



M&A MARKET GIVES GREEN FLAG TO LTC PHARMACY

Long-term care pharmacy faced unprecedented disruptions during 2020. Patients across the entire continuum of care felt an impact in some way and nearly all facility segments implemented new operating procedures. Pharmacies modified their daily operations and re-thought how they provided service. Many of the implemented changes will remain in place long after the impacts of the pandemic subside. However, for those seeking growth and new revenue sources within pharmacy, disruption can open doors of opportunity.

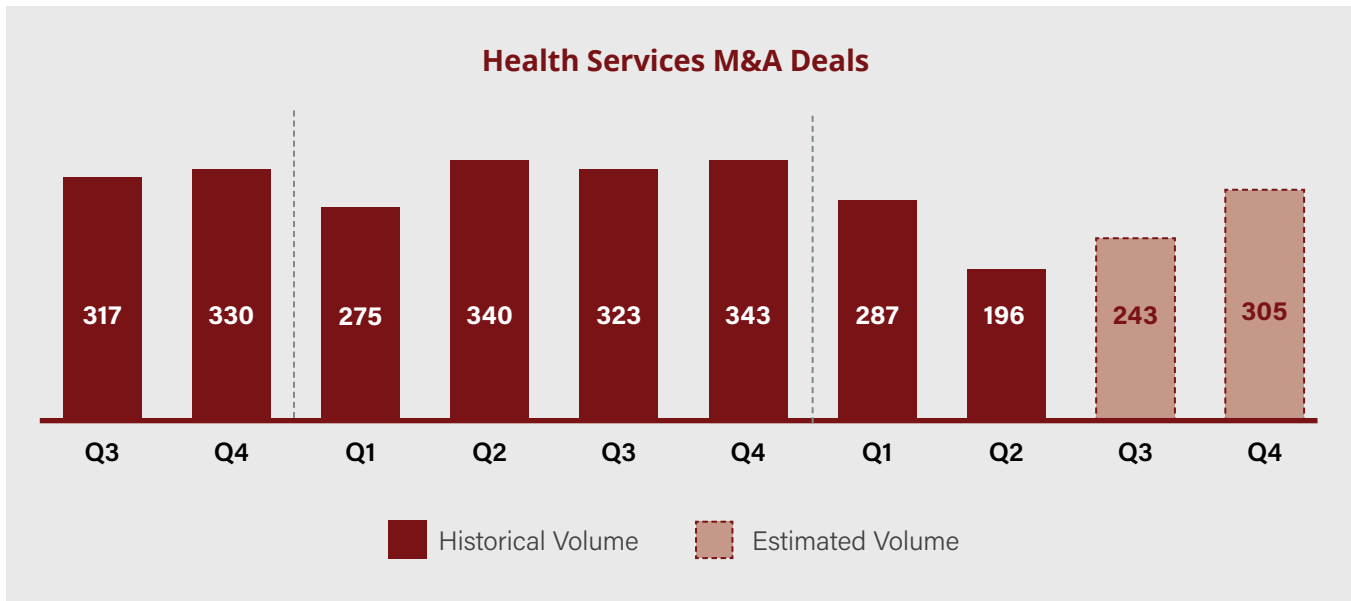
When COVID-19 initially impacted LTC in March, the segment scrambled to manage the fallout. Facilities did everything they could to identify risk and pharmacies worked diligently and rapidly to support their customers. Despite their best efforts, many LTC pharmacies anticipated a significant reduction in business (many forecasted up to 20% or more) due to the outbreak. In addition, buyers expressed concern about the near-term outlook for the space. Retention is an important driver for LTC M&A, and without a clear understanding of the future customer base, the sector cultivated an elevated level of unpredictability. As a result, transactions slowed while buyers assessed the impacts of the virus (speculation has again escalated that Omnicare would be divested).

Today, many local and state agencies have achieved more stability and implemented measures to mitigate COVID-19 transmission, and the development of a vaccine is well underway. Similarly, M&A markets are more normalized and many LTC pharmacies are rebounding after implementing corrective measures. As we observed in several states, once quarantine measures were relaxed, buyers and sellers could engage with one another and acquirers resumed pursuing targets. With access to ample dry powder and a clear strategy, healthcare, including LTC pharmacy, ramped up M&A activity. Additionally, pharmacy

“*... the pandemic negatively impacted sales revenues for many acquisitive healthcare firms and they are turning to M&A to boost revenues. These players have aggressive acquisition mandates and are on the hunt for deals.*”

is an essential business and many acquirers seek to diversify their portfolios by investing in stable service sectors during the pandemic, bringing even more buyers to the space looking for acquisitions. Everyone wants in on the action, and COVID-19 vaccines, tests and treatments have spurred urgent M&A activity that is spreading across the entire healthcare spectrum.

Many buyers seeking healthcare firms are issuing debt and consolidating assets to fund acquisitions. As the American population ages and chronic diseases continue to rise, institutional pharmacy will serve a growing and expanding market. For



<https://www.pwc.com/us/en/industries/health-industries/library/health-services-quarterly-deals-insights.html>

those businesses considering a transaction, this is an opportune time for small and middle-market M&A, primarily because of financing; interest rates are low and its relatively easy for buyers to access capital. Furthermore, the pandemic negatively impacted sales revenues for many acquisitive healthcare firms and they are turning to M&A to boost revenues. These players have aggressive acquisition mandates and are on the hunt for deals. At the same time, low rates and emergency funding provided a lifeline for many sellers managing challenges from the pandemic. Calibrating capital investment via value chain investments, optimizing debt and capital structure and ensuring tax efficiency is critical in the current environment. An environment, that may change quickly as the administration modifies fiscal policy to manage economic recovery or a new administration is elected. Together, buyers and sellers are realizing increased synergies and approaching M&A with intentions to improve resiliency and concurrently gain access to new markets. Consequently, joint ventures, alliances and partnerships have gained in popularity as a strategy for buyers and sellers to share in future earnings, maximize valuations and enable creative strategic agendas.

Healthcare is experiencing both short-term and long-term changes that affect the patient journey. Market dynamism is causing ripples across many segments of pharmacy, particularly LTC. While owners spent much of Q2 assessing the impacts of the pandemic, LTC managed to find its footing and buyers are seeking acquisitions and new ventures for growth. Going forward, market forecasts indicate an increase in demand, availability of capital, and elevated valuations. This is all good news for sellers, particularly those facing long-term headwinds from the pandemic.

If you have questions regarding your business strategy, exit planning or valuation, please contact us for a confidential discussion.

CONTACT



Mark Alford

Strategic Advisor

www.harborhealthcare.com

(619) 535-9005

mark@harborhealthcare.com

[in /alfordmark](https://www.linkedin.com/in/alfordmark)