA	NA	NA
Jan-20	Healthcents Inc.	Healthcents provides managed care and healthcare contracting services	Osceola Capital Management, LLC	USA	NA	NA	NA	NA	NA
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	\$61.1	0.2x	14.7x
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

Notes:

NA - Not Available

NM - Not Meaningful

Median	\$2,500.0	\$20,414.1	\$915.2	0.8x	12.3x
Mean	22,807.7	37,250.4	2,759.8	0.9x	12.8x
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

Compounding/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
Fagron NV	ENXTBR:FAGR	\$1,729.1	\$600.0	\$127.6	\$94.7	44.9%	21.3%	15.8%	2.9x	13.6x	18.3x	25.4%	31.2%	3.4x
Harrow Health, Inc.	NasdaqCM:HROW	88.7	51.2	1.4	(0.7)	67.3%	2.8%	NM	1.7x	NM	NM	23.7%	21.5%	NM

Median	56.1%	12.0%	15.8%	2.3x	13.6x	18.3x	24.6%	26.3%	3.4x
Mean	56.1%	12.0%	15.8%	2.3x	13.6x	18.3x	24.6%	26.3%	3.4x
Min	44.9%	2.8%	15.8%	1.7x	13.6x	18.3x	23.7%	21.5%	3.4x
Max	67.3%	21.3%	15.8%	2.9x	13.6x	18.3x	25.4%	31.2%	3.4x

- For compounding and specialty pharmacies, Q1 2020 was marked by Optum’s acquisition of Diplomat Pharmacy, which closed on February 7, 2020
 - This move stayed 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
 - Upon close of the acquisition, the TEV/EBITDA for the subsector increased substantially and removed another member of this trading comparables set – the second constituent to be removed in the last 12 months (also includes BioScrip after being acquired by / merging with Option Care Enterprises)
 - Upon announcement of the acquisition, the market price for shares of Diplomat did not rise to meet the announced purchase price. When the acquisition closed, the index value rapidly increased to meet said purchase price, causing a large increase in multiples (as seen on slide 6). With such few constituents in the group, this index is particularly prone to major swings
- As of March 30, 2020, the median EV multiples for this sector were 2.3x and 13.6x for LTM Sales and EBITDA, respectively
 - This number is slightly understated due to the outlier that Harrow Health presents on an EV/EBITDA basis. The firm recently realized positive EBITDA and at a low margin, the firm is trading at a multiple that is not meaningful at this moment

