

# Healthcare Distribution Market Outlook

December 2010



**Bourne Partners**



Healthcare Financial Advisory

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Bourne Capital Partners, LLC

**Healthcare Merchant Banking & Financial Advisory**

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# Healthcare Distribution Industry Overview

- The healthcare distribution market includes all distributors and wholesalers of health care products. Wholesale drug distributors include companies that distribute pharmaceutical products and equipment to pharmaceutical retailers, medical facilities, and other healthcare outlets.
- Distributors select, purchase and store manufacturers' goods for healthcare providers
- They offer purchasers a number of advantages including: lower distribution/ shipping costs and large product accessibility
- It is estimated that full-service wholesalers save the pharmaceutical distribution system \$33.9 billion according to "The Role of Distributors in the U.S. Healthcare Industry" report by Healthcare Distribution Management Association ("HDMA")
- Healthcare distribution is largely split in two segments:
  - Large wholesale distributors
  - Regional and local specialty distributors

Source: Knowledge Source, Inc. "HealthCare BusIntell Report, Drug Wholesalers". August 2009.

## Trends & Forecast

- Distribution market is forecast to grow between 3% and 6% for the five year period ending 2012 according to IMS Healthcare
  
- There are a number of factors that are predicted to contribute to this growth including:
  - Aging population
  - Introduction of new pharmaceuticals
  - Increase in use of generic pharmaceuticals
  - Increased use of drug therapies
  - Legislative developments
  
- The industry is moving toward a fee-for-service relationship between the manufacturer and the distributor

Source: Knowledge Source, Inc. "HealthCare BusIntell Report, Drug Wholesalers". August 2009.

# Trends & Forecast Continued

- In 2008 HDMA companies stored, managed and delivered 80% of prescription medicines sold in the U.S.
  - \$219 billion Rx
  - \$4 billion non-Rx

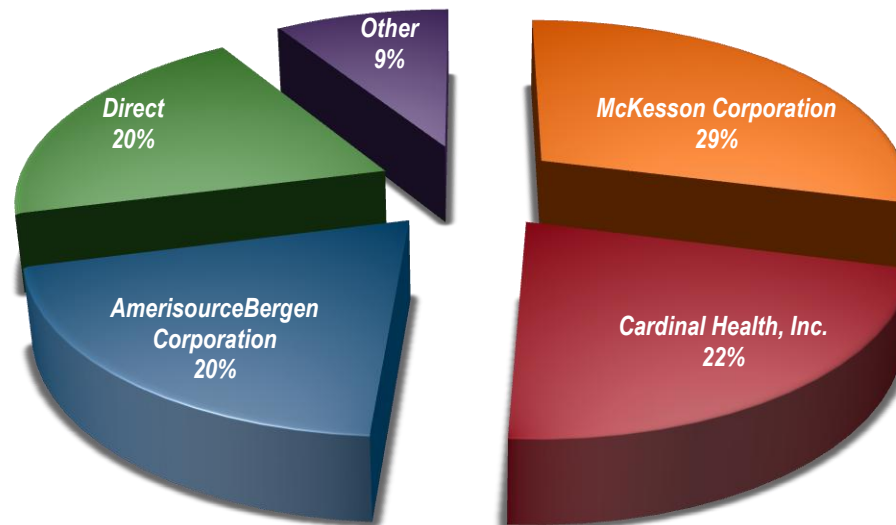
Chain Pharmacies	16.90%	\$37.7 billion
Independent Pharmacies	18.80%	\$41.9 billion
Hospitals and HMOs	15.70%	\$35.0 billion
Food Stores and Mass Merchandisers	12.60%	\$28.1 billion
Clinics and Nursing Homes	10.40%	\$23.2 billion
Chain Warehouses	11.40%	\$25.4 billion
Mail Service/PBMs	7.30%	\$16.3 billion
Government Providers	3.90%	\$8.7 billion
Other Customers	3.00%	\$6.7 billion

Source: Knowledge Source, Inc. "HealthCare BusIntell Report, Drug Wholesalers". August 2009.



