

# **Sector Report**

## **Specialty Pharmacy Industry**

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June 2013

# Discussion Outline

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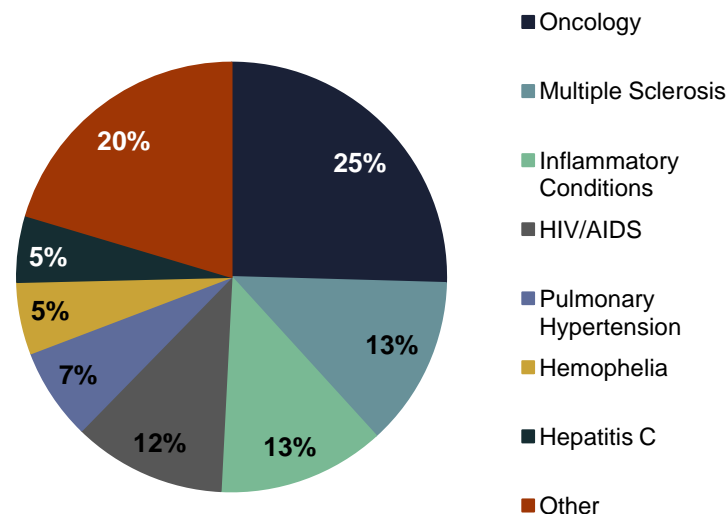
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# Industry Highlights

## Market Overview

- ❖ Specialty pharmaceutical sales are expected to reach \$160 billion for 2013, which accounts for 18% of the global pharmaceutical market<sup>(1)</sup>
- ❖ Specialty pharmaceuticals offer a robust pipeline<sup>(1)</sup>
  - Over 1,300 new specialty drugs in the pipeline
  - Over 600 in late-stage development
- ❖ Fast growth with an affordable price tag<sup>(2)</sup>
  - 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<sup>(3)</sup>



## M&A Activity<sup>(4)</sup>

- ❖ 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

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# Industry Overview

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- ❖ 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<sup>(1)</sup>

(1) Department of Health and Human Services, "Competitive Acquisition of Outpatient Drugs and Biologicals"

# Industry Overview

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- ❖ 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:<sup>(1)</sup>
  - 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<sup>(2)</sup>

(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

Specialty Distribution Channels <sup>(1)</sup>

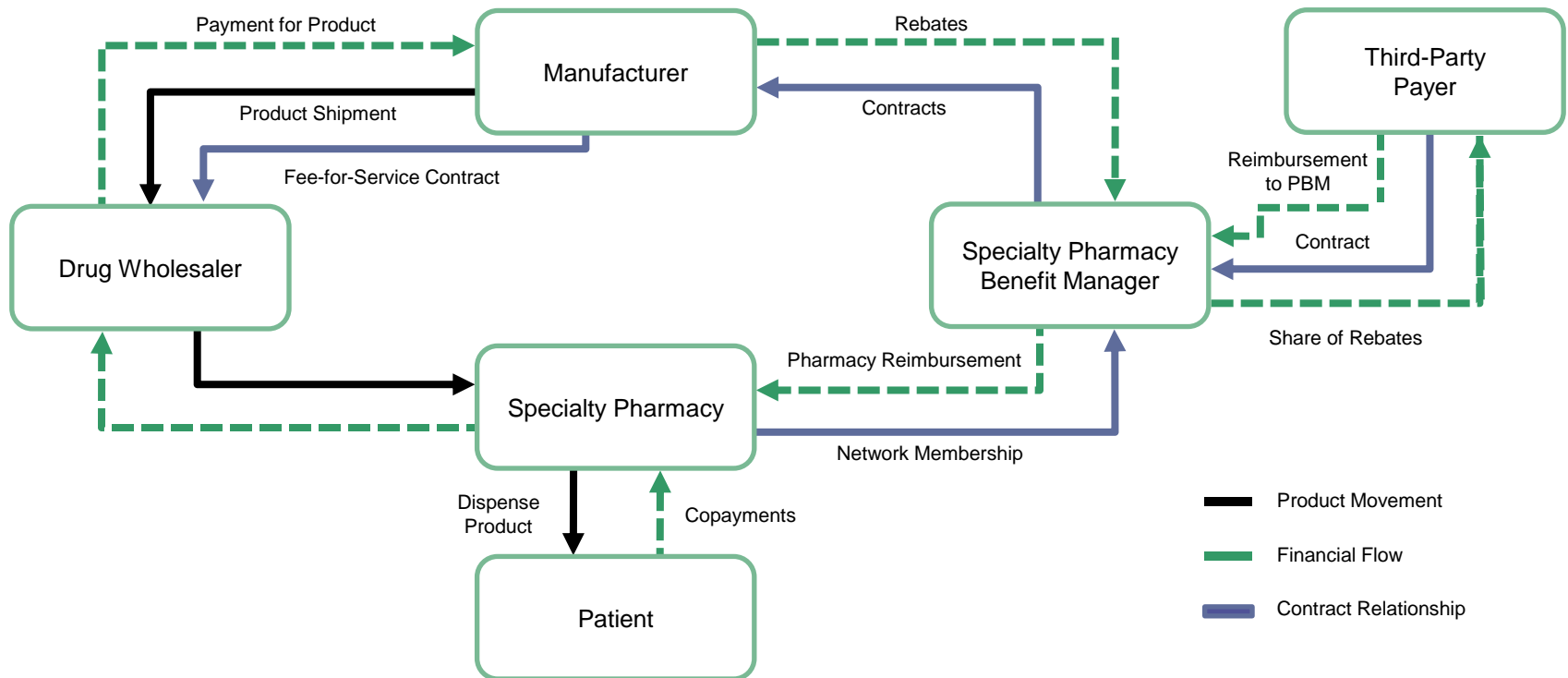
	Inventory Available	Access to Knowledgeable Pharmacists	Compliance Monitoring	Nursing and Social Support Services	Clinical Management of Disease-Specific Programs	Home Nursing Services Coordination	Pharmacy and Medical Benefit Billing and Reimbursement
<b>Specialty Distribution Channels</b>							
Retail Pharmacy							
Home Delivery Pharmacy			X				
<b>Specialty Pharmacy</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Physician Office	X						
Outpatient Clinic/Hospital	X	X		X		X	
Home Infusion	X	X	X	X		X	

