

# Pharmacy Benefit Management Sector Snapshot

June 2011



**Bourne Partners**



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Bourne Capital Partners, LLC

**Global Healthcare Merchant Banking & Financial Advisory**

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# Pharmacy Benefit Management Industry Overview

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**Objective of PBMs is to spread financial responsibility equitably between the payer and the patient**

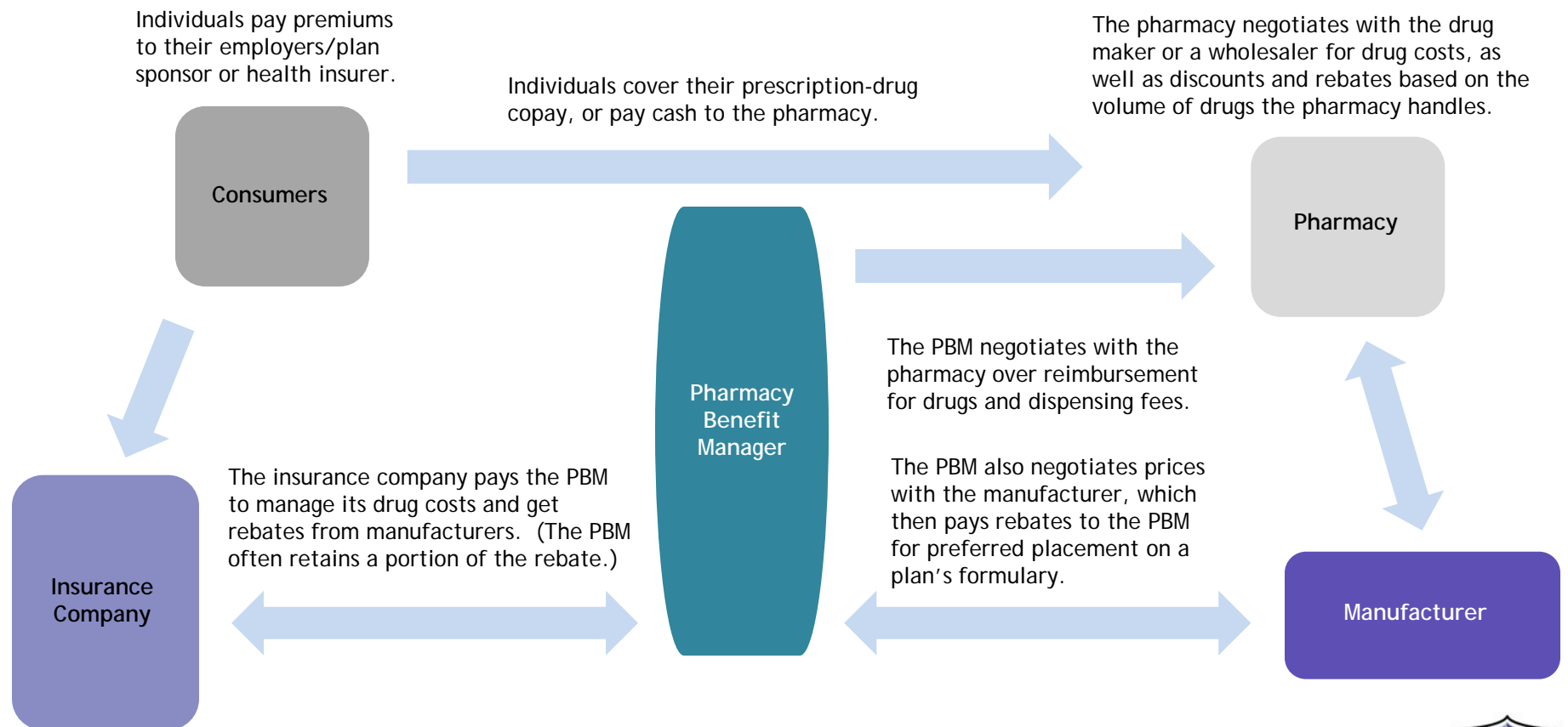
- Pharmacy benefit managers (PBMs) are third party administrators of prescription drug programs
- PBMs are responsible for the processing and paying prescription drug claims as well as developing and maintaining the formulary, contracting with pharmacies, and negotiating discounts and rebates with drug manufacturers
- PBMs aggregate the buying clout of millions of enrollees through client health plans, enabling sponsors and individuals to obtain lower prices for their prescription drugs through price discounts from retail pharmacies, rebates from pharmaceutical manufacturers, and the efficiencies of mail order services
- PBMs also use clinical tools aimed at reducing inappropriate prescribing by physicians, reducing medication errors, and improving consumer compliance and health outcomes