# Healthcare Distribution Market Landscape

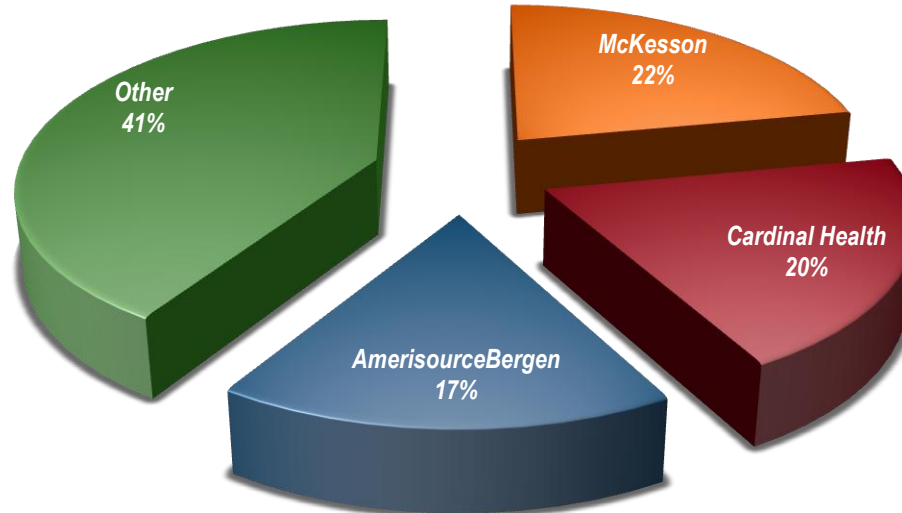
- The market is dominated by the Big 3 distributors which control approximately 71% of the market
  - McKesson Corporation
  - Cardinal Health
  - AmerisourceBergen Corporation



Source: Knowledge Source, Inc. "HealthCare BusIntell Report, Drug Wholesalers". August 2009.

## Rx Wholesaling Market Landscape

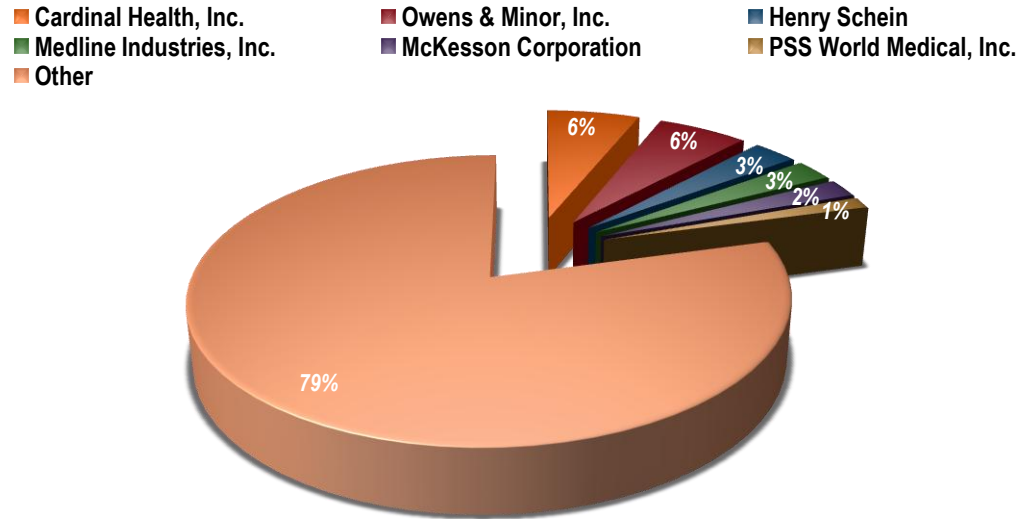
- The Rx Wholesaling Market includes companies that sell biological and medical products as well as pharmaceutical products to hospitals, stores, cosmetic retailers, pharmacies, and mass merchandisers
- The \$396.0 billion industry has experienced a CAGR of 1.9% from 2005 to 2010
  - It is forecasted to have a CAGR of 3.4% from 2010 to 2015 and reach \$468.4 billion in 2015
- The market is dominated mainly by the Big 3 distributor which control approximately 59% of the market



