BOURNE PARTNERS

Capital Markets Update

Bourne Market Report

2023

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Jeremy Johnson
Senior Managing Director, Head of IB
jjohnson@bourne-partners.com
+1 704-714-8351

F. Alexander (Xan) Smith
Managing Director, Business Development
xsmith@bourne-partners.com
+1 910-585-1793

Robert Stanley
Director, Pharma Coverage
rstanley@bourne-partners.com
+1 704-714-8354

Todd Bokus
Director, Pharma Services Coverage
tbokus@bourne-partners.com
+1 704-807-7501

William Koch
Director, Consumer Health Coverage
wkoch@bourne-partners.com
+1 267-879-1348

Jennifer Buchanan
Business Development Manager
jbuchanan@bourne-partners.com
+1 704.578.5348

550 South Caldwell Street, Suite 900
Charlotte, NC 28202
+1 704.552.8407

Executive Summary

Slowing inflation has given the Fed a path to lower rates after the steepest hiking cycle in 40 years. This has coincided with improved economic sentiment after higher interest rates stifled business growth and M&A activity. The outlook for M&A and capital markets is improving, but with inflation still well above the Fed's 2% target, short term rates above 5% are likely to persist well into 2024, causing concern among debt-burdened companies.

In Q2, there was a significant jump in pharma deal making, as deal count increased by 26%, yet total deal value QoQ declined slightly due to the outsized Pfizer/Seagen deal. This uptick in part came from private equity ("PE") firms stepping back in the ring through several notable take privates. Sponsor-backed deals accounted for 34% of quarterly deal value and 13% of deal count, 4.6x and 2.2x the 5-year quarterly average, respectively.

Speaking of PE, US PE-backed transaction values fell in Q2 2023 and are down 30% from the first half of 2022. This is consistent with market sentiment, as macro factors have stifled deal making. In addition, leverage remains scarce. Debt for LBOs fell to 43% of enterprise value ("EV"), a 14% year-over-year decline. This has had a knock-on effect as both valuations and transaction volume have declined.

Declining total EV of PE deals has coincided with relatively stable PE transaction volumes over the last four quarters. This indicates that it's smaller M&A deals that are getting done, many of which are add-on acquisitions to existing platforms that are easier to finance.

Continuing the smaller deal trend, corporate divestments have increased to 50% of total deal count, as big pharma continues to implement a "lean pharma" transition and players look to use divestiture proceeds as alternative financing. This presents an opportunity for Middle-Market Specialty Pharma platforms to be acquisitive.

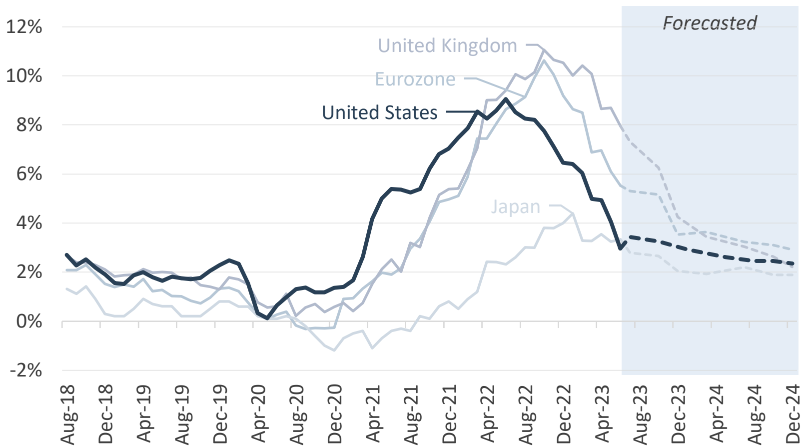
i. Macro Developments

Inflation, Rates & Business Outlook

Macro Developments

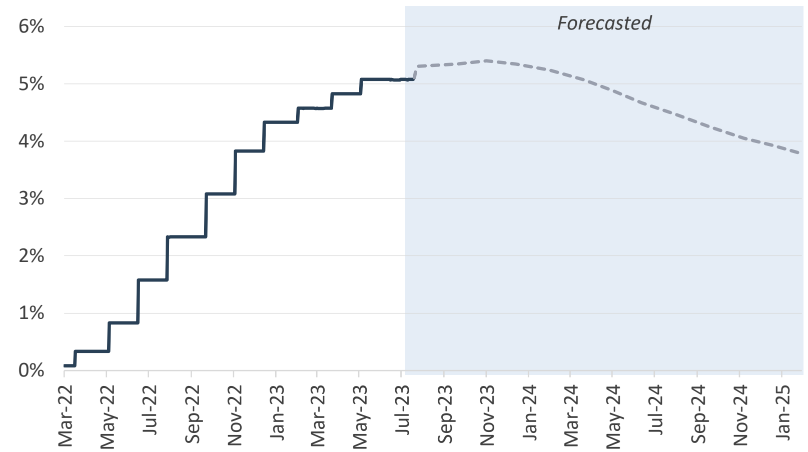
Slowing inflation provides a path for the Fed to ease rates - improving M&A and operating environment

Global Inflation Rates (YoY % change)



SOURCE: OECD, IMF, & Bloomberg data, Accessed 7.10.2023

US Federal Funds Rate



SOURCE: Bourne Analysis of Bloomberg, Accessed 7.10.2023

The annual US inflation rate slowed to 3% in June, the lowest since March 2021 and down from 4% in May. This was largely due to lower energy and food prices, but core inflation (the Fed's primary concern) has been more stubborn than many expected. Current inflation still exceeds the Fed's 2% target, and while inflation is expected to slow further, the Fed is not content.

Despite recessionary fears and unfavorable credit conditions, the overall economy is growing at a moderate pace. Consumer spending, which is primarily driven by income rather than credit, remains positive as a result of high employment and above-average (though moderating) wage growth. The Federal Reserve acknowledges that monetary policy has "long and variable lags" and paused for the first time in June to assess.(4) While the Fed opted not to raise interest rates at its June meeting, ongoing high inflation boosts the chance of short-term rates lingering over 5% long into 2024.(5)

The Fed will most likely commence raises in the future sessions.