(1) PharmaStrategies, "Specialty Pharmacies"

# Distribution and Reimbursement System

- ❖ 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<sup>(1)</sup>



(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<sup>(1)</sup>**

	Patient	Physician	Payer	Pharmaceutical Manufacturer
<b>Specialty Pharmacy Benefit</b>				
Service	<ul style="list-style-type: none"> <li>• 24 hour clinical support</li> <li>• Benefits verification</li> <li>• Direct home delivery</li> <li>• Internet community</li> </ul>	<ul style="list-style-type: none"> <li>• Clinical extension of office</li> <li>• Compliance management</li> <li>• Customized dose delivery</li> <li>• Reimbursement coordination</li> <li>• Patient education services</li> <li>• Coding and billing assistance</li> </ul>	<ul style="list-style-type: none"> <li>• Competitive pricing</li> <li>• Customized programs</li> <li>• Reduction in wasted drug</li> <li>• Dedicated payer/sales support</li> </ul>	<ul style="list-style-type: none"> <li>• Shipping and delivery</li> <li>• Patient and office assistance</li> <li>• REMS execution</li> </ul>
Indicator	<ul style="list-style-type: none"> <li>• Improved outcomes</li> <li>• Increased satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Time savings</li> <li>• Patient satisfaction</li> <li>• More patients</li> </ul>	<ul style="list-style-type: none"> <li>• Cost savings</li> <li>• Member satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Patient satisfaction</li> <li>• Prescriber satisfaction</li> <li>• Improved patient access</li> <li>• Regulatory compliance</li> <li>• Increased sales</li> </ul>

<sup>(1)</sup> 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<sup>(1)</sup>**