Source: IBISWorld. "Prescription Drug Wholesaling in the US" June 2010

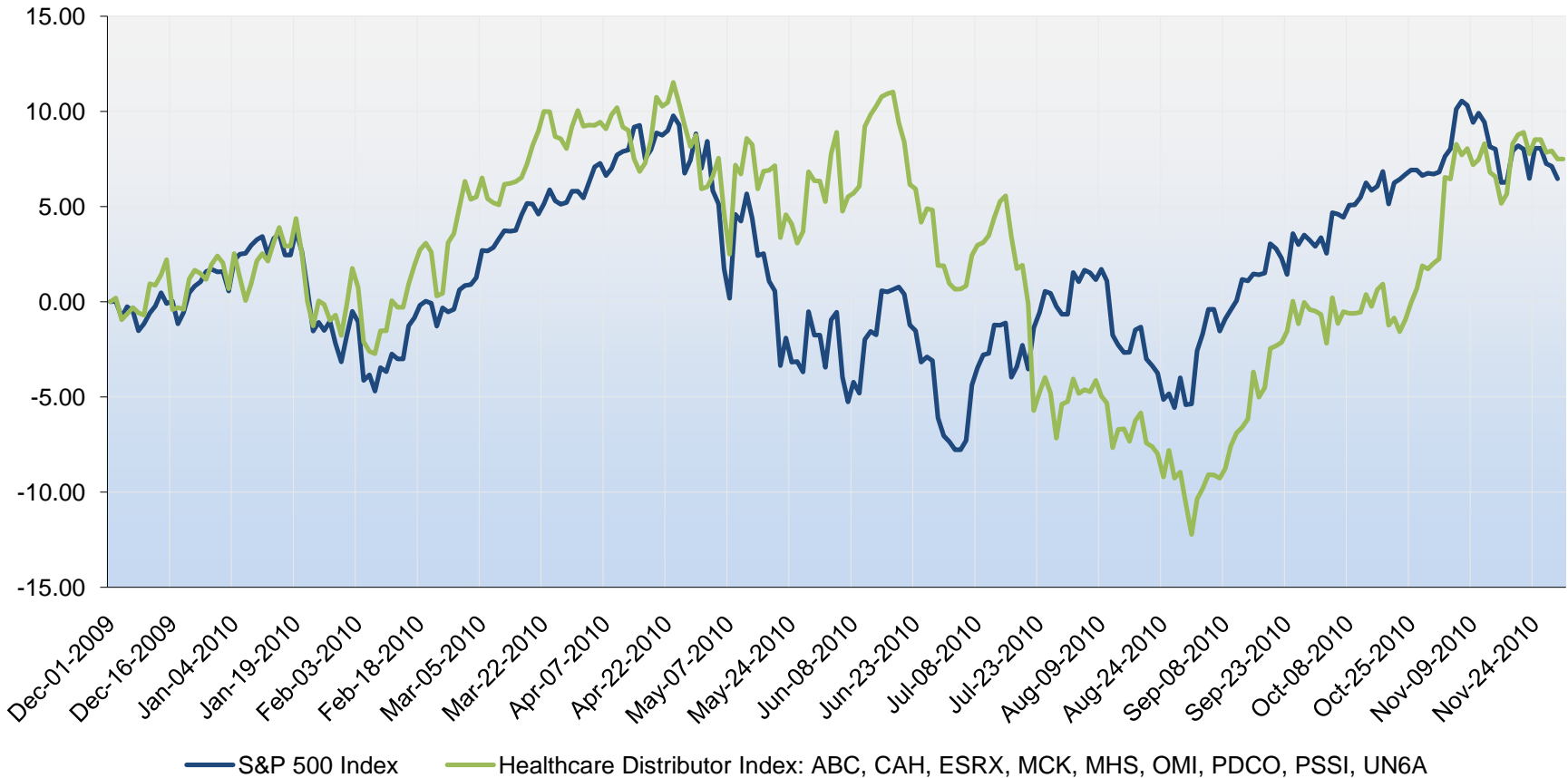
# Medical Supplies Wholesaling Market Landscape

- The Medical Supplies Wholesaling Market includes companies that buy large amounts of medical equipment, supplies, and instruments from suppliers and keeps them in storage before the products are delivered to hospitals , clinics, and medical practitioners
- The \$144.0 billion industry has experienced a CAGR of 2.8% from 2005 to 2010
  - It is forecasted to have a CAGR of 4.8% from 2010 to 2015 and reach \$181.7 billion in 2015
- The market consists of many competing companies with no dominant control of the market