The market currently expects two to three more hikes, reaching a terminal rate of 5.4%, with the Fed starting to lower rates as early as December. The consensus economic outlook has improved, and the once contrarian "soft landing" scenario is becoming more likely. Higher interest rates have certainly made an impact; severely hampered business growth and M&A initiatives, particularly leverage dependent deals. However, the outlook for M&A and capital markets is improving.

The global pharma industry experienced a 20% increase in sentiment in Q2 2023 compared to the previous quarter, according to GlobalData's analysis.(6) This is consistent with the results of May's business outlook surveys, which showed improved labor and supply chain conditions. This report, however, also indicated a decline in business activity and an inability to pass on pricing pressures.(7) Companies are still feeling inflationary pressures and high interest rates are squeezing free cash flow. With more rate hikes on the way, the second half of the year could be a slog for debt-burdened companies.

ii. Private Market Deal Activity

Valuations, Leverage & Dealmaking

Private Market Deal Activity

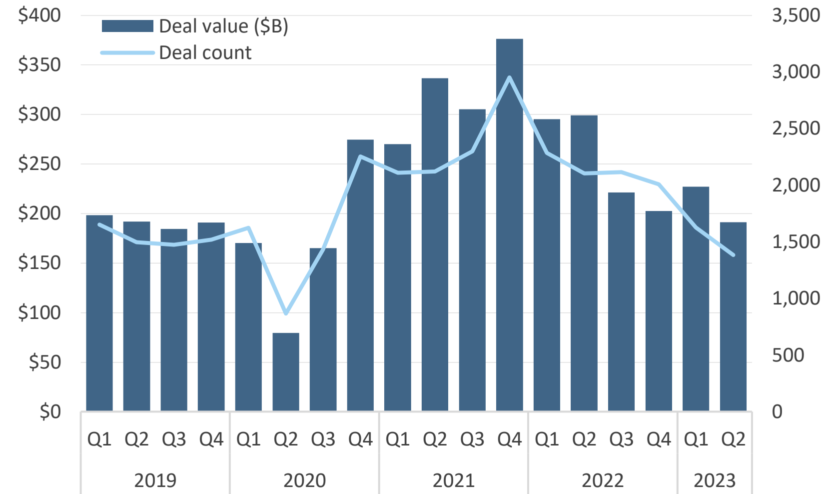
Valuations Slowly Reset

PE transaction value fell in Q2 and is down 30% from the first half of 2022. This is unsurprising and consistent with market sentiment, as macro factors engulfed deal making and wider mean-reversion to pre-pandemic levels of M&A seems inevitable. The industry remains in limbo as valuations reset.

Any private market that experiences value resets does so slowly, owing to fewer transactions as buyers and sellers both pause, with buyers wanting to gain the largest discount and sellers wanting to retain as much value as possible. Eventually there is capitulation, (currently on the part of sellers), and markets resume.

Declining PE deal value coincided with relatively stable (during the last four quarters) PE deal volumes. This indicates smaller transactions and lower valuations. However, the pause on the part of sellers has resulted in a scarcity of good assets, leading to fierce buyer competition for quality assets, keeping select valuations high and prolonging a reset.

US PE deal activity by Quarter



SOURCE: Pitchbook's 2023 Q2 US PE Breakdown Summary, Accessed 7.15.2023

How This Is Impacting Dealmaking

Leverage remains scarce. Debt for LBOs fell to a 43% share of EV, down from the five-year average of 52%. An 18% decline from the trailing 5-year average, and 14% YoY decline. This has certainly had a knock-on effect as both valuations and volume have declined.

This has exacerbated an already poor exit environment for PE backed firms, leading to a drop off in sponsor-lead processes. Although PE firms don't have easy access to new leverage to match their equity, they have still been deploying their cash stockpiles, albeit in smaller amounts. PE firms are continuing to deploy capital into easier to finance add-on acquisitions as they buy time for a better exit environment.[8]

We are still seeing misaligned value expectations as discussed above, but smaller deals, especially family-founder owned companies and growth equity deals are finding better alignment, and we have been very active within this section of the market.

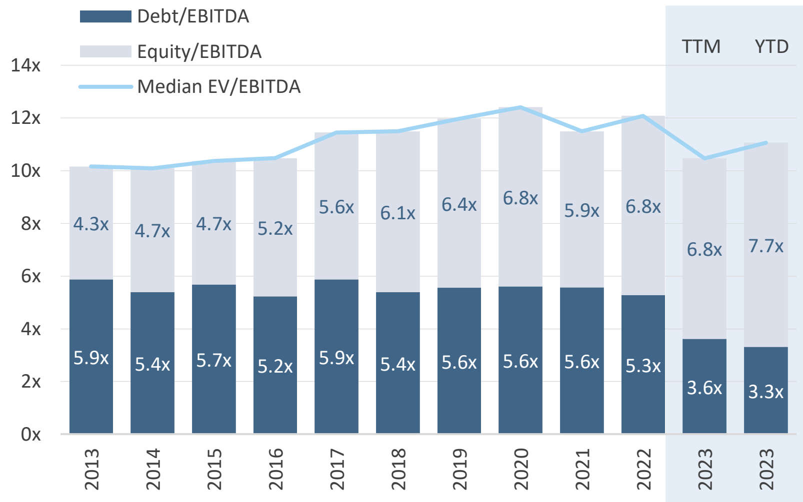
The pause on the part of sellers has led to a scarcity of good assets in the market and has forced firms to preempt processes. We have seen this across several deals this year and have helped sellers take advantage of this market dislocation.

Overall, we are starting to see a slight uptick in activity as macro concerns ease and firms look to close processes before year end.

