

# INSIGHT



**PHARMACY SERVICES**

**SECTOR SNAPSHOT**

1H 2020

BOURNE PARTNERS

# Comp./Spec. Pharmacy – M&A Transaction Comps

## Compounding/Specialty Pharmacy – M&A 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
May-20	Solara Medical Supplies, LLC	D.b.a. "Imperial Beach Pharmacy," Solara distributes diabetes therapy devices and supplies	AdaptHealth, LLC	USA	\$427.6	\$183.4	\$25.7	2.3x	16.7x
May-20	Certain assets of Leiters Enterprises	Equipment and facilities in a 22,000 sq. ft., FDA-registered 503B outsourcing facility, licensed in 45 states	Wedgewood Village Pharmacy, LLC	USA	NA	NA	NA	NA	NA
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	Res-Care, 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
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 Pharmcare Inc.	Specialty pharmacy offering medication management services to assisted living and LTC facilities	Centric Health Corporation (nka:CareRx 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

Notes:

NA - Not Available

NM - Not Meaningful

Median	\$137.8	\$291.7	\$9.0	1.7x	14.7x
Mean	274.3	1,477.3	20.9	1.4x	14.2x
Min	3.2	119.5	0.5	0.2x	6.8x
Max	897.3	5,206.3	61.1	2.3x	24.4x

# Comp./Spec. Pharmacy – Public Company Trading Comps

## Compounding/Specialty Pharmacy – Public Company 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	\$1,837.0	\$600.0	\$111.2	\$94.4	44.9%	18.5%	15.7%	3.1x	16.5x	19.5x	23.9%	29.0%	4.0x
Harrow Health, Inc.	NasdaqCM:HROW	136.1	50.7	1.4	(0.8)	67.5%	2.8%	NM	2.7x	NM	NM	15.4%	15.8%	NM

Median	56.2%	10.6%	15.7%	2.9x	16.5x	19.5x	19.7%	22.4%	4.0x
Mean	56.2%	10.6%	15.7%	2.9x	16.5x	19.5x	19.7%	22.4%	4.0x
Min	44.9%	2.8%	15.7%	2.7x	16.5x	19.5x	15.4%	15.8%	4.0x
Max	67.5%	18.5%	15.7%	3.1x	16.5x	19.5x	23.9%	29.0%	4.0x

- For Compounding and Specialty Pharmacies, 1H 2020 was marked by Optum’s acquisition of Diplomat Pharmacy, which closed on February 7, 2020
  - This move was consistent with UnitedHealth Group’s strategy of acquiring medical care providers and services through its Optum unit
  - 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 of late (also includes BioScrip after being acquired by / merging with Option Care Enterprises in August 2019)
    - 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
- Q2 in particular was marked mostly by the sector’s (and overall public market’s) recovery from the severe COVID-19 related declines
  - Q2 included two notable transactions itself, including Leiters’ divestment of a 503B facility and Solara Medical Supplies’s sale to AdaptHealth, both occurring in May 2020
- As of June 30, 2020, the median EV multiples for this sector were **2.9x** and **16.5x** for LTM Sales and EBITDA, respectively

# PBM/Managed Care – M&A Transaction Comps

## PBM/Managed Care – M&A 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	709.0	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	\$1,698.6	\$20,414.1	\$915.2	0.8x	12.3x
Mean	20,045.4	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