Source: IBISWorld. "Medical Supplies Wholesaling in 2010" May 2010

# Healthcare Distribution Publicly Traded Analysis



- The Healthcare Distributor Index has slightly outperformed the S&P 500 over the past 12 months

# Healthcare Distribution Comparable Trading

\$ in millions, except for per-share amounts

Company	Ticker	Share Price	Shares Out	Equity Value	Net Debt (Cash)	Enterprise Value	LTM				CYE		CYE+1 EPS	Book Value	
							Sales	EBITDA	EBIT	EPS	Sales	EBITDA			CYE EPS
AmerisourceBergen Corporation	NYSE:ABC	\$30.85	276.3	\$8,525.3	(\$314.6)	\$8,210.7	\$77,954.0	\$1,168.1	\$1,081.7	\$2.2	\$80,323.5	\$1,246.0	\$2.4	\$2.7	\$2,954.3
Cardinal Health, Inc.	NYSE:CAH	35.58	349.0	12,416.0	(572.2)	11,843.8	98,159.6	1,678.9	1,422.3	2.2	100,299.8	1,775.0	2.5	2.8	3,022.9
Express Scripts Inc.	NasdaqGS:ESRX	52.09	527.0	27,453.9	2,226.0	29,679.9	41,902.6	2,148.0	1,950.0	1.6	45,221.2	2,421.9	2.5	3.2	(3,912.9)
McKesson Corporation	NYSE:MCK	63.90	253.1	16,170.7	(771.0)	15,399.7	109,899.0	2,444.0	2,023.0	4.3	111,345.8	2,563.4	4.9	5.4	2,696.0
MedcoHealth Solutions Inc.	NYSE:MHS	61.32	424.4	26,024.3	4,076.2	30,100.5	64,283.3	2,891.6	2,424.8	2.7	65,627.6	3,050.6	3.4	4.0	(2,374.6)
Owens & Minor Inc.	NYSE:OMI	28.25	63.3	1,789.2	63.5	1,852.7	8,093.9	236.2	208.2	1.9	8,122.3	240.1	1.9	2.1	468.8
Patterson Companies Inc.	NasdaqGS:PDCO	29.73	124.0	3,686.1	196.3	3,882.4	3,340.0	415.0	373.2	1.8	3,426.1	422.8	1.9	2.1	435.8
PSS World Medical Inc.	NasdaqGS:PSSI	20.60	55.3	1,138.4	170.0	1,308.4	1,974.7	153.4	124.3	1.2	1,976.1	158.6	1.3	1.5	261.7
United Drug plc	ISE:UN6A	2.70	240.1	648.0	128.0	776.0	2,345.0	117.4	80.2	0.2	NA	NA	NA	NA	156.7

Company	Ticker	FYE	Data as of	Margin Analysis			Enterprise Value/			P/E			Price to Book	
				Gross Profit	EBITDA	EBIT	Sales	EBITDA	EBIT	Sales CYE	LTM	CYE		CYE+1
AmerisourceBergen Corporation	NYSE:ABC	30-Sep	30-Nov	3.0%	1.5%	1.4%	0.1 x	7.0 x	7.6 x	0.1 x	13.9 x	13.0 x	11.5 x	2.9 x
Cardinal Health, Inc.	NYSE:CAH	30-Jun	30-Nov	3.9%	1.7%	1.4%	0.1 x	7.1 x	8.3 x	0.1 x	16.0 x	14.2 x	12.6 x	4.1 x
Express Scripts Inc.	NasdaqGS:ESRX	31-Dec	30-Nov	6.9%	5.1%	4.7%	0.7 x	13.8 x	15.2 x	0.7 x	31.6 x	21.1 x	16.4 x	NA
McKesson Corporation	NYSE:MCK	31-Mar	30-Nov	5.3%	2.2%	1.8%	0.1 x	6.3 x	7.6 x	0.1 x	15.0 x	13.2 x	11.8 x	6.0 x
MedcoHealth Solutions Inc.	NYSE:MHS	26-Dec	30-Nov	6.5%	4.5%	3.8%	0.5 x	10.4 x	12.4 x	0.5 x	22.4 x	17.9 x	15.2 x	NA
Owens & Minor Inc.	NYSE:OMI	31-Dec	30-Nov	9.7%	2.9%	2.6%	0.2 x	7.8 x	8.9 x	0.2 x	14.8 x	14.7 x	13.5 x	3.8 x
Patterson Companies Inc.	NasdaqGS:PDCO	24-Apr	30-Nov	33.6%	12.4%	11.2%	1.2 x	9.4 x	10.4 x	1.1 x	16.6 x	15.3 x	14.0 x	8.5 x
PSS World Medical Inc.	NasdaqGS:PSSI	2-Apr	30-Nov	31.1%	7.8%	6.3%	0.7 x	8.5 x	10.5 x	0.7 x	17.5 x	16.0 x	14.2 x	4.4 x
United Drug plc	ISE:UN6A	30-Sep	30-Nov	15.5%	5.0%	3.4%	0.3 x	6.6 x	9.7 x	NA	13.9 x	NA	NA	4.1 x