Private Market Deal Activity - Valuations & Leverage

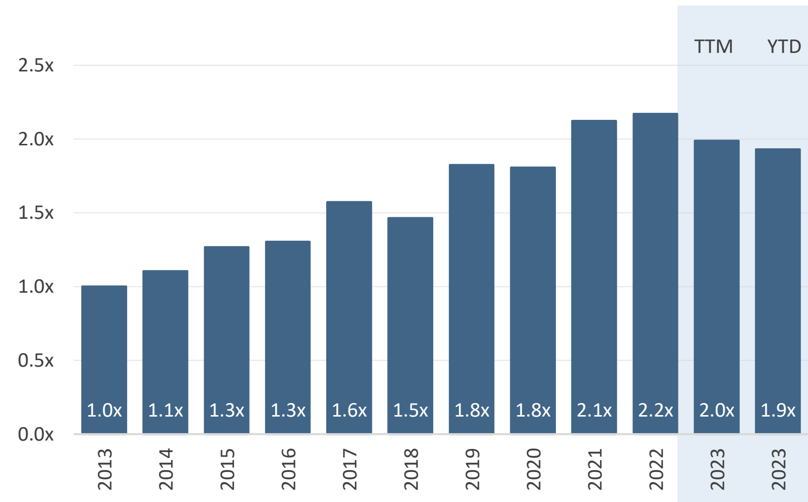
Valuations decline as leverage crimps TEV, but green shoots appear

US PE Median EBITDA Multiples



SOURCE: Pitchbook's 2023 Q2 US PE Breakdown Summary, Accessed 7.15.2023

US PE Median EV/Rev Multiples



SOURCE: Pitchbook's 2023 Q2 US PE Breakdown Summary, Accessed 7.15.2023

- Median EV/EBITDA Multiples collapsed 18.5% to 10.5x for TTM ending 6/30/23, down from 12.1x in 2022. A significant decline after the past five years have traded in a tight band between 11.5x and 12.4x
- TTM Median EV/Revenue Multiples show a similar story, declining a less sever - but still significant 10%, to 2.0x TTM vs. 2.2x in 2022

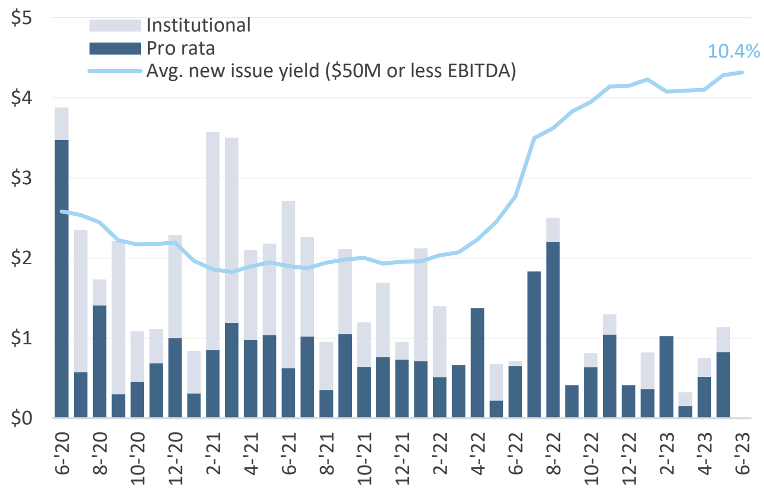
Exceptions to declining multiples include some healthcare & tech transactions, where revenue multiples are holding up much better than the broader industry, at 2.5x and 4.9x, respectively, but less so on an EBITDA basis where multiples have declined 11% and 13%, respectively.

This shows PE buyers are willing to pay up for revenue in these two secular growth areas—but only if paired with expanding EBITDA margins year-over-year,[8] which has been difficult for any businesses subject to cost inflation and labor shortages—ruling out many healthcare firms.

On the bright side, there has been a slight pick-up in median EV/EBITDA valuations in 2023 YTD when compared to the TTM medians, on even less leverage, while the same analysis of EV/Revenue has not reversed but intensified. Though potentially skewed by outlier deals, this indicates that PE firms are becoming more comfortable deploying capital into businesses that have not yet seen a pickup in sales or realized the effects of lowering inflation. Perhaps a leading indicator of a brighter outlook on the near-term operating environment.

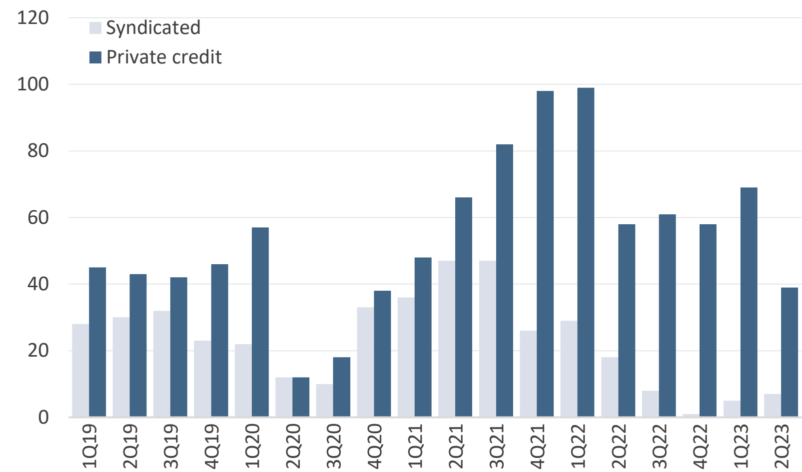
Debt Capital Markets

US Middle Market Loan Value($B) & Average New Issue Yield



SOURCE: Pitchbook's 2023 Q2 US PE Breakdown Summary, Accessed 7.15.2023

Count of LBOs financed by BSL* vs private credit markets



SOURCE: LCD Data via Pitchbook, Accessed 7.20.2023

Average Yield and New Issuance

The average middle market new issuance is currently pricing in line with single B borrowers around 10.3% as of June 30th, 2023. This has caused debt for LBOs to plummet to 43% of EV, down from the five-year average of 52%, an 18% decline from the trailing 5-year average, and 14% YoY decline.[8]

However, debt markets are finally (mostly) functioning again, albeit at a slower pace. Big banks have slowly waded back into the leveraged loan market after taking an eight-month sabbatical, which will be a welcome reprieve from an exhausted direct lending market.