# PBM/Managed Care – Public Company Trading Comps

## PBM/Managed Care – Public Company Trading Comps

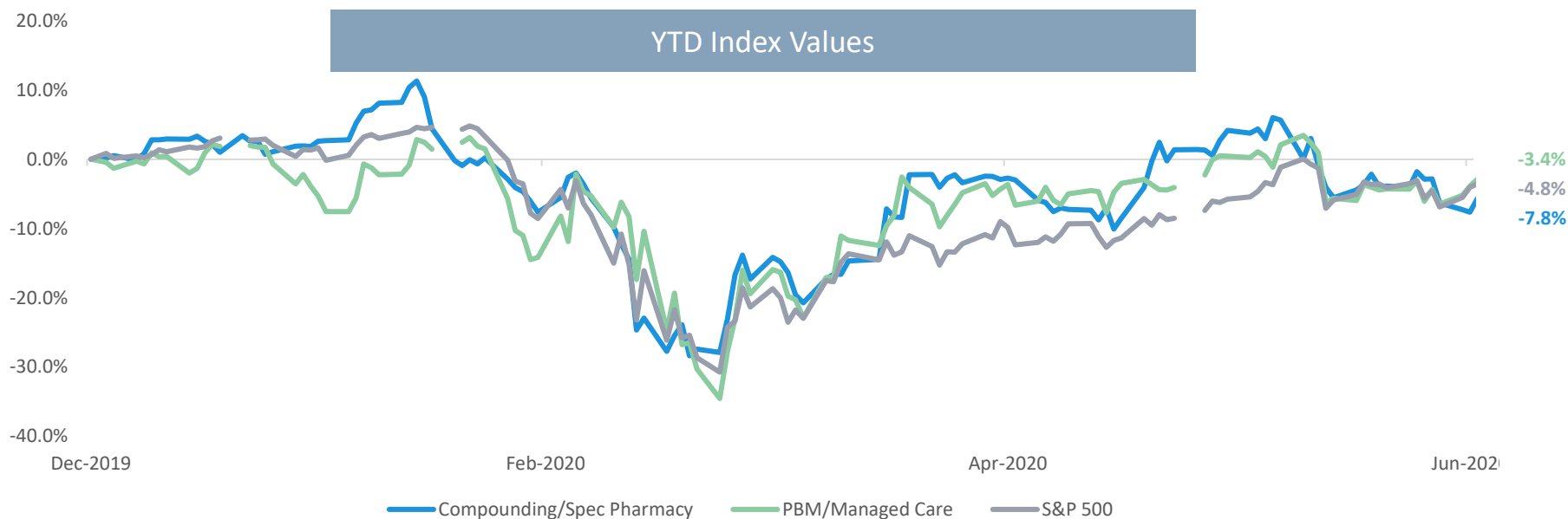
USD in millions

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	\$84,062.5	\$109,167.0	\$7,429.0	\$6,885.0	23.1%	6.8%	6.3%	0.8x	11.3x	12.2x	27.5%	34.8%	3.1x
Centene Corporation	NYSE:CNC	45,766.7	78,100.0	3,168.0	2,392.0	16.3%	4.1%	3.1%	0.6x	14.4x	19.1x	39.9%	49.6%	5.8x
Cigna Corporation	NYSE:CI	101,884.3	154,168.0	11,366.0	8,803.0	16.1%	7.4%	5.7%	0.7x	9.0x	11.6x	36.4%	53.6%	3.3x
CVS Health Corporation	NYSE:CVS	164,527.7	260,961.0	16,805.0	12,459.0	17.5%	6.4%	4.8%	0.6x	9.8x	13.2x	56.1%	108.7%	5.5x
Humana Inc.	NYSE:HUM	53,332.9	67,716.0	3,707.0	3,466.0	17.3%	5.5%	5.1%	0.8x	14.4x	15.4x	15.2%	15.8%	2.2x
UnitedHealth Group Incorporated	NYSE:UNH	309,762.5	246,268.0	21,932.0	19,849.0	24.1%	8.9%	8.1%	1.3x	14.1x	15.6x	16.7%	18.4%	2.4x

Median	17.4%	6.6%	5.4%	0.7x	12.7x	14.3x	31.9%	42.2%	3.2x
Mean	19.1%	6.5%	5.5%	0.8x	12.2x	14.5x	32.0%	46.8%	3.7x
Min	16.1%	4.1%	3.1%	0.6x	9.0x	11.6x	15.2%	15.8%	2.2x
Max	24.1%	8.9%	8.1%	1.3x	14.4x	19.1x	56.1%	108.7%	5.8x