<b>Median</b>	<b>6.9%</b>	<b>4.5%</b>	<b>3.4%</b>	<b>0.3 x</b>	<b>7.8 x</b>	<b>9.7 x</b>	<b>0.3 x</b>	<b>16.0 x</b>	<b>15.0 x</b>	<b>13.8 x</b>	<b>4.1 x</b>
<b>Mean</b>	<b>12.8%</b>	<b>4.8%</b>	<b>4.1%</b>	<b>0.4 x</b>	<b>8.5 x</b>	<b>10.1 x</b>	<b>0.4 x</b>	<b>18.0 x</b>	<b>15.7 x</b>	<b>13.7 x</b>	<b>4.8 x</b>
<b>Min</b>	<b>3.0%</b>	<b>1.5%</b>	<b>1.4%</b>	<b>0.1 x</b>	<b>6.3 x</b>	<b>7.6 x</b>	<b>0.1 x</b>	<b>13.9 x</b>	<b>13.0 x</b>	<b>11.5 x</b>	<b>2.9 x</b>
<b>Max</b>	<b>33.6%</b>	<b>12.4%</b>	<b>11.2%</b>	<b>1.2 x</b>	<b>13.8 x</b>	<b>15.2 x</b>	<b>1.1 x</b>	<b>31.6 x</b>	<b>21.1 x</b>	<b>16.4 x</b>	<b>8.5 x</b>

\* All estimates from Capital IQ

NA - not available

NM - not meaningful



# Select Comparable Transactions

(\$ in millions)