Traditional Pharmacy	Prescriber	Patient	Payer
<ul style="list-style-type: none"> <li>• High cost of inventory</li> <li>• Inability to have same/next-day delivery</li> <li>• Special storage and delivery capabilities</li> <li>• Reimbursement: pharmacy or medical, inability to bill major medical</li> <li>• Pharmacist knowledge of injectables</li> <li>• Patient counseling and support limitations: compliance, injection training</li> <li>• Unwillingness to break package sizes</li> <li>• Administration tools not included (needles, syringe, alcohol swabs)</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to gain access to products: sources constantly changing</li> <li>• Multiple vendors</li> <li>• Decreasing reimbursement by payers</li> <li>• Formulary approval delays/billing risks</li> <li>• Personnel required to oversee prescription ordering</li> <li>• Increasing cost of labor/nursing shortages</li> <li>• High cost of inventory, if held by physician</li> <li>• Accounts receivable drain cash; uncertain collections</li> <li>• Support of patients' demands increasing: reimbursement, training</li> <li>• Compliance monitoring challenges</li> </ul>	<ul style="list-style-type: none"> <li>• Access to products from traditional pharmacies</li> <li>• Delays/interruptions in therapy created from uncommitted supply channels</li> <li>• Varied coverage: medical and pharmacy benefit</li> <li>• Prior authorization processes</li> <li>• Higher out-of-pocket expenses/copayments/deductibles</li> <li>• Difficult coordination of deliveries to treatment settings</li> <li>• Product safety: storage and stability issues</li> <li>• Counseling and support needed around the clock</li> <li>• Compliance monitoring needed to improve outcomes and decrease global healthcare costs to plan and patient (lifetime maximums)</li> </ul>	<ul style="list-style-type: none"> <li>• Member dissatisfaction</li> <li>• Prescriber dissatisfaction</li> <li>• Major medical "usual and customary" payment vs. managed care pricing</li> <li>• Lack of national consensus guidelines/formulary controls</li> <li>• Hidden billing codes</li> <li>• Prior authorization and approval-criteria processes and associated labor</li> <li>• Collection of proper copayments, co-insurance, deductibles</li> <li>• Tracking and auditing utilization, showing return on investment of control programs</li> <li>• Multiple plan designs can add confusion to process</li> <li>• Multiple providers and in-network pharmacies create confusion</li> </ul>

<sup>(1)</sup> Alliance for Health Reform, "The Rise and Role of Specialty Pharmacy"

## Current Market Dynamics

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# Market Overview

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- ❖ ***Vast Global Market<sup>(1)</sup>***

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<sup>(2)</sup>***

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<sup>(3)</sup>***

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<sup>(2)</sup>***

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

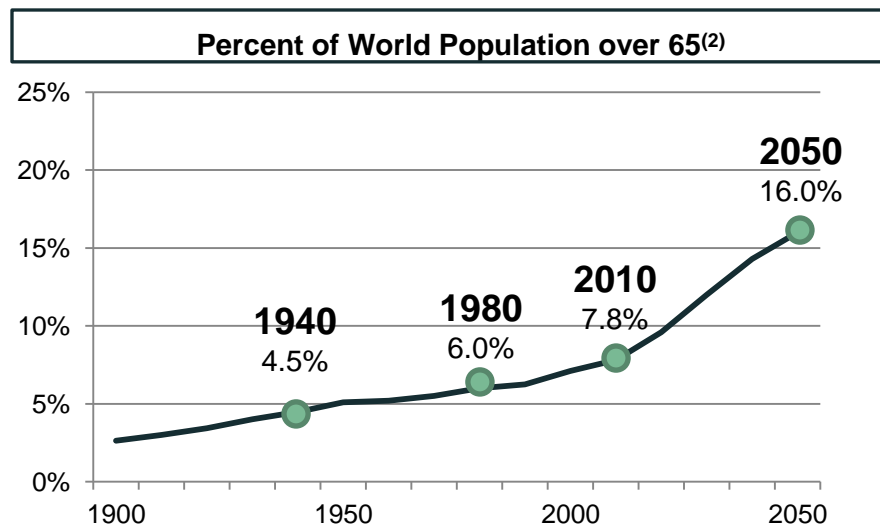
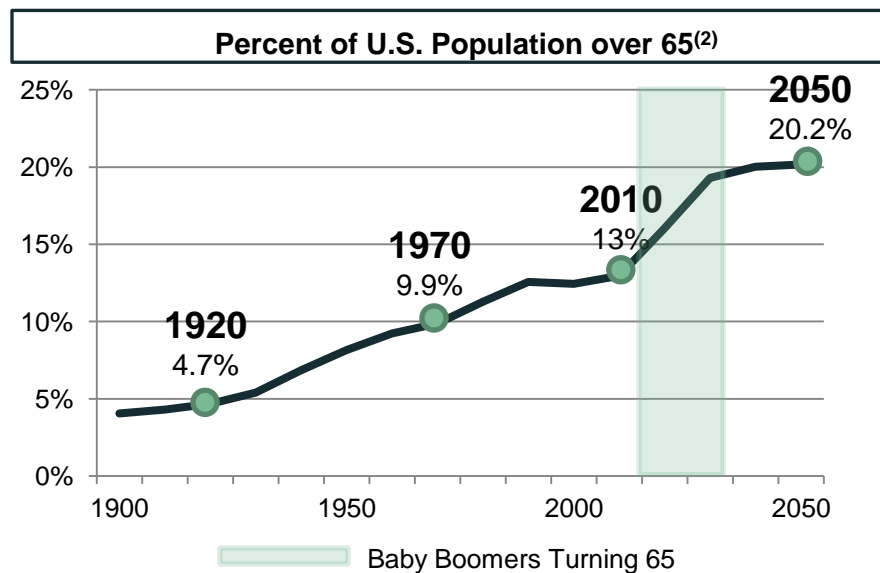
# Aging Population