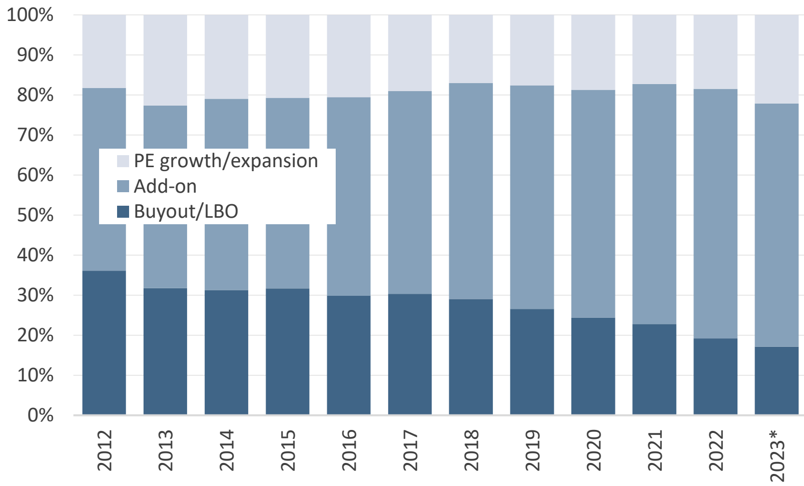
Private Credit Still Favored for LBO Financing

Private credit continued to dominate LBO lending, funding 100% of large-cap buyout financings in our Q2 data set, and ~80% of overall middle market lending. Private credit funds have continued to lend all along and were the main reason the LBO market and PE deal flow, in general, did not collapse coming out of the steepest rate hikes in more than 40 years.[9] But the class has started to show signs of fatigue despite outpacing BSLs again in Q2.

SOURCE: Pitchbook; Dates as of 6/30/2023
**Note: Based on available data; ("BSL") Broadly Syndicated Loans*

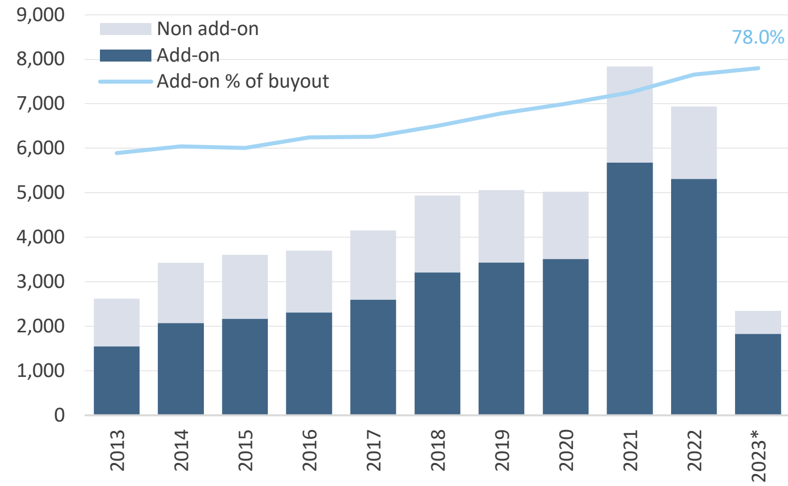
Private Market Deal Activity - Smaller Deals

US PE Deal Count by Type



SOURCE: Pitchbook's 2023 Q2 US PE Breakdown Summary, Accessed 7.15.2023

Add-Ons as a Share of US Buyouts



SOURCE: Pitchbook's 2023 Q2 US PE Breakdown Summary, Accessed 7.15.2023

Smaller Deals Prevail

Due to leverage constraints, the average deal size has declined driven by both valuation declines and deal types. A growing emphasis on add-on acquisitions, growth equity, and divestures deals have pushed the median deal value to $50M, the lowest level since 2017, baring a blip in 2020. This is indicative of PE firms adapting to a higher interest rate environment and forgoing platform investments.

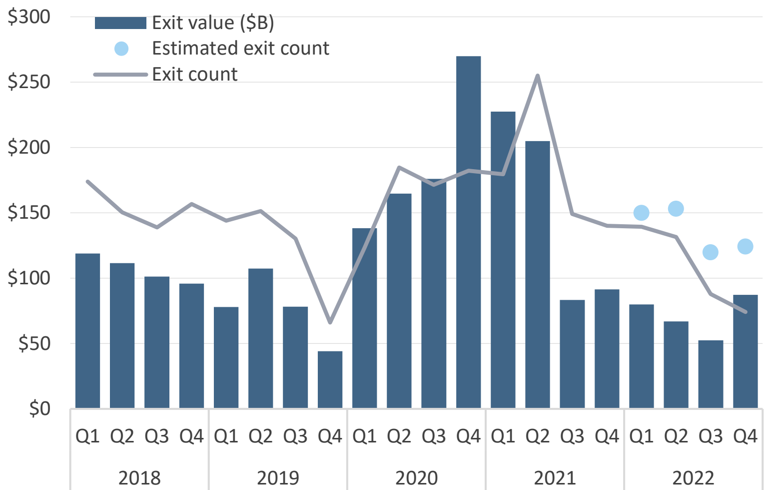
Growth equity investors have found attractive opportunities to put capital to work at lower valuations and are empowered by being less reliant on debt and better value alignment with sellers. Growth equity deals have made up 22.2% of total deal mix so far in 2023, up 18.5% from last year and nearing a 10-year high of 22.7% in 2013.

ICs Are More Receptive to Add-ons

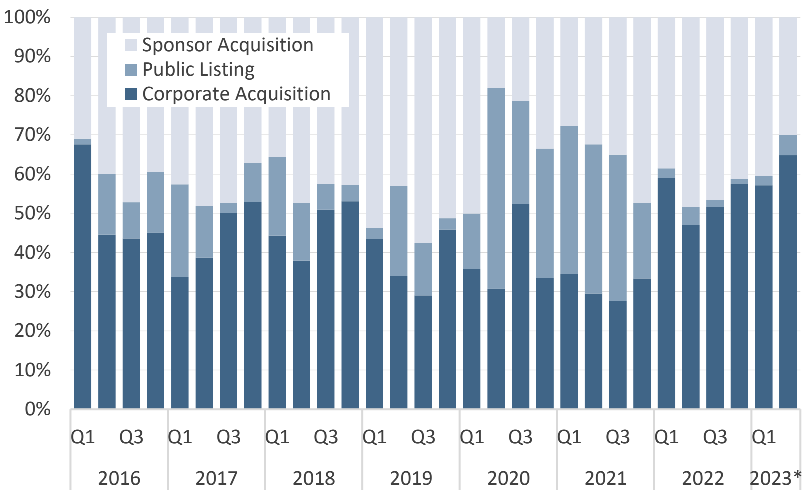
Add-on activity reached a 15-year peak of 78.5% in Q2 2023. Furthering QoQ increases since Q1 2021, increasing 400 bps in total up from 72.5%. Add-ons continue to be a go-to for implementing PE firm's roll-up strategy, but this has taken on outstretched importance in a time of tight credit and a particularly bad exit environment.