PBM/Managed Care – Trading Comps

PBM/Managed Care – Trading Comps

USD in millions

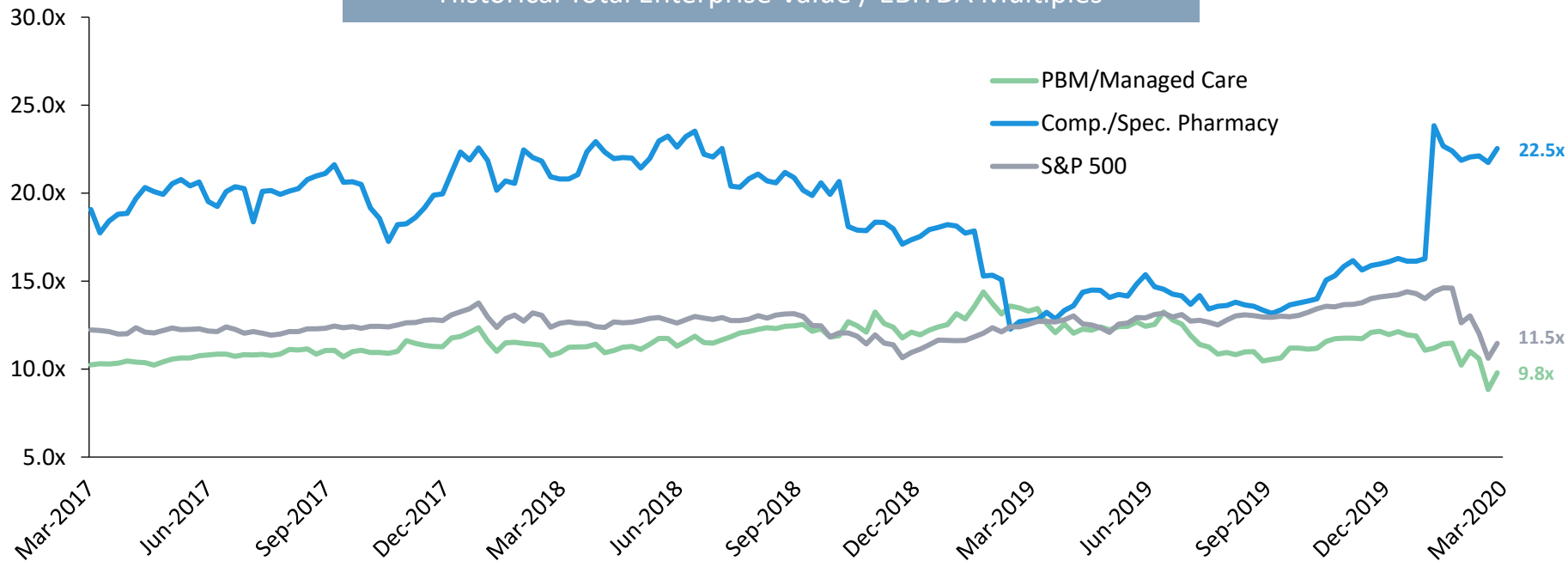
Company	Ticker	Enterprise Value	LTM			Margin Analysis			Enterprise Value/			Debt/		
			Sales	EBITDA	EBIT	Gross Profit	EBITDA	EBIT	Sales	EBITDA	EBIT	Enterprise Value	Equity Value	EBITDA
Anthem, Inc.	NYSE:ANTM	\$74,260.4	\$104,212.0	\$7,295.0	\$6,732.0	21.5%	7.0%	6.5%	0.7x	10.2x	11.0x	28.4%	36.3%	2.9x
Centene Corporation	NYSE:CNC	36,185.6	70,791.0	3,207.0	2,564.0	16.9%	4.5%	3.6%	0.5x	11.3x	14.1x	40.1%	43.0%	4.5x
Cigna Corporation	NYSE:CI	97,312.9	153,743.0	11,813.0	9,046.0	16.4%	7.7%	5.9%	0.6x	8.2x	10.8x	39.1%	59.5%	3.2x
CVS Health Corporation	NYSE:CVS	157,343.7	255,765.0	16,189.0	11,818.0	17.4%	6.3%	4.6%	0.6x	9.7x	13.3x	56.6%	116.5%	5.5x
Humana Inc.	NYSE:HUM	43,526.0	64,888.0	3,471.0	3,239.0	17.0%	5.3%	5.0%	0.7x	12.5x	13.4x	14.6%	15.4%	1.8x
UnitedHealth Group Incorporated	NYSE:UNH	272,891.7	242,155.0	21,684.0	19,685.0	23.8%	9.0%	8.1%	1.1x	12.6x	13.9x	16.4%	18.7%	2.1x

Median	17.2%	6.7%	5.4%	0.7x	10.7x	13.4x	33.7%	39.6%	3.1x
Mean	18.8%	6.6%	5.6%	0.7x	10.8x	12.8x	32.5%	48.2%	3.3x
Min	16.4%	4.5%	3.6%	0.5x	8.2x	10.8x	14.6%	15.4%	1.8x
Max	23.8%	9.0%	8.1%	1.1x	12.6x	14.1x	56.6%	116.5%	5.5x

- Q1 2020 was marked by the close of two major acquisitions, including Centene's mega-merger with WellCare and Optum's acquisition of Diplomat Pharmacy
- There were three more acquisitions across this segment in Q1 2020, highlighted by the minority stake taken in Navitus Health Solutions by Costco
 - SSM Health, the owner of Navitus, stated that this would allow the not-for-profit system to tap into Costco's expertise and expand its transparent PBM model to more people
 - Costco could benefit if Navitus members are now steered toward the wholesaler's stores and clinics
 - The retailer could also increase the reach of its own internal PBM business if there was some integration in the process
- As of March 30, 2020, the median EV multiples for this segment were 0.7x and 10.7x for LTM Sales and EBITDA, respectively