Source: American Pharmacists Association



# Pharmacy Benefit Management Function & Role

- The role of pharmacy benefit managers has evolved over the years, with the below illustration providing one example of how these companies operate in the current healthcare landscape

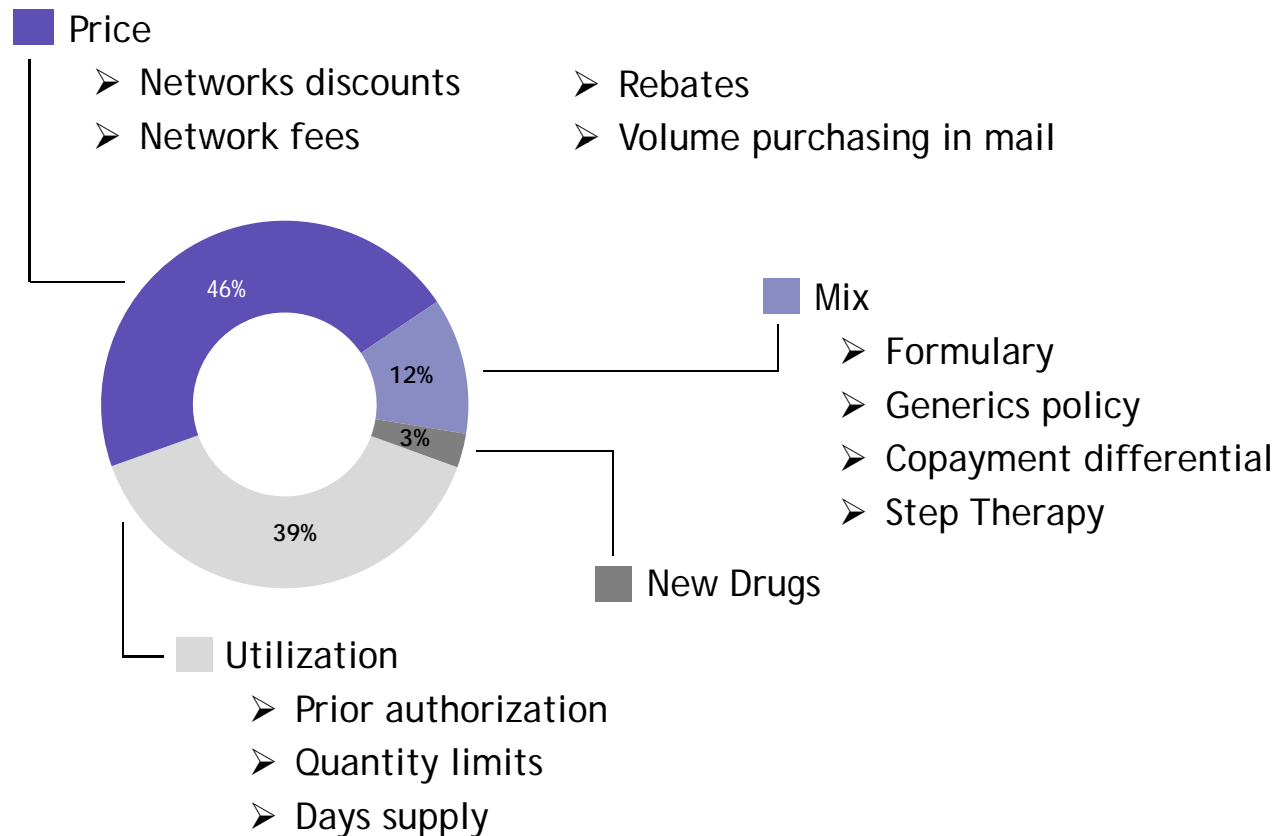


Source: Avalere Health



# Pharmacy Benefit Management Services Provided

- PBMs contain costs through a variety of means, though fees, discounts, and rebates are the most significant drivers of price reductions while utilization management, formulary development, and new drug introductions are also offered among other services