- ❖ 40.3 million or roughly 13% of Americans are over age 65<sup>(1)</sup>
- ❖ More than 10,000 baby boomers turn 65 each day<sup>(2)</sup>
- ❖ By 2030 71.5 million Americans will be over 65<sup>(1)</sup>
- ❖ Over-85 population predicted to grow from 5.3 million in 2006 to 21.0 million in 2050<sup>(1)</sup>
- ❖ Americans over the age of 65 take an average of 4.5 medications each day<sup>(2)</sup>
- ❖ Over 500 million or roughly 8% of people worldwide are over the age of 65<sup>(1)</sup>
- ❖ This group is expected to grow to over 1 billion (13% of population) by 2030<sup>(1)</sup>
- ❖ 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

## 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<sup>(1)</sup>

- ❖ 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

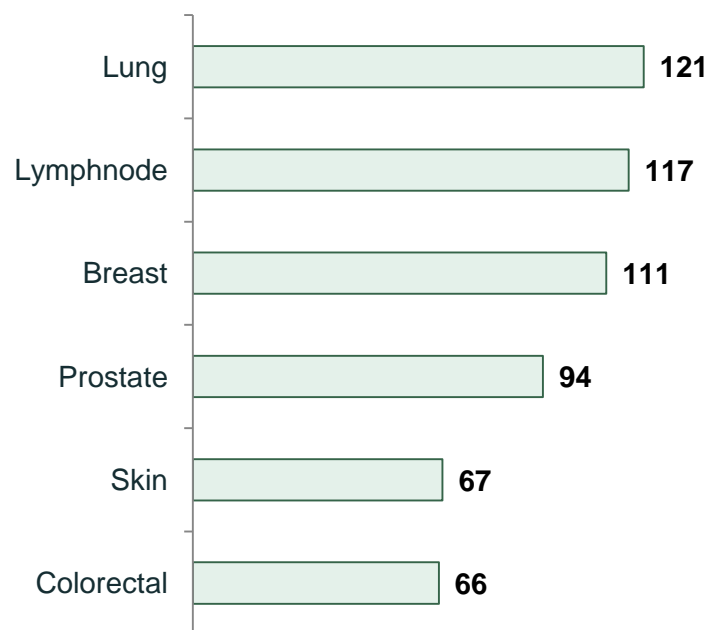
## Rapid Growth in Hepatitis C Treatments<sup>(1)</sup>

- ❖ 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

## Robust Pipeline of Oncology Products

- ❖ Over 600 specialty oncology products currently in development<sup>(1)</sup>
- ❖ 70% contain biomarkers or genome specific targeting<sup>(2)</sup>

### Pipeline Cancer Products<sup>(1)</sup>



Source:

(1) EMD Serono Specialty Digest

(2) Specialty Pharmacy Journal Online

## Market Comps

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# Industry M&A Activity in General

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- ❖ 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

