



Q2-2011 PHARMACY SERVICES INDUSTRY UPDATE

MARKET UPDATE

Merger and acquisition activity within pharmacy services slowed down slightly compared to the first quarter of the year, but the sector still experienced five noteworthy transactions. CarePoint, which is an infusion provider backed by Waud Capital Partners, was the main story of the quarter, completing three acquisitions that helped the Company expand its footprint in Florida, Texas, Louisiana, and Georgia. In addition to CarePoint's acquisitions, there were two very sizeable transactions completed: Walgreens' acquisition of Drugstore.com (\$409 million) and Catalyst's acquisition of Walgreens Health Initiatives (\$525 million).

Outside of M&A transactions, there were other significant events that took place during the quarter, including the reintroduction of a Medicare home infusion bill and the contract negotiation hurdles between Walgreens and Express Scripts.

Similar to the home infusion bills of 2006, 2007, and 2009, this new bill attempts to close the gap in home infusion coverage for Medicare Part D beneficiaries by continuing to cover the drug under Part D, but covering the services, equipment and supplies under Part B. While there is nothing to indicate that this bill will be more successful than the previous attempts, the IDSA and NHIA hope that the legislation will be a means to get a pilot or demonstration project started.

Also, on June 21, Walgreens announced that starting on January 1 it will not fill prescriptions for Express Scripts customers, due to stalled contract negotiations. Given the potential impact to both parties (7% of Walgreens' annual revenue), it is likely that they will reach an agreement, but it should be interesting to see how the negotiations unfold and the potential impact to the rest of the industry.

PUBLIC COMPANY PERFORMANCE

Data as of June 30, 2011 (in millions)			Operating Statistics		Valuation Statistics	
Company	Ticker	EV	LTM Rev.	LTM EBITDA	EV/Rev.	EV/EBITDA
Catalyst Health	CHSI	2,433	4,054	162	0.60x	15.05x
CVS Caremark	CVS	58,596	98,533	7,551	0.59x	7.76x
Express Scripts	ESRX	30,308	44,929	2,485	0.67x	12.20x
Omnicare	OCR	5,246	6,180	624	0.85x	8.40x
PharMerica	PMC	607	1,920	75	0.32x	8.13x
Walgreens	WAG	38,187	71,087	5,004	0.54x	7.63x

TOP STRATEGIC PLAYERS TO WATCH

- **Apria Healthcare/Blackstone Group** (Private)
- **BioScrip** (Nasdaq: BIOS)
- **CarePoint Partners/Waud Capital** (Private)
- **Lincare** (Nasdaq: LNCR)
- **Medco Health Solutions** (NYSE: MHS)
- **Specialty Therapeutic Care/Enhanced Equity** (Private)
- **Walgreens/Option Care** (NYSE: WAG)

NOTEWORTHY TRANSACTIONS

Month	Acquirer	Company Acquired	Details
June 2011	Catalyst Health Solutions	Walgreens Health Initiatives	Catalyst Health Solutions has completed its previously announced acquisition of Walgreens' PBM subsidiary, Walgreens Health Initiatives, for \$525 million in cash. The transaction combines two of the leading national PBMs and will increase Catalyst's PBM membership to over 18 million members with an annual prescription volume of over 165 million.
June 2011	CarePoint Partners	ArTex Medical	CarePoint Partners, a portfolio company of Waud Capital Partners, has acquired the infusion business of ArTex Medical. ArTex is based in Texas and operates three service sites in Dallas and Texarkana, Texas as well as Shreveport, Louisiana. This acquisition is the largest one completed by CarePoint to date and is the 13 th completed in less than four years. The transaction will allow CarePoint to expand its reach in Texas, strengthen its therapy mix, and retain ArTex's staff members.
June 2011	Walgreens	Drugstore.com	Walgreens has completed its previously announced acquisition of the online pharmacy drugstore.com, in a transaction valued at \$409 million. Investors in the company received \$3.80 per share in cash, which is approximately 113% above the closing price on the day before the announcement. The transaction will help Walgreens expand its online reach and the Company plans to maintain the separate branding for all of drugstore.com's sites. Walgreens also adds over 3 million online customers and an additional 60,000 product offerings.
April 2011	CarePoint Partners	Premier Infusion	CarePoint Partners has completed its acquisition of Premier Infusion. Premier Infusion was founded in 2000 in Georgia and provides home infusion pharmacy services in Austin, Texas and infusion pharmacy and related nursing services in Atlanta, Georgia. This acquisition marks the twelfth for CarePoint Partners. CarePoint now has 22 sites in nine states. The financial terms of the deal were not disclosed.
April 2011	CarePoint Partners	Infusion Technologies, Inc.	CarePoint Partners announced that it has acquired Infusion Technologies, Inc., a Florida-based provider of specialty injectable pharmaceuticals, quality home infusion and related home healthcare services. The Company operates offices in North Miami and Tampa. The specific financial terms of the deal were not disclosed.