



2019 INFUSION PHARMACY - RAPID GROWTH PRIOR TO A POTENTIAL CYCLE

There are a number of factors impacting the future of the infusion pharmacy market. New reimbursement, drug shortages, PBMs, contracts and legislation are just a few of the obstacles an IV pharmacy must navigate in order to grow. With so many challenges impeding success, which drivers contribute to a winning strategy in 2019 and beyond?

The American home infusion market is expected to grow at 10% CAGR and exceed \$13 billion by 2024¹. As alternate site treatment grows in popularity and providers control costs more effectively, specialty infusion therapies will continue to attract lots of attention. Because the market is growing so rapidly and contracts can make access difficult, many providers want in on the action. However, for many buyers, access can take years to achieve and during that time shareholders exert heavy pressure to increase earnings.

What happens when you have a ballooning customer base in conjunction with access restriction? You guessed it; demand increases and with it, so do valuations. Organic growth for larger players is difficult, which makes acquisition based growth a popular alternative. The low inventory of quality infusion pharmacies and peak demand makes the current market an ideal time for owners.

With many external forces affecting value, which internal company factors drive value for an infusion pharmacy and which performance drivers fetch the greatest reward in market valuation? Continuing the access-based strategy thesis, acquirers are pursuing higher margin services. As such, IVIG and TPN are highly desirable. If you are building a business with an exit valuation in mind, then certainly IVIG and TPN are a wise pursuit. Independent specialty infusion pharmacies have an advantage in their communities when building strong relationships with patients, hospitals and physicians. LDDs and hub services are challenging, but they also serve as doorways to opportunity. These relationships are prime value enhancers and many strategic buyers will pay handsomely for access to a highly coveted geographic region, contract, or patient segment. Next, if you are evaluating KPIs, keep a close eye on outsourcing your nursing services vs. keeping them in house.

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These costs can impact profits significantly and serve as an area for improvement. Also, while infusion suites can be costly up front, they can reduce operating expenses significantly. Decrease costs via economies of scale and improve efficiencies within the business operations. Last, be sure you are using proper billing codes and the billing department is reporting them correctly. When CMS releases PDGMs in January, it's important to understand how they, and the new, updated transitional payments will affect income prior to being released. These are rapidly changing times for infusion and it would be a shame to discover reimbursement issues, after the fact.



Mid-market infusion pharmacy owners have the opportunity to transition wealth or take chips off the table now, in a robust M&A market that could provide what may be peak valuations prior to a cycle. Pre-sale due diligence, such as financials and market study evaluation, is imperative to understanding buyers' interests and investment thesis', and can maximize valuation to provide the cleanest and most timely execution. If sellers plan to remain on board and roll over equity, they need to evaluate and pick their equity partners wisely.

The biggest challenge for buyers is competition for high-quality assets. Financial and strategic buyers are looking for the same thing - synergies, an opportunity for growth, diversification, and sustainability. With record levels of private equity and their war chests, investors are looking for M&A as a primary vehicle for growth. In a competitive process, this can push buyers to valuations that are extremely attractive for sellers.

A big challenge for sellers now, is standing out in a crowded M&A market. Many home infusion companies experienced meaningful growth during the past decade and monetizing their equity in order to diversify financially is pragmatic.

In summary, while there continues to be a plethora of companies available for sale, quality pharmacies that fit stringent acquisition criteria are hard to find. Buyers are quick to make decisions about what is worth spending their time to pursue, at a value that makes sense. It is critical for companies to be prepared for a sale process and convey the unique merits of their business to buyers early in the process. When a buyer has a need, owners must recognize that opportunity to sell will not exist forever, so the key takeaway is: always be ready.

¹Hedge, A. "U.S. Home Infusion Therapy Market 2019" July 25, 2019. Retrieved from www.reuters.com

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