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

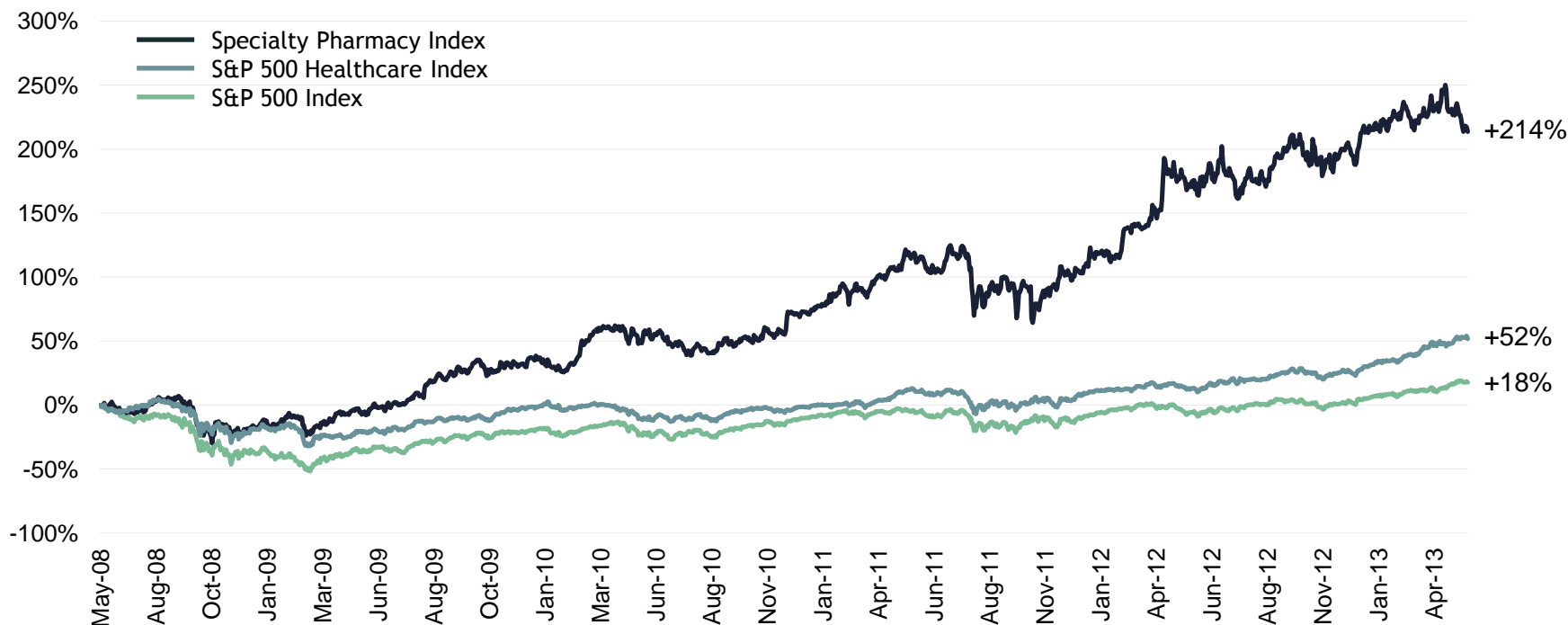
\$ in millions

(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

# Trading Comps

## Publicly Traded Comparable Company Equity Performance



Note: Specialty Pharmacy Index comprised of companies in trading comps on prior slide (Omincare, PharMerica, Walgreens, CVS, Express Scripts, and Catamaran)

- ❖ 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

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

\$ in millions

**Median**      **1.1x**      **11.9x**

<sup>(1)</sup> Estimate from industry insider with unique perspective on transaction

<sup>(2)</sup> 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

## Axium Pharmacy Holdings, Inc.

- ❖ **Announce Date:** November 2012
- ❖ **Acquirer:** The Kroger Co. (NYSE:KR)
- ❖ **Region:** United States
- ❖ **Enterprise Value:** N/A
- ❖ **Revenue Multiple:** N/A
- ❖ **EBITDA Multiple:** N/A
- ❖ **Target Description**
  - Specialty pharmacy that provides drug therapies and patient-support services to treat chronic, genetic, and other complex medical conditions
  - Based in Lake Mary, Florida, but operates facilities throughout the U.S. and Puerto Rico to offer nationwide patient coverage
- ❖ **Transaction Overview:**
  - Axium continues to operate as an independent company within Kroger
- ❖ **Strategic Rationale:**
  - The move allows Kroger to better serve its growing pharmacy clientele while also reduce costs through operational efficiencies Kroger's size and presence offer



## AcariaHealth, Inc.

- ❖ **Announce Date:** January 2013
- ❖ **Acquirer:** Centene Corp. (NYSE:CNC)
- ❖ **Region:** United States
- ❖ **Enterprise Value:** \$152 million
- ❖ **Revenue Multiple:** 3.9x
- ❖ **EBITDA Multiple:** N/A
- ❖ **Target Description**
  - One of the largest national comprehensive specialty pharmacy companies in the U.S.
  - National platform with industry leading technology
- ❖ **Transaction Overview:**
  - The transaction was financed through a combination of Centene common stock, cash on hand, and existing credit facilities
  - Comprehensive deal financials were not released
- ❖ **Strategic Rationale:**
  - The acquisition offers Centene a unique pairing of pharmacy solutions by pairing AcariaHealth with its PBM, US Script.
  - The deal also offers Centene access to AcariaHealth's relationships with specialty pharmaceutical companies and distributors