Valuation Trends – Last 3 Years

Historical Total Enterprise Value / EBITDA Multiples



- The PBM/Managed Care segment fell with the broader market throughout Q1 2020 due in large part (if not entirely) to the COVID-19 pandemic, holding just below the S&P 500 index
 - As of March 30, 2020, the sector was sitting at 9.8x LTM EBITDA
- The Compounding/Specialty Pharmacy index saw a significant lift in Q1 2020 due to the closing of the acquisition of Diplomat Pharmacy in February and Harrow Health turning EBITDA positive
 - As stated earlier, indexes that are made up of few constituents, such as this one, are particularly vulnerable to these substantial swings
 - As of March 30, 2020, the sector was sitting at 22.5x LTM EBITDA

Comp./Spec. Pharmacy basket consists of: 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)

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

- Below are the current TEV/EBITDA multiples for each sector as of the end of Q1:
 - Compounding/Specialty Pharmacy: 22.5x (96.5% above current S&P 500 multiple)
 - PBM/Managed Care: 9.8x (14.6% below current S&P 500 multiple)
 - S&P 500: 11.5x
- Below are the average TEV/EBITDA multiples for each sector over the last 3 years:
 - Compounding/Specialty Pharmacy: 18.5x (46.4% above average S&P 500 multiple)
 - PBM/Managed Care: 11.6x (8.2% below average S&P 500 multiple)
 - S&P 500: 12.6x
- Below are the % change in TEV/EBITDA multiples for each sector over the last 3 years (and LTM):
 - Compounding/Specialty Pharmacy: +18.1% (up 76.8% in the last 12 months)
 - PBM/Managed Care: -4.5% (down 26.3% in the last 12 months)
 - S&P 500: -6.2% (down 8.5% in the last 12 months)

COVID-19 – Update and Impact

- Since late February, the COVID-19 pandemic has taken a substantial toll on the capital markets, creating a significant drop in valuations across many sectors, including some Pharmacy Services subsectors
- For the respective sectors covered in this report, a considerable amount of value was created during the 11 year bull market (including a 389% increase in the S&P 500), a substantial portion of which was taken away during the recent declines
 - February 21, 2020 – April 2, 2020
 - The Compounding/Specialty Pharmacy index dropped roughly 20% in value
 - The PBM/Managed Care index dropped over 21% in value
 - The S&P 500 index dropped almost 22% in value
 - In summary, each industry subsector has lost ~1/5 of its total market value from COVID-19 related market declines (as of April 2, 2020)
 - However, Bourne expects the market to recover said losses over the next 6-12 months as the state of the economy returns to normalcy, specifically in the healthcare sector due to its essential nature and its role in combatting the virus, as well as a general turnaround in the broader market as a whole
- A couple of other effects/potential consequences of the pandemic on these sectors include:
 - The American Pharmacists Association (APhA) is urging PBMs and insurance companies to cut down barriers to access for refills of prescription medications
 - In an unprecedented time, the APhA is seeking the aid of PBMs and insurers to ensure that patients have full access to their needed prescriptions
 - This call to action will likely not be an ongoing change to the market or cause a substantial business disruption for PBMs and Insurers, but for the time being could provide ease of access to prescription products that would otherwise require a rigorous authorization process
 - You can read the full story [here](#)
 - Compounders are stepping up to make much needed products during this time of added need, giving them an angle to play an even more important part in combatting the pandemic
 - The FDA has issued an Emergency Use Authorization (EUA) for the use of Hydroxychloroquine and Chloroquine to treat COVID-19 patients and the FDA has moved Hydroxychloroquine Sulfate to the 503B bulks list, expanding the role of 503B compounders in the crisis
 - To read more about the EUA, click [here](#)
 - To read more about the move of Hydroxychloroquine to the bulks list, click [here](#) and [here](#)