



The past year in specialty pharmacy was rampant with activity. On the PBM side, we saw aggressive consolidation to combat increased competition. On the legislation side we watched the battle over repealing the alternative care act rage on. Last but not least, reimbursements underwent more disruption due to increasing medication costs and an aging America. Looking back, the congressional healthcare swashbuckling of 2017 appears to be just a warmup for what is to come during the next several years. Since we don't have access to a crystal ball, let's focus on three salient characteristics of the past year: PBMs, competition and technology.

Without a doubt, PBM market activity stepped into the limelight during 2017 and continues into 2018. The high cost of medications and deals made behind closed doors has called into question not only their pricing methods but also their business models. Additionally, increased consolidation activity of the three largest PBMs (Express Scripts, Caremark and Optum) has raised a state of alert for this sector and indicates that it is ready for continued disruption. Maybe not tomorrow or the next day, but more change is coming.

Specialty pharmacy continues as a high-growth subsector of the pharmacy industry, which makes the space particularly attractive to an acquirer. Federal drug pricing programs like 340B make specialty pharmacies an investment that is poised for significant growth. At the same time, independent owners are under pressure from larger companies to provide more than just an outstanding customer experience. Independents must also connect to other entities, from manufacturers to payors, in order to remain competitive with larger enterprises that are already integrated.

Finally, a big game changer in the space is technology. Data and analytics are clearly the key to not only value-based care but also MTM and unnecessary spending.

It is well known to larger companies that technology is the next evolutionary step in the specialty pharmacy industry. Big companies will continue to make acquisitions and invest in R&D to reduce costs and provide value added services to patients and professionals. Independents will need to choose wisely and make careful decisions regarding how to best deploy valuable capital for new technologies in order to remain competitive.

In summary, specialty pharmacy experienced a tremendous amount of activity in 2017 and it appears the frenetic pace will continue through 2018. M&A activity is experiencing rapid growth and valuations are rising with financial sponsors continuing to gravitate to the space creating a very competitive landscape. This competitive market is a boon for independent owners, not to be missed.

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