## BioScrip Spec Pharmacy Business

- ❖ **Announce Date:** February 2012
- ❖ **Acquirer:** Walgreen Co. (NYSE:WAG)
- ❖ **Region:** United States
- ❖ **Enterprise Value:** \$173.7 million
- ❖ **Revenue Multiple:** N/A
- ❖ **EBITDA Multiple:** N/A
- ❖ **Target Description**
  - The community specialty pharmacy and centralized specialty and mail-order service pharmacy businesses
  - Includes 30 community locations across 16 states primarily focused on HIV, oncology, and transplant patients
- ❖ **Transaction Overview:**
  - The transaction's total deal value was reported as \$225 million, but BioScrip retained the rights to a large portion of its accounts receivable
  - However, certain milestones over the next few quarters could increase or decrease the overall price
- ❖ **Strategic Rationale:**
  - The deal allows Walgreens to bring specialty services closer to its customers as it emphasizes its "Well at Walgreens" corporate initiative



## Industry Outlook

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# 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<sup>(1)</sup>
- ❖ 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<sup>(2)</sup>

## Market Forces Affecting Growth

### Headwinds

- ❖ Continued scrutiny over abuses of the 340B system may harm smaller specialty pharmacies that rely extensively on government spending
- ❖ 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
- ❖ 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

### Tailwinds

- ❖ Growing number of approved specialty products and utilization will increase specialty pharmacy revenues
- ❖ Aging U.S. population will rapidly expand specialty pharmacy client bases and continue to drive revenue and margin growth
- ❖ 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

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

Business Model	Company	Specialty Business
Pure-play	<ul style="list-style-type: none"> <li>• Bioscrip</li> <li>• Amber Pharmacy</li> <li>• Diplomat</li> </ul>	<ul style="list-style-type: none"> <li>• Bioscrip</li> <li>• Amber Pharmacy</li> <li>• Diplomat</li> </ul>
Distributor-Affiliated	<ul style="list-style-type: none"> <li>• AmeriSource Bergen</li> <li>• Cardinal</li> <li>• McKesson</li> </ul>	<ul style="list-style-type: none"> <li>• AmeriSource Bergen Specialty Group</li> <li>• Cardinal Specialty Pharmacy</li> <li>• McKesson Specialty</li> </ul>
PBM-Affiliated	<ul style="list-style-type: none"> <li>• CareMark</li> <li>• Express Scripts</li> <li>• Medco</li> </ul>	<ul style="list-style-type: none"> <li>• CareMark Specialty</li> <li>• Curascript/Priority</li> <li>• Accredo</li> </ul>
Retail-Affiliated	<ul style="list-style-type: none"> <li>• CVS</li> <li>• Walgreens</li> </ul>	<ul style="list-style-type: none"> <li>• ProCare</li> <li>• Walgreens Specialty Pharmacy</li> </ul>
MCO-Affiliated	<ul style="list-style-type: none"> <li>• Aetna</li> <li>• Cigna</li> <li>• WellPoint</li> </ul>	<ul style="list-style-type: none"> <li>• Aetna Specialty</li> <li>• CIGNA Tel-Drug</li> <li>• Precision Rx</li> </ul>

Source: Pharmaceutical Commerce, "Working with Specialty Pharmacies"



## In Summary

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# Specialty Pharmacy Industry Summary

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- ❖ 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<sup>(1)</sup>, 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<sup>(2)</sup>
- ❖ 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<sup>(1)</sup>

Source:

(1) IMS Health, "Changing the Channel: Developments in U.S. Specialty Pharmaceutical Distribution"

(2) Medco, "2010 Drug Trend Report"

## Firm Overview

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# Bourne Partners Information

## Life Sciences Merchant Bank

- ❖ Investment banking advisory
- ❖ Direct investing
- ❖ Operational and management consulting

## Segmentation

- ❖ Healthcare services
- ❖ Specialty pharmaceuticals
- ❖ Consumer Health
- ❖ 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

## Geographic Coverage



*Dots represent the countries where the Bourne Partners team has transaction experience*