Source: Express Scripts

# Pharmacy Benefit Management Trading Comps

\$ in millions, except for per-share amounts

Company	Ticker	Share Price	Shares Out	Equity Value	Net Debt (Cash)	Enterprise Value	LTM				CYE			Book Value	
							Sales	EBITDA	EBIT	EPS	Sales	EBITDA	CYE EPS		CYE+1 EPS
Catalyst Health Solutions, Inc.	NasdaqGS:CHSI	\$53.55	44.2	\$2,368.8	(\$36.6)	\$2,332.2	\$4,053.5	\$161.7	\$141.5	\$1.89	\$4,903.4	\$192.5	\$2.25	\$2.74	\$12.7
SXC Health Solutions, Corp.	TSX:SXC	55.96	61.9	3,462.8	(325.9)	3,136.8	2,593.9	124.3	106.2	1.03	4,588.8	166.9	1.61	2.31	9.3
BioScrip Inc.	NasdaqGS:BIOS	7.33	54.2	397.3	277.6	674.9	1,742.9	55.1	43.3	0.03	1,782.8	68.5	0.35	0.57	3.8
Express Scripts Inc.	NasdaqGS:ESRX	57.17	529.5	30,268.9	1,728.0	31,996.9	44,929.3	2,485.0	2,259.3	2.36	45,755.0	2,901.8	3.12	3.84	7.5
MedcoHealth Solutions Inc.	NYSE:MHS	57.44	399.8	22,964.5	4,857.4	27,821.9	66,677.0	3,021.9	2,535.7	3.29	68,670.8	3,163.3	4.09	4.72	9.0

Company	Ticker	FYE	Data as of	Margin Analysis			Enterprise Value/				P/E			Price to Book
				Gross Profit	EBITDA	EBIT	Sales	EBITDA	EBIT	Sales CYE	LTM	CYE	CYE+1	
Catalyst Health Solutions, Inc.	NasdaqGS:CHSI	31-Dec	9-Jun-11	6.0%	4.0%	3.5%	0.6 x	14.4 x	16.5 x	0.5 x	28.4 x	23.8 x	19.5 x	4.2 x
SXC Health Solutions, Corp.	TSX:SXC	31-Dec	9-Jun-11	8.8%	4.8%	4.1%	1.2 x	25.2 x	29.5 x	0.7 x	54.4 x	34.7 x	24.2 x	6.0 x
BioScrip Inc.	NasdaqGS:BIOS	31-Dec	9-Jun-11	17.1%	3.2%	2.5%	0.4 x	12.2 x	15.6 x	0.4 x	222.7 x	20.9 x	12.9 x	1.9 x
Express Scripts Inc.	NasdaqGS:ESRX	31-Dec	9-Jun-11	6.9%	5.5%	5.0%	0.7 x	12.9 x	14.2 x	0.7 x	24.2 x	18.3 x	14.9 x	7.6 x
MedcoHealth Solutions Inc.	NYSE:MHS	25-Dec	9-Jun-11	6.6%	4.5%	3.8%	0.4 x	9.2 x	11.0 x	0.4 x	17.4 x	14.1 x	12.2 x	6.4 x

All estimates from Capital IQ

Median	6.9%	4.5%	3.8%	0.6 x	12.9 x	15.6 x	0.5 x	28.4 x	20.9 x	14.9 x	6.0 x
Mean	9.1%	4.4%	3.8%	0.7 x	14.8 x	17.3 x	0.5 x	69.4 x	22.4 x	16.7 x	5.2 x
Min	6.0%	3.2%	2.5%	0.4 x	9.2 x	11.0 x	0.4 x	17.4 x	14.1 x	12.2 x	1.9 x
Max	17.1%	5.5%	5.0%	1.2 x	25.2 x	29.5 x	0.7 x	222.7 x	34.7 x	24.2 x	7.6 x

- With less pricing power and lower margins, PBMs often trade below their annual sales figures (0.6x median enterprise value/revenue) while median enterprise value/EBITDA is more in line with other segments of the healthcare industry (12.9x)



# Pharmacy Benefit Management Transaction Comps

(\$ in millions)