Target	Acquiror	Date	Selected Financial Information			Multiples	
			Implied Enterprise Value	Sales	EBITDA	Sales Enterprise Value /	EBITDA
Kinray, Inc.	Cardinal Health, Inc. (NYSE:CAH)	11/17/2010	\$1,300.0	\$3,500.0	NA	0.4x	NA
Andreae-Noris Zahn AG (DB:ANZ)	Alliance Boots Holdings Limited	10/18/2010	727.2	5,701.1	85.8	0.1x	8.5x
Provet Holdings Limited (ASX:PVT)	Henry Schein Inc. (NasdaqGS:HSIC)	10/14/2010	94.3	281.1	12.5	0.3x	7.5x
Global Medical Direct LLC	Genexx Biotechnology Corp. (OTCBB:GNBT)	10/8/2010	41.6	22.0	NA	1.9x	NA
NattoPharma ASA (OB:NATTO)	Anders Uddén (private investor)	9/23/2010	13.5	4.9	(1.1)	2.8x	NM
Hemax Medical A/S	MedCore AB	9/23/2010	1.8	5.8	NA	0.3x	NA
AVID Medical, Inc.	Medical Action Industries Inc. (NasdaqGS:MDCI)	8/27/2010	62.5	136.3	8.4	0.5x	7.5x
Enseval Putera Megatrading Tbk PT (JKSE:EPMT)	PT Kalbe Farma Tbk (JKSE:KLBF)	8/14/2009	177.7	790.5	44.8	0.2x	4.0x
Dialogue	Amplifon SpA (CM:AMP)	7/30/2009	19.6	21.3	NA	0.9x	NA
Cefarm Bialystok S.A.	Farmacol SA (WSE:FCL)	7/23/2009	28.5	92.9	NA	0.3x	NA
Prosper S.A. (WSE:PSP)	Torfarm SA (WSE:TFM)	4/15/2009	34.7	567.3	4.7	0.1x	7.5x
Ksk Co.,Ltd.	Vital-Net Inc.	4/1/2009	101.4	2,533.5	NA	NM	NA
Mogi Pharmaceutical Co. Ltd.	Matsumotokiyoshi Holdings Co.Ltd. (TSE:3088)	11/14/2008	3.5	196.8	NA	NM	NA
Symbion Health Limited., Drugstore Distribution	Zuellig Australia Pharmacy Services Pty. Ltd.	10/31/2008	437.1	2,606.9	NA	0.2x	NA
Pharmacon Northern Greece SA.	KORRES S.A. – NATURAL PRODUCTS (ATSE:KORRES)	10/1/2008	7.3	9.5	NA	0.8x	NA
Ogawa Toho Co., Ltd.	Toho Holdings Co., Ltd. (TSE:8129)	10/1/2008	34.1	197.5	NA	0.2x	NA
The Burrows Company	Owens & Minor Distribution, Inc.	10/1/2008	83.7	603.0	NA	0.1x	NA
JSC Armila	Andreae-Noris Zahn AG (DB:ANZ)	9/1/2008	37.2	98.7	NA	0.4x	NA
MBA Incorporado S.A.	Nmás1 Private Equity, SGECR, S.A.; Dinamia Capital Privado S.A., SCR (CATS:DIN)	8/19/2008	252.9	112.2	29.9	2.3x	8.5x
AxiCorp GmbH	Biocon Limited (BSE:532523)	6/30/2008	66.5	118.0	NA	0.6x	NA
Medrek AS	Medeco AS	6/30/2008	5.7	11.3	NA	0.5x	NA
Dismed, Inc.	Futuremed Healthcare Income Fund (TSX:FMD.UN)	6/30/2008	23.7	63.6	NA	0.4x	NA
Crio Cord, S.L.	Cryo-Save Group N.V. (AIM:CRYO)	6/27/2008	29.9	8.4	NA	3.6x	NA
Hermedico A/S	Mediq NV (ENXTAM:MEDIQ)	5/21/2008	10.1	30.0	NA	0.3x	NA
K.P. Marinopoulos S.A.	Alapis S.A. (ATSE:ALAPIS)	3/31/2008	83.5	392.0	7.8	0.2x	10.7x
Byram Healthcare Centers, Inc.	Mediq NV (ENXTAM:MEDIQ)	3/25/2008	132.0	134.7	9.3	1.0x	14.2x
Assistances Médicales Spécialisées	Capzanine	3/10/2008	46.0	18.4	NA	2.5x	NA
Koyo Co., Ltd.	Toho Holdings Co., Ltd. (TSE:8129)	2/29/2008	45.5	305.3	NA	0.1x	NA
Honma Toho	Toho Holdings Co., Ltd. (TSE:8129)	2/28/2008	14.2	186.2	NA	0.1x	NA
The Buying Group, LLC	NovaMed Inc. (NasdaqGS:NOVA)	12/31/2007	7.0	24.0	NA	0.3x	NA

NA - not available  
 NM - not meaningful  
 Source: Capital IQ

Median	0.4x	8.0x
Mean	0.8x	8.5x
Min	0.1x	4.0x
Max	3.6x	14.2x



## Bourne Partners Overview

- Investment banking and strategic business development support services
- Healthcare focus
- Client segmentation
  - ❖ Specialty Pharmaceuticals
  - ❖ OTC/Nutraceutical
  - ❖ Medical Device
  - ❖ Healthcare services
  - ❖ Distribution
  - ❖ Biotechnology
- Over \$2.5 billion in debt and equity capital raised in the healthcare sector
- Over \$2.5 billion executed in financial advisory (M&A) assignments in the healthcare sector
- Since 2004, Bourne Partners has advised on deals in 8 different countries:
  - ❖ U.S., Germany, Canada, Ireland, Sweden, Denmark, Brazil, and Italy