# 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



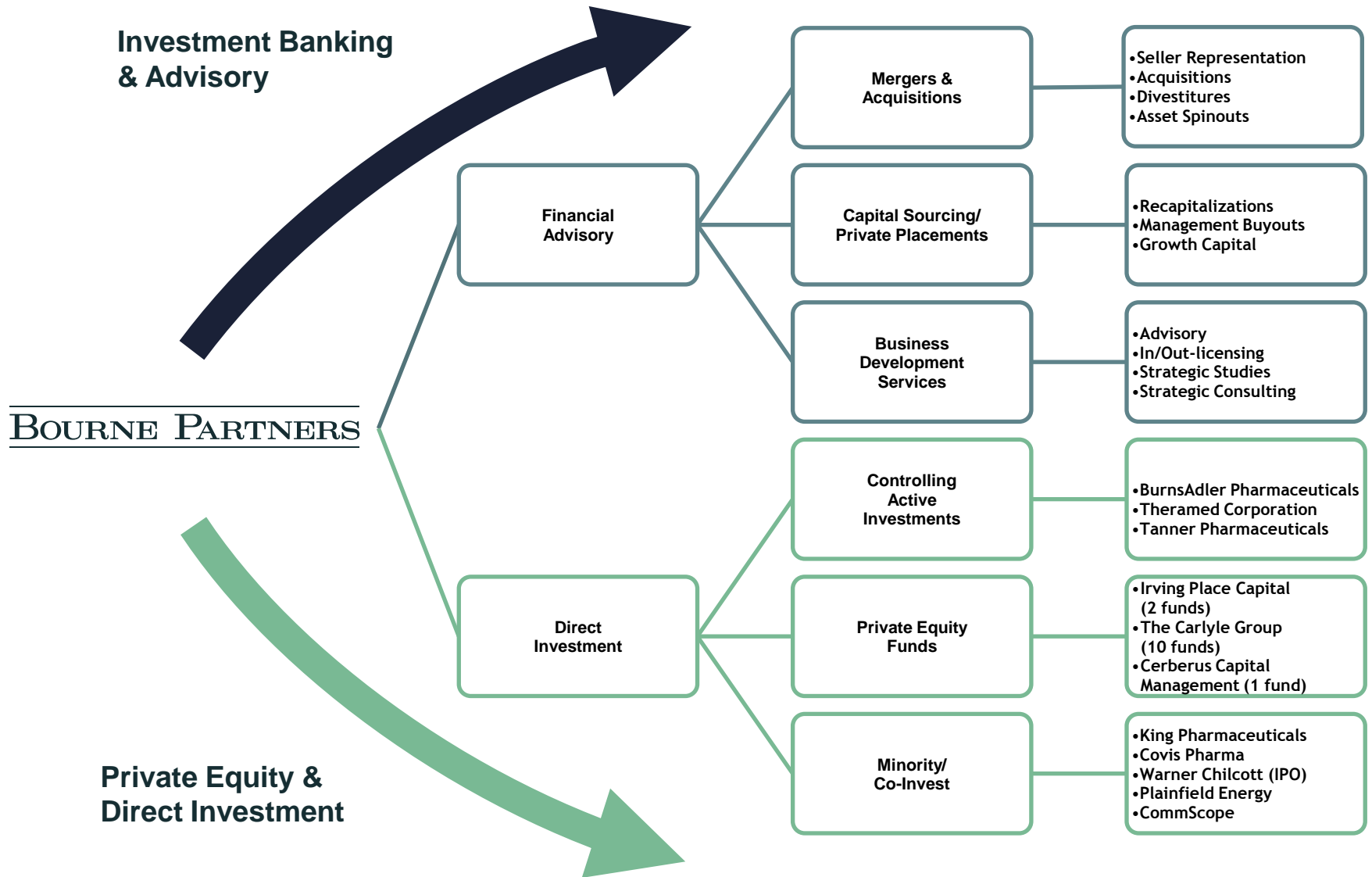
## Representative Active Role Investments



## Representative Passive, Fund, & Co-Investments



# Bourne Partners Structure



# Senior Team

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



Banks Bourne  
Chief Executive Officer



Minor Hinson  
Chief Investment Officer



Jeremy Johnson  
Managing Director



Bill Taylor  
Director of Legal Affairs



Steve Scalia  
Operating Partner



Molly Bourne  
Director

- ❖ 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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