Filing Date	Target	Buyers	Implied EV	Revenue	EBITDA	EV/Revenue	EV/EBITDA
Mar-11	Walgreens Health Initiatives, Inc.	Catalyst Health Solutions, Inc. (NasdaqGS:CHSI)	\$525.0	NA	NA	NA	NA
Dec-10	ProSanos Corporation	United BioSource Corporation	NA	NA	NA	NA	NA
Dec-10	Total Healthcare Group	United BioSource Corporation	NA	NA	NA	NA	NA
Dec-10	Careology Ltd.	Medco Health Solutions Limited	NA	NA	NA	NA	NA
Dec-10	MedfusionRx, LLC and Medtown South LLC	SXC Health Solutions, Corp. (TSX:SXC)	105.5	NA	NA	NA	NA
Aug-10	United BioSource Corporation	MedcoHealth Solutions Inc. (NYSE:MHS)	733.1	NA	NA	NA	NA
Aug-10	FutureScripts, LLC	Catalyst Health Solutions, Inc. (NasdaqGS:CHSI)	225.0	906.7	NA	0.2x	NA
May-10	DS Pharmacy, Inc.	Bioscrip Pharmacy Services, Inc.	NA	NA	NA	NA	NA
Feb-10	DNA Direct, Inc.	MedcoHealth Solutions Inc. (NYSE:MHS)	NA	NA	NA	NA	NA
Jan-10	Critical Homecare Solutions Holdings, Inc.	BioScrip Inc. (NasdaqGS:BIOS)	376.9	251.6	34.0	1.5x	11.1x
Dec-09	Fortuna Apotheke AG	Europa Apotheek Venlo B.V.	NA	NA	NA	NA	NA
Jul-09	Total Script LLC	Catalyst Health Solutions, Inc. (NasdaqGS:CHSI)	26.9	NA	NA	NA	NA
Jul-09	jASCorp	Health Business Systems Inc.	2.1	2.1	NA	1.0x	NA
Apr-09	Next Rx, LLC	Express Scripts Inc. (NasdaqGS:ESRX)	3,552.8	NA	NA	NA	NA
Apr-09	NextRx, Inc.	Express Scripts Inc. (NasdaqGS:ESRX)	841.3	NA	NA	NA	NA
Mar-09	SironaHealth Inc.	Not Disclosed	NA	NA	NA	NA	NA
Dec-08	Owens & Minor Inc., Direct-to-Consumer Diabetes Supply Business	Liberty Healthcare Group, Inc.	63.0	NA	NA	NA	NA
Dec-08	AOM Healthcare Solutions	Liberty Medical Supply, Inc.	63.0	NA	NA	NA	NA
Aug-08	Immediate Pharmaceutical Services, Inc.	Catalyst Health Solutions, Inc. (NasdaqGS:CHSI)	40.0	NA	NA	NA	NA
Jun-08	RxHub LLC	SureScript Systems, Inc.	NA	NA	NA	NA	NA

Median	\$165.3	\$251.6	\$34.0	1.0x	11.1x
Mean	546.2	386.8	34.0	0.9x	11.1x
High	3,552.8	906.7	34.0	1.5x	11.1x
Low	2.1	2.1	34.0	0.2x	11.1x

NA - Not Available

NM - Not Meaningful

- The basket of companies in the trading comp set listed on the previous page have been involved in 20 M&A transactions since June 2008, with aggregate transaction values in excess of \$6 billion and only limited disclosed multiples



## Pharmacy Benefit Management Market Activity

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- The PBM sector has been particularly active recently with significant consolidation over the past 3 years
- The PBM industry is expected to stay hot as healthcare insurers explore pushing into managing pharmacy benefits, potentially changing the dynamic of the industry
- UnitedHealth Group is one example of a diversified health company breaking into the PBM arena as Reuters reported in June 2011, bucking a trend among U.S. health insurers and threatening the dominance of the largest companies that help negotiate drug pricing



## Bourne Partners Overview

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- Investment banking and strategic business development support services
- Healthcare focus
- Client segmentation
  - Specialty Pharmaceuticals
  - OTC/Nutraceutical
  - Medical Device
  - Healthcare services
  - Distribution
  - Biotechnology
- Over \$2.5 billion in debt and equity capital raised in the healthcare sector
- Over \$5 billion executed in financial advisory (M&A) assignments in the healthcare sector
- Since 2004, Bourne Partners has advised on deals in 15 different countries including:
  - United States, Germany, Canada, Ireland, Sweden, Denmark, Brazil, and Italy



## Where Bourne Partners Adds Value

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### M&A Specialist Group

- *Concentrate on acquisition, sale and going private assignments*
- *Focus on \$25-\$250M transactions or licensing collaborations with product sales expectations of \$20M and above*
- *Strong private equity and venture capital relationships*
- *Focus on serving middle market companies*
- *Company and product M&A*

### Depth of Resources and Relationships

- *Significant industry relationships; access to key decision makers*
- *Deal team depth and experience*
- *Extensive international coverage*
- *Bankers and healthcare executives within the firm*

### Experienced in Maximizing Value

- *Directly relevant experience*
- *Professionally structured process*
- *Deal team staffing a proper mix of junior and senior resources*
- *Memorandum and material preparation of the highest quality*
- *Sensitive to confidentiality issues*

### Healthcare Industry Expertise

- *Healthcare focus*
- *Relationships with over 500 healthcare companies worldwide*
- *Dedicated industry research coverage*
- *Dedicated internal analyst coverage*
- *Significant transaction record*



## Professionals to Contact

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- 10 years of life sciences M&A and licensing experience
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