The Leverage Loan Market is still open for sponsors wanting to do add-ons – and many draw on existing facilities that were secured shortly after a platform LBO and therefore have advantages base rates.[8]

Private Market Deal Activity - PE Exits



SOURCE: Pitchbook's 2023 Q2 US PE Breakdown Summary, Accessed 7.15.2023



SOURCE: Pitchbook's 2023 Q2 US PE Breakdown Summary, Accessed 7.15.2023

PE Exits Rebound in Q2

A dismal exit environment is to thank for Add-on's record setting highs, however, PE exit values were a rare bright spot in Q2, reversing three quarterly declines and surging 67% over Q1 2023.

This is a welcomed sign for GPs, but this activity is still not significant enough to stave off a quickly approaching maturity wall and falling even further behind the pace of buying at 3.02 investments to every 1 exit (excluding add-ons), a 15-year high.[10]

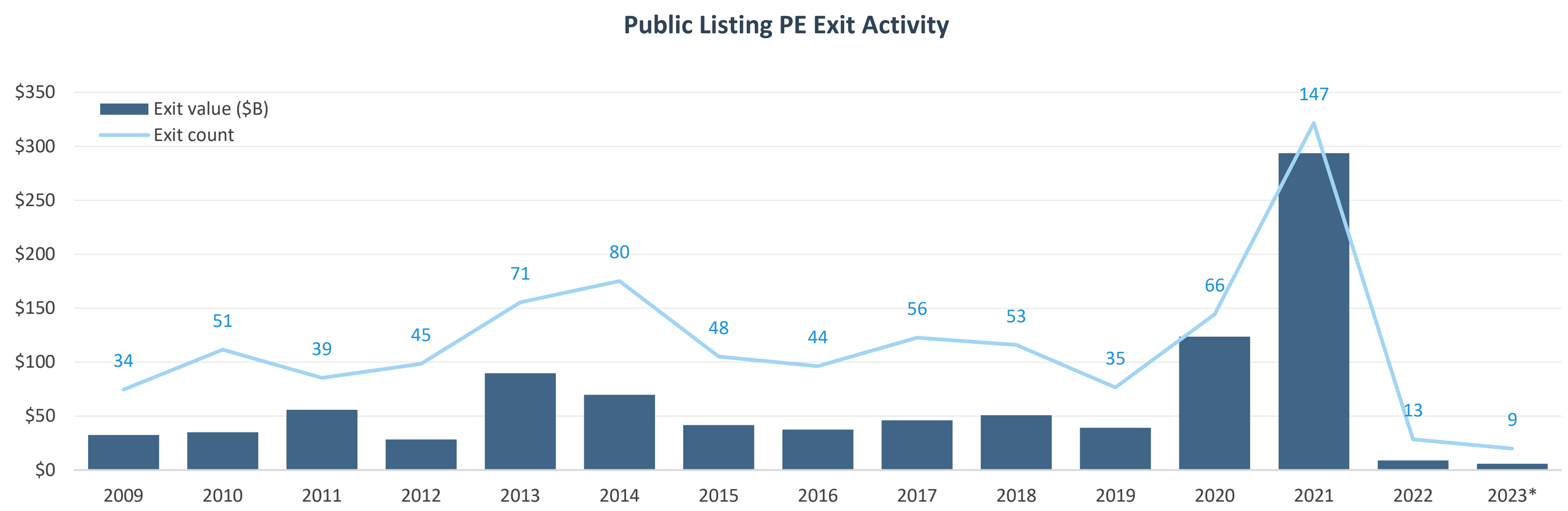
Boosted by a Few Well Capitalized Corporates

There were four big exits to end the quarter: two via M&A (Adenza and Apptio) and two via IPO (Savers Value Village and Kodak Gas Services)

Exits to corporates gained steam in Q2 and accounted for a record 64.8% of total PE exit value, and 61.9% of deal mix. Corporates with strong balance sheets have contributed the most to PE exit value, while sponsor-to-sponsor activity is still mostly frozen, and the IPO market, though tested by a few with moderate success, is still a shaky path to exit.

SOURCE: Pitchbook; Dates as of 6/30/2023

Private Market Deal Activity - IPO Exits



SOURCE: Bourne Analysis of Pitchbook Data, Accessed 6.30.2023

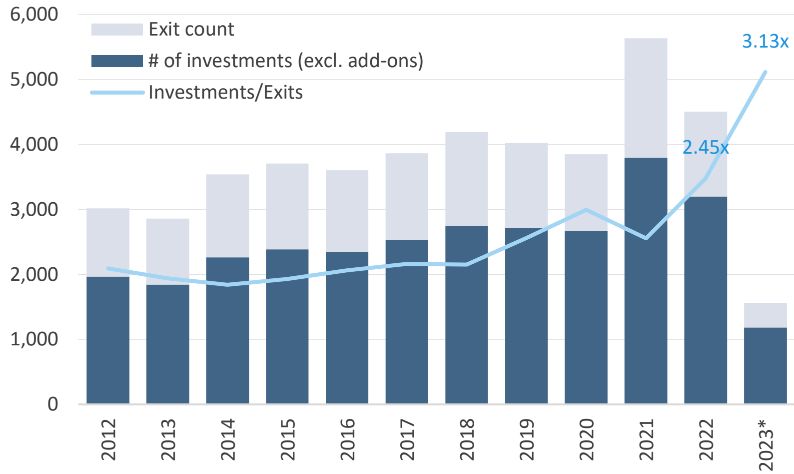
IPO Tested, but Still Shaky at Best

Public listings remained quiet, but recent developments point to a possible recovery for IPOs. Cava, Ares's Savers Value Village, and EQT's Kodiak Gas Service tested the waters. Kodiak fell short of the intended $328M raise, with just $256M. The latter two were well received, both exceeding the prescribed raise amounts, and experienced the IPO pop reminiscent of 2021.(8)

The IPO window has been cracked, but with interest rate and valuation volatility, it is still a shaky exit route for PE.

