



Express Scripts to Buy Medco for \$29 Billion

TRANSACTION PROFILE

Express Scripts Inc. (ESRX) and Medco Health Solutions Inc. (MHS), the two largest U.S. pharmacy benefits management companies, said Thursday they will merge in a cash and stock deal worth \$29.1 billion. The deal combines the two companies at a time when healthcare services companies are searching for new opportunities in the face of extensive industry changes. Express Scripts of St. Louis, Missouri, will buy its rival for \$71.36 per share. Medco's shareholders will get \$28.80 per share in cash and 0.81 shares of Express Scripts for each share they own. That is a premium of 27.9% based on Medco's closing price of \$55.78 per share on Wednesday, July 20. The deal is expected to close in the first half of 2012, pending approval from regulators and from shareholders of both companies. The key to this deal's completion will be how the Federal Trade Commission reacts when they review the transaction for compliance with federal antitrust laws. Express Scripts shareholders will own 59% of the new company that will be based in St. Louis, MO. Express Scripts Chairman and CEO George Paz will lead the larger Express Scripts, and the board of directors will expand to include two independent Medco directors.

TARGET

Name Medco Health Solutions Inc.
Industry Healthcare
Headquarters Franklin Lakes, NJ
Public Status MHS (NYSE)



Business Description Medco Health Solutions, Inc. is a healthcare company. It provides clinically-driven pharmacy services designed for private and public employers, health plans, labor unions and government agencies of all sizes, and for individuals served by Medicare Part D Prescription Drug Plans. The Company operates in two segments: Pharmacy Benefit Management (PBM) and Specialty Pharmacy.

ACQUIROR

Name Express Scripts Inc.
Industry Healthcare
Headquarters St. Louis, MO
Public Status ESRX (NYSE)



Business Description Express Scripts, Inc. is a pharmacy benefit management (PBM) company operating in North America, offering a range of services to its clients, which include health maintenance organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans, workers' compensation plans and government health programs. The Company is organized into two business segments based on products and services offered: PBM and Emerging Markets (EM). The Company's revenues are generated from the delivery of prescription drugs through its contracted network of retail pharmacies, home delivery and specialty pharmacy services and EM services.



Express Scripts to Buy Medco for \$29 Billion

TRANSACTION VALUES

Consideration to Shareholders (\$B)	\$28.5	Implied Enterprise Value (\$B)	\$33.5
LTM Sales (\$B)	\$67.3	EV/Sales	0.5x
LTM EBITDA (\$B)	\$3.0	EV/EBITDA	11.1x

DEAL HIGHLIGHTS

- ✓ Medco's stock price is currently trading at \$62.77 per share, well below the Express Scripts offer of \$71.36 per share.
- ✓ There still remains concern about whether the deal would survive antitrust scrutiny. Being two of the three biggest pure-play pharmacy benefit managers, such horizontal mergers tend to be looked at more skeptically than other kinds of deals.
- ✓ On the other hand, analysts noted the merger would pass the Justice Department's test for market concentration. That indicator, known as the Herfindahl index, shows that the pharmacy benefits management market would remain "moderately concentrated" after the deal.
- ✓ The companies manage prescription drug benefits and look for ways to cut costs for health plan sponsors and members. They handled more than 1.7 billion prescriptions in 2010 and reported almost \$110 billion in revenue combined.
- ✓ Express Scripts said that it expects to benefit from \$1 billion in cost savings once the merger is completed and that it will begin adding to its earnings per share in the first full year after closing.
- ✓ The deal is expected to close in the first half of next year, pending regulatory and shareholder approval.
- ✓ Express Scripts was advised by Credit Suisse, Citigroup, and the law firm Skadden, Arps, Slate, Meagher & Flom. Medco was advised by JPMorgan Chase, Lazard, and the law firms Sullivan & Cromwell and Dechert.

ABOUT BOURNE PARTNERS

Headquartered in Charlotte, North Carolina, Bourne Partners is a leading healthcare-focused merchant banking firm that provides financial advisory services and capital to companies throughout the world. Advisory areas of focus include corporate partnering (joint venture/licensing), mergers and acquisitions, and financing services. The firm's principals have completed transactions in the healthcare area in 17 different countries aggregating over \$5.0 billion in value.

For more information please contact:

R. Banks Bourne
Senior Managing Director

bbourne@bourne-partners.com
704-714-8350

Jeremy C. Johnson
Director

jjohnson@bourne-partners.com
704-714-8351