



## Q2-2014 PHARMACY SERVICES INDUSTRY UPDATE

### MARKET UPDATE

The second quarter of 2014 was interesting for the pharmacy services industry as it relates to merger and acquisition activity. While the number of pure pharmacy transactions was lower than historical quarters, key pharmacy players remained active in the market. For example, Rite Aid acquired RediClinic to better position the company in the changing retail pharmacy/clinic environment; BioScrip divested its home healthcare division to LHC Group to allow for more financial flexibility within its core home infusion segment; and Walgreens merged a subsidiary with CHS Health Services to strengthen its presence in the worksite healthcare sector. Additionally, CVS Caremark attempted to increase its presence in Brazil by offering to acquire DPSP for \$2 billion.

Based on our own deal pipeline and knowledge of the sector, Provident expects pure pharmacy transactions to ramp up in the third quarter. However, we also expect continued activity within ancillary service/product lines of leading industry players.

### PUBLIC COMPANY PERFORMANCE

Data from Capital IQ as of June 30, 2014			Valuation Statistics	
Company	Ticker	Enterprise Value (EV) – in millions	EV/ LTM Rev.	EV/ LTM EBITDA
CVS Caremark	CVS	\$98,973	0.77x	9.75x
Express Scripts	ESRX	\$65,579	0.64x	10.19x
Omnicare	OCR	\$8,521	1.39x	11.92x
PharMerica Corp.	PMC	\$1,076	0.61x	9.35x
Rite Aid Corp.	RAD	\$12,532	0.49x	11.24x
Walgreens	WAG	\$73,146	0.97x	12.97x

### NOTEWORTHY M&A ACTIVITY

Month	Acquirer	Target	Details
June 2014	Water Street Healthcare Partners	CHS Health Services/ Take Care Employer Solutions (a subsidiary of Walgreen Co.)	Private equity firm Water Street Healthcare Partners has made an investment in CHS Health Services. Simultaneously with the investment, Water Street merged CHS with Take Care Employer Solutions, a subsidiary of Walgreens. The combined organization creates a leading worksite health company focused on improving the cost and quality of employee healthcare. Walgreens will support relationships with employers and manage its current worksite pharmacies in collaboration with the newly combined entity.
May 2014	CVS Caremark Corp.	Drogarias Pacheco Sao Paulo	CVS Caremark Corp. is in discussions to acquire Brazilian drugstore chain Drogarias Pacheco São Paulo (DPSP) as part of the company's plan to expand in Brazil. In early 2013, CVS acquired control of Brazil's Drogaria Onofre for an undisclosed sum, so this acquisition would significantly expand CVS Caremark's presence in the country. CVS Caremark had offered 4.5 billion Brazilian reais (\$2 billion) to acquire control of DPSP, but the company rejected the offer. CVS is evaluating making another proposal for DPSP, which is rumored to have set a minimum price for the company at 5.9 billion reais.
April 2014	Consonance Capital Partners	Enclara Health, LLC	Consonance Capital Partners has completed the recapitalization of Enclara Health, LLC, a national hospice-focused pharmacy services provider. Enclara is a national full service mail order and PBM supplier of medications and clinical services developed specifically for the hospice and palliative care industry. The company provides services to some of the largest hospice providers in the country, helping them reduce pharmacy costs through a clinically driven model that enables home delivery of pharmaceuticals, as well as access to a network of over 60,000 retail and institutional pharmacies. The company was founded in 2006 and is headquartered in West Deptford, New Jersey. Enclara has approximately 50 clinical pharmacists and provides pharmacy benefits to over 27,000 patients across the United States.
April 2014	Rite Aid Corp.	RediClinic	Rite Aid Corp. has acquired RediClinic, based in Houston, Texas. The acquisition expands Rite Aid into the growing sector of retail clinics and will help RediClinic grow beyond its current footprint of 30 locations in the Houston, San Antonio, and Austin markets. RediClinic's services include immunizations, medical tests, basic physical exams, and screenings.
April 2014	LHC Group, Inc.	Deaconess HomeCare division of BioScrip, Inc.	BioScrip, Inc. has completed the previously announced sale of substantially all of its Deaconess HomeCare division to LHC Group, Inc. The transaction represents a total deal value of approximately \$60 million. BioScrip will use the net proceeds from the sale to pay down a portion of its outstanding debt. According to Rick Smith, President and CEO of BioScrip, "With the completion of the Home Health transaction, we now have additional financial flexibility to continue building on BioScrip's solid foundation in home infusion services...We continue to position BioScrip as a leader in the home infusion industry. We look forward to optimizing the value of our assets while maintaining our reputation for clinical excellence."