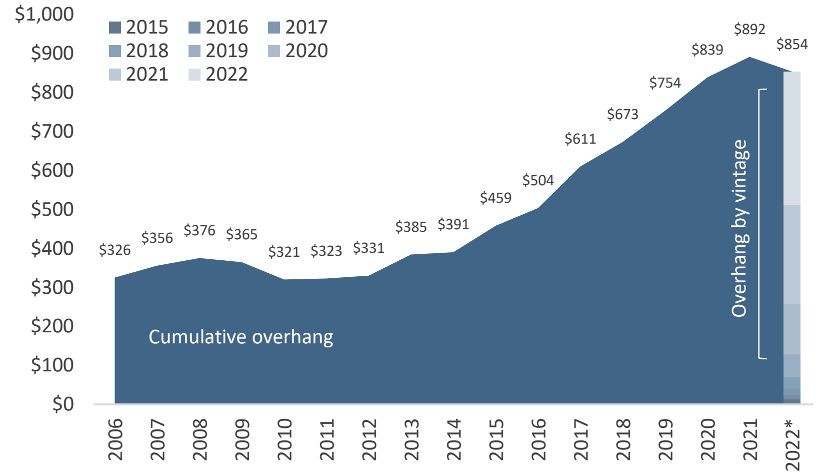
Private Market Deal Activity - One-Sided Dealmaking

US PE Investment/Exit Ratio



SOURCE: Pitchbook's 2023 Q2 US PE Breakdown Summary, Accessed 7.15.2023

US PE Cumulative Capital Overhang "Dry Powder"



SOURCE: Pitchbook's 2023 Q2 US PE Breakdown Summary, Accessed 7.15.2023

One-Sided Deal Making Fueled by Dry Powder

Also at a 15-year high, PE Investment-to-Exit ratios topped 2008 levels, rising to 3.13x investments to every 1 exit. This has come as a result of a dismal exit environment made less attractive by declining multiples, while record amounts of dry powder propel dealmaking.

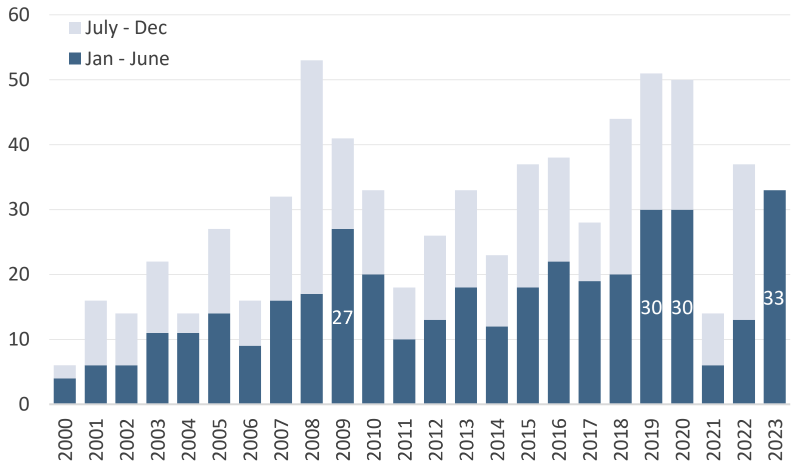
Delayed exits that are expected to persist for the next few years, will lead to a significant pileup of not-yet-exited PE assets as investors struggle to sell the portfolio companies that are entering their exit time frames. The mismatch between the explosion of deals made in the last few years and a challenged exit market will cause the backlog of investments to swell.(10)

iii. Healthcare Spotlight

M&A, Market Dynamics & Life Sciences Outlook

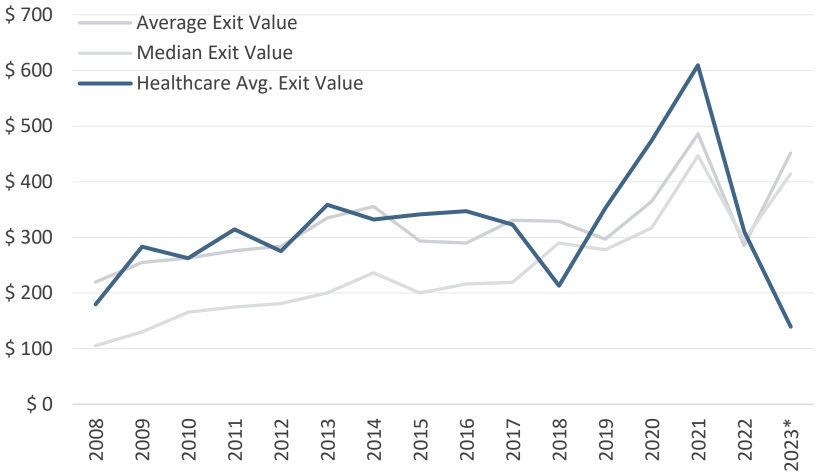
Healthcare Spotlight

Total Healthcare Bankruptcies 1H vs 2H 2000-2023



SOURCE: Bourne Analysis of CapIQ Data, Accessed 7.1.2023

HC Avg. Exit Value vs. Total Avg. Exit value ($M)



SOURCE: Bourne Analysis of Pitchbook Data, Accessed 7.15.2023

Healthcare Bankruptcies Exceed Prior Peaks

Rising rates have claimed several healthcare companies through the first half of 2023, surpassing prior pandemic and 2009 peak levels. Among these are well-known generic manufacturers Akorn, Lannett, and Endo. These occurred at a time when drug shortages were already a major concern but have since been exacerbated.

Healthcare Lags Other Sectors

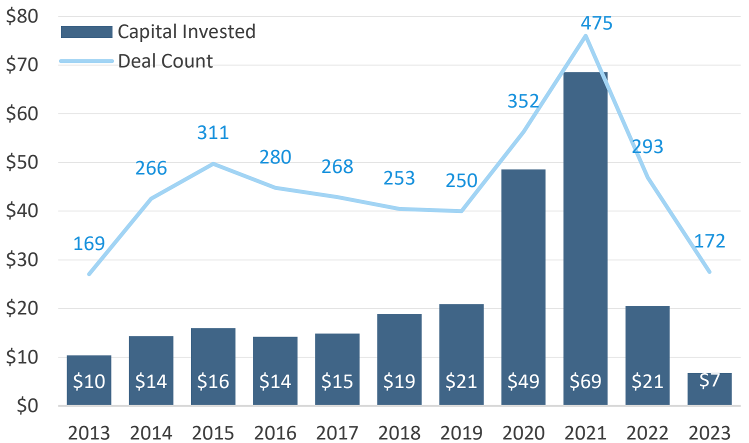
Healthcare was a bright spot in terms of exit value the past two years but has significantly dragged down the total average and median exit value in 2023.