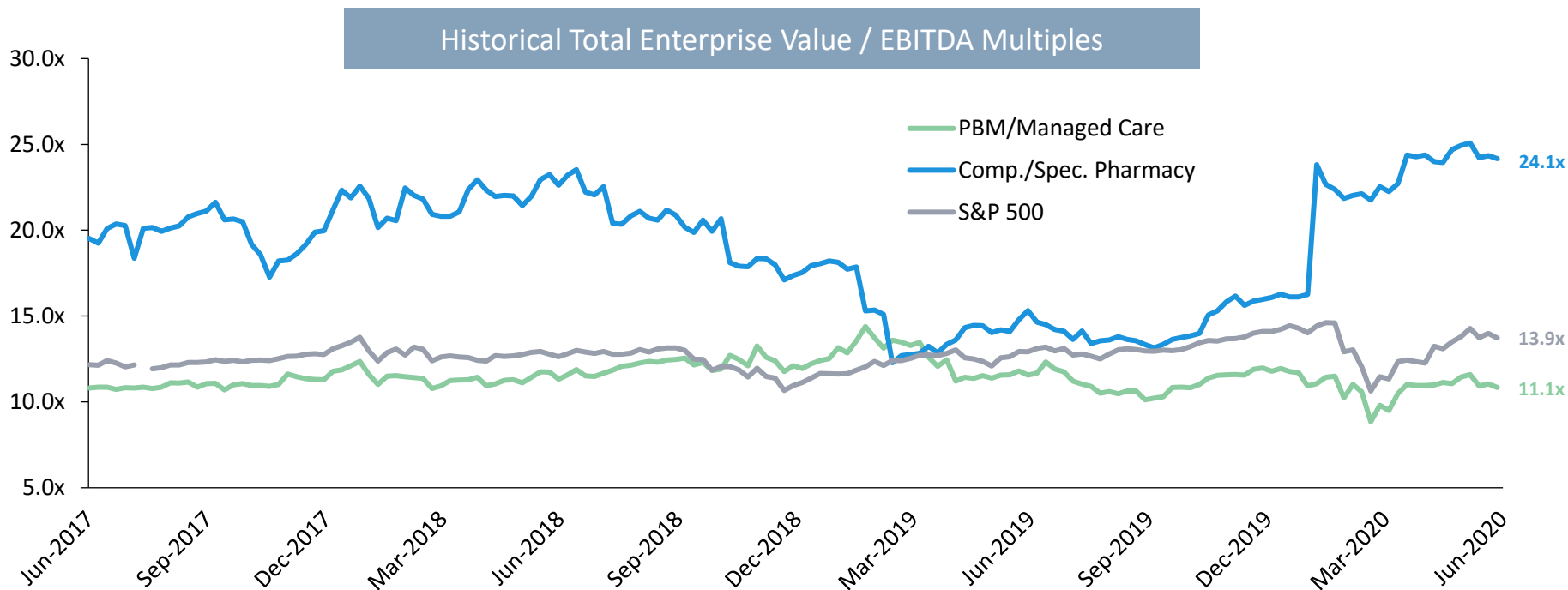
- Q1 2020 was marked by the close of two major acquisitions, including Centene's mega-merger with WellCare in January 2020 and Optum's acquisition of Diplomat Pharmacy in February 2020
- There were three more acquisitions across this segment in Q1 2020, highlighted by the minority stake taken in Navitus 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
- In Q2, the PBM/Managed Care segment was quieter from an M&A perspective, but did see a lift in trading multiples on the public markets
- As of June 30, 2020, the median EV multiples for this segment were **0.7x** and **12.7x** for LTM Sales and EBITDA, respectively

# Valuation Trends – YTD Index Valuations



- 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 lost during the recent declines
  - February 21, 2020 – March 23, 2020:
    - The Compounding/Specialty Pharmacy index dropped roughly **28%** in value
    - The PBM/Managed Care index dropped over **35%** in value
    - The S&P 500 index dropped almost **33%** in value
  - In summary, each industry subsector had lost **over 1/4** of its total market value from COVID-19 related market declines (as of March 23, 2020)
  - However, from March 23, 2020 – June 30, 2020, these industry subsegments rebounded significantly, paring back much of the losses
    - The Compounding/Specialty Pharmacy index gained over **28%**
    - The PBM/Managed Care index gained almost **47%**
    - The S&P 500 index gained almost **39%**