## Where Bourne Adds Value

### M&A Specialist Group

- ❖ Concentrate on acquisition, sale and going private assignments
- ❖ Focus on \$25-\$250 million transactions or licensing collaborations with product sales expectations of \$20 million and above
- ❖ Strong private equity and venture capital relationships
- ❖ Focus on serving middle market companies
- ❖ Company and product M&A

### Depth of Resources & Relationships

- ❖ Significant industry relationships; access to key decision makers
- ❖ Deal team depth and experience
- ❖ Extensive international coverage
- ❖ Bankers and healthcare executives within the firm

### Experienced in Maximizing Value

- ❖ Directly relevant experience
- ❖ Professionally structured process
- ❖ Deal team staffing a proper mix of junior and senior resources
- ❖ Memorandum and material preparation of the highest quality
- ❖ Sensitive to confidentiality issues

### Healthcare Industry Expertise

- ❖ Healthcare focus
- ❖ Relationships with over 500 healthcare companies worldwide
- ❖ Dedicated industry research coverage
- ❖ Dedicated internal analyst coverage
- ❖ Significant transaction record

## Professionals to Contact

➤ Banks Bourne, Senior Managing Director

[BBourne@bourne-partners.com](mailto:BBourne@bourne-partners.com) | 704.714.8350

- ❖ Investment banking with Wachovia Securities, Inc.
- ❖ Founder and Managing Partner of Bourne Capital Partners, LLC
- ❖ B.A. – Business Management with distinction from North Carolina State University, MBA – Wake Forest University
- ❖ Member of Young Presidents Association (YPO)

➤ Jeremy Johnson, Director

[JJohnson@bourne-partners.com](mailto:JJohnson@bourne-partners.com) | 704.714.8351

- ❖ 10 years of M&A, licensing and private equity experience
- ❖ 9 years in healthcare
- ❖ Member of Licensing Executives Society
- ❖ Member of Georgetown University Board of Governors
- ❖ B.A. from Georgetown University

# Select Tombstones



**Desitin Arzneimittel GmbH**  
 Announces the license of European commercialization rights of sumatriptan DosePro™ from




*The undersigned served as exclusive financial advisor to Desitin Arzneimittel GmbH in the origination and structuring of this transaction*




*This announcement appears as a matter of record only*


**AZUR PHARMA**  
 Azur Pharma Limited  
 Announces the Acquisition of



Pharmelle LLC  
*The undersigned served as exclusive financial advisor to Azur Pharma Limited in the origination and structuring of the transaction*




*This announcement appears as a matter of record only*



BurnsAdler Pharmaceuticals, Inc.  
 Announces the license of Garacoll® from

**Innocoll**  
 Innocoll Pharmaceuticals Ltd.  
*The undersigned served as financial advisor to BurnsAdler Pharmaceuticals in the origination and structuring of this transaction*



*This announcement appears as a matter of record only*




CollMED Laboratories, Inc.  
 Bourne Partners announces the formation of CollMED Laboratories, Inc., a joint venture with Innocoll Pharmaceuticals Ltd. for the commercialization of Wound Care products in the United States

**Innocoll**  
 Innocoll Pharmaceuticals Ltd.  
*The undersigned served as financial advisor to CollMED Laboratories, Inc. in the origination and structuring of this transaction*




*This announcement appears as a matter of record only*



Sciele Pharma, Inc.  
 Strategic Alternatives Analysis  
*The undersigned performed a Commercial Market Assessment of the Women's Health Sector*




*This announcement appears as a matter of record only*



Desitin Arzneimittel GmbH  
 Announces the Sale of Orfiril® long to

BiofuturaFarma S.p.A.  
 (a division of Sigma-tau S.p.A.)  
*The undersigned served as financial advisor to Desitin Arzneimittel in the origination and structuring of this transaction*



*This announcement appears as a matter of record only*



Theramed Corporation  
 Announces the license of Sigmasporin® from



EMS Sigma Pharma Group  
*The undersigned served as financial advisor to Theramed Corporation in the origination and structuring of this transaction*



*This announcement appears as a matter of record only*



SJ Strategic Investments  
 Announces a private placement of 4,088,794 common shares in



Stellar Pharmaceuticals Inc.  
*The undersigned served as financial advisor to Leimer Pharmaceuticals in the origination and structuring of this transaction*



*This announcement appears as a matter of record only*