Subdued activity is likely the result of several notable bankruptcies (KKR's Envision, Blackstone Team Health restructuring talks) amid cost and labor inflation, and reimbursement issues have several hurt business with out-of-network payor exposure.[8]

SOURCE: Pitchbook, CapIQ; Dates as of 7/5/2023

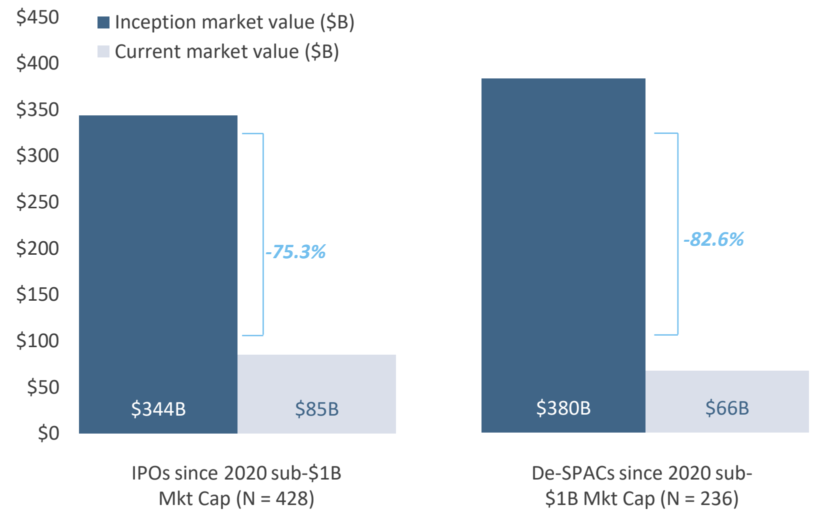
Healthcare Spotlight - Life Science IPO Activity

Pharma and Biotech IPO Market Thaws



SOURCE: Bourne Analysis of CapIQ Data, Accessed 7.1.2023

Sub-$1B IPOs since 2020 now trading below $1B



SOURCE: Pitchbook Data, Accessed 6.28.2023

IPOs Are Slowly Opening Up

Biotechs have been facing a drastically different funding environment than that of the past two years, largely in part to the lack of IPO opportunities. The group has largely been shut out of public markets in dramatic fashion from the heights of 2021, but a handful of biotechs did raise secondary offerings in the later weeks of Q2 with moderate success, raising a combined $764M across 6 companies. The public financing arena has been dismal the past several quarters, but recent activity shows green shoots are emerging.

This lift comes at a much-needed time as biotechs have an average of 5.4 quarters of cash runway left, down from 8.6 in early 2021.

However, managing cash burn and focusing on operational success in addition to therapeutic development success will be crucial for biotechs to reach their next inflection point, despite an improving funding environment.[11]

Hampering this trend, companies who went public in 2020 or later, with sub-$1 billion market caps, both via SPACs and traditional IPOs have since declined 82% and 75%, respectively, as risk-adverse sentiment grew among investors. This cohort of 664 companies is skewed biotech-heavy, with 208 firms being biotech and life science companies.

Pharma M&A Recap & 2H Outlook

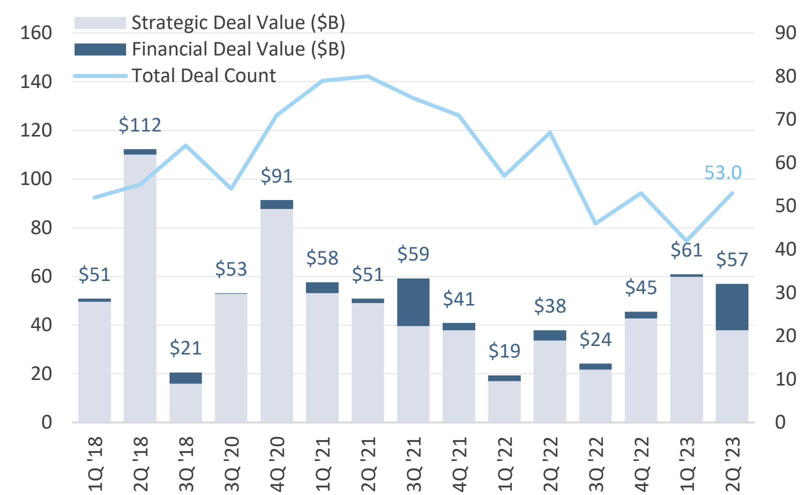
Outlook

Going forward, we believe the underlying fundamentals of dealmaking are too strong to keep activity muted, despite the persistence of regulatory uncertainty.

Defining Trends

- Corporate Divestures continue to provide opportunities for specialty pharma and PE backed platforms to be acquisitive
- Big pharma cash balances and impending patent cliffs are expected to drive transformative M&A
- FTC regulatory concerns have led to a disciplined approach to M&A, and IRA implications are reshaping deal making

Global Life Science Deal Activity by Quarter



SOURCE: Bourne Analysis of CapIQ Data, Accessed 7.20.2023

Pharma M&A Green Shoots

Following a strong start in Q1, the preceding months saw subdued M&A activity, but the second half of Q2 finally began to show signs of a much-anticipated surge in deal making. Quarter over quarter, deal values fell from $60.8B to $56.9B, owing largely to the outsized Pfizer/Seagen deal announced in Q1 ($42B of the total $60B announced), while deal count increased by 26%, to 53 total deals.