# Valuation Trends – Last 3 Years



- The PBM/Managed Care segment fluctuated roughly in step with the broader market throughout Q2 2020 due in large part (if not entirely) to the COVID-19 pandemic, holding just below the S&P 500 index
  - As of June 30, 2020, the sector was sitting at 11.1x LTM EBITDA
- The Compounding/Specialty Pharmacy index actually saw an increase in its EV/EBITDA multiple over the last few months
  - As of June 30, 2020, the sector was sitting at 24.1x 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)

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- Below are the current TEV/EBITDA multiples for each sector as of the end of Q2:
  - Compounding/Specialty Pharmacy: 24.1x (73.1% above current S&P 500 multiple)
  - PBM/Managed Care: 11.1x (20.3% below current S&P 500 multiple)
  - S&P 500: 13.9x
  
- Below are the average TEV/EBITDA multiples for each sector over the last 3 years:
  - Compounding/Specialty Pharmacy: 18.9x (48.5% above average S&P 500 multiple)
  - PBM/Managed Care: 11.5x (9.5% below average S&P 500 multiple)
  - S&P 500: 12.7x
  
- Below are the % change in TEV/EBITDA multiples for each sector over the last 3 years (and LTM):
  - Compounding/Specialty Pharmacy: +23.3% (up 57.1% in the last 12 months)
  - PBM/Managed Care: +2.5% (down 4.2% in the last 12 months)
  - S&P 500: +14.2% (up 7.6% in the last 12 months)



# COVID-19 – Update and Impact

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- In Q1 2020, the COVID-19 pandemic shocked the public markets, sending valuations tumbling
- In Q2 2020, public market valuations, particularly for those in the pharmaceutical services and related industries, saw a substantial uplift, recovering a good portion of the lost value from the previous declines
- Other effects/potential consequences of the pandemic on these sectors include:
  - Temporary suspension on quantity and days supply limits under 90 days – the Centers for Medicare and Medicaid Services (“CMS”) has issued guidelines waiving certain requirements for Plan Sponsors to reduce patient encounters with their pharmacies and deter further spreading of COVID-19
    - CVS Caremark has announced it is working with PBM clients to waive early refill limits on 30-day prescription maintenance medications and that it is waiving the policy of its affiliated pharmacy, CVS Pharmacy, to charge for home delivery of prescription medications. It is also actively working with clients who do not offer 90-day supply benefits to waive early refill limits on 30-day prescription maintenance medications
    - To read more about these waivers and suspensions within the PBM/pharmacy space, as well as some other ways that COVID could impact PBM contracts, click [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
    - Early in the pandemic the FDA issued an Emergency Use Authorization (“EUA”) for the use of Hydroxychloroquine and Chloroquine to treat COVID-19 patients and the FDA moved Hydroxychloroquine Sulfate to the 503B bulks list, expanding the role of 503B compounders in the crisis
      - *Of note, this EUA was revoked in June 2020*
    - In April, the FDA decided to temporarily allow hospitals to source hard-to-find drugs from compounding pharmacies to treat certain patients hospitalized with COVID-19 – the announcement brought this allowance to compounding pharmacies that were not those considered “registered outsourcing facilities”
      - This was meant to last as long as hospitals continue to encounter shortages of key drugs
    - 503B compounders have begun to manufacture alcohol based hand sanitizers during the time of heightened need amidst the public health emergency, on top of aiding with shortages and hospital products
    - Useful links:
      - To read more about the EUA, click [here](#) or [here](#)
      - To read more about the move of Hydroxychloroquine to the bulks list, click [here](#) and [here](#)
      - To read more about the FDA’s allowance of sourcing through compounding pharmacies, click [here](#) or [here](#)
      - To read more about the compounding of alcohol-based hand sanitizer products, click [here](#)