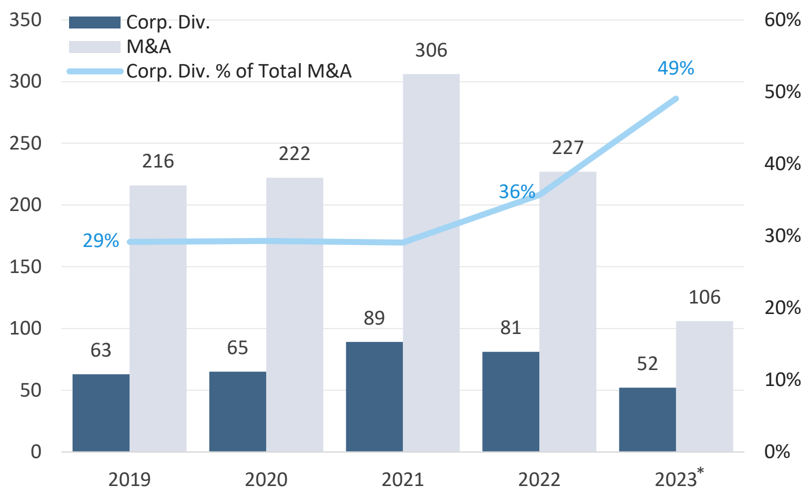
The headline figures were mostly driven by Big Pharma acquiring biotechs to fill pipeline gaps, but private equity firms that had recently avoided the pharma industry reemerged. Deals backed by financial institutions accounted for 34% of deal value, 4.6x the 5-year quarterly average, and 13% of deal count, 2.2x the 5-year quarterly average.

This dealmaking boost was driven by a number of notable take privates, including Luxinva/EQT's $6 billion acquisition of animal drug maker Dechra Pharma and Novo/Gurnet Point's $462 million acquisition of antibiotic company Paratek Pharmaceuticals.

This was part of a broader take-private trend in the pharma ecosystem, as Baxter's BioSolutions CDMO was spun out to Warburg Pincus/Advent, and CRO conglomerate Syneos Health was acquired by a consortium of private investment firms.

Pharma M&A Recap & 2H Outlook (cont.)

Life Sciences Corporate Divestitures as a % of Deal Count



SOURCE: Bourne Analysis of CapIQ Data, Accessed 7.23.2023

Pharma M&A Green Shoots (continued)

Outside of take privates, PE firms have benefited from a precipitous rise in corporate divestures, which has been a defining trend in 1H 2023. Corporate divestments have increased to 50% of total M&A count, as big pharma continues to implement a "lean pharma" transition and players across the spectrum look to use divesture proceeds as alternative financing, with some deploying a divest-to-invest strategy and others scrambling to sure-up balance sheets as rising interest rates crimp free cash flow. *(See Bourne Partners' Market Insight Using Divestitures to Deliver Excess Return for more)* We believe that this will continue to be an opportunity for both sponsor-backed and non-sponsor-backed Middle-Market Specialty Pharma platforms to be acquisitive and grow market share.

Another factor influencing dealmaking is the impact of the US Inflation Reduction Act on pricing and exclusivity in more traditional drug classes. Regarding Specialty Pharma, French-based Ipsen and its two recent acquisitions in oncology and rare disease are examples. 1H dealmaking has prioritized rare diseases, most likely in response to the IRA. Biologics exhibit a similar effect, which we discuss in greater detail in the following slides.

Returning to Big Pharma/Biopharma M&A, IRA implications are also prominent, but impending patent cliffs and pharma's need to replenish pipelines are driving transactions. According to consensus estimates, the highly publicized historical loss of exclusivity (LOE) event puts more than $390 billion of US and EU large drugmakers' annual sales at risk of generic entry, as 170 products face patent expiration in 2023 - 2030.[2] Another driver for Pharma M&A is the health and flexibility of balance sheets, which is of extreme importance in the current environment. Estimates project that pharmaceutical companies have up to $700 billion available for acquisitions.[(12)]

LOE, combined with pharma's cash piles, has resulted in a much-anticipated surge in M&A activity, but this did not materialize in Q1 after Amgen/Horizon faced significant regulatory scrutiny, stalling large transformative M&A deals. This resulted in several smaller (sub-$1B) transactions defining activity in 1H, but these deal have likely lubricated the M&A gears for heightened 2H activity.

Going forward, we believe the underlying fundamentals of dealmaking are too strong to keep activity muted, despite the persistence of regulatory uncertainty.

For more on Life Sciences, see Bourne Partners' Market Insight 2023 1H Pharmaceutical Sector Update

iv. Bourne Partners Overview

Thought Leadership

Bourne Perspective

After 20+ years of exclusive industry and capital markets coverage, we know the space and we are committed to providing actionable insights to our clients. We provide cutting-edge thought leadership on all things Pharma, Pharma Services, and Consumer Health.

Through leveraging resources and insights of both Bourne Partners Strategic Capital and Investment Banking divisions, **we provide differentiated perspectives to our clients from our unique vantage point**. Our goal is to deliver heavy-hitting, timely reports in an easy-to-read format tailored specifically for executives within our industry coverage.

Deal Profiles

Market Conference Commentary

Industry Update Posts

Weekly Newsletter

Market Reports

Strategic Divestitures Interview

Sector Updates

Bourne Partners Overview

Our Service Offering

For over twenty years, Bourne Partners has focused exclusively on providing investment banking advisory services and making direct investments in the Pharmaceutical, Pharma Services, and Consumer Health and Wellness industries. Since 2015, we have successfully executed on **over $10B** in transactions, having worked with many leading companies and private equity investors in these core focus areas.

Investment Banking

Mergers and Acquisitions
Sell-side and buy-side assignments
Transaction Experience: $10mm - $3.5b

Capital Sourcing
Debt / Equity / Hybrid
$10 - $500 million raises

Business Development Support
Development stage and approved products
Local and international

Strategic Capital

Investment Focus
Direct investments in private companies
Selective approach in vital focus areas

Other Criteria
Cash flow positive opportunities
Complex situations with creative structures
Actionable growth stage or middle market business
Flexible investment targets with established private equity relationships

Geographic Coverage

Sector Expertise

Pharmaceuticals

Pharma Services

Consumer Healthcare

Investment Banking Overview

Bourne Partners Investment Banking provides investment banking services within the healthcare and life sciences sector for external clients as well as our portfolio companies.

Value Beyond the Deal

Total Perspective

Experience advising, investing in, building, operating, buying, and selling companies
Unmatched 360° perspective for every project

Uncompromised Service

Direct involvement of senior management throughout process
High level of attention regardless of transaction value

Global Reach

Experience working with companies around the globe
Extensive network of potential international buyers

Focus Areas

- Buy and Sell Side M&A
- Equity & Debt Capital
- Licensing / Partnering
- Strategic Consulting

Select Tombstones

- Fagron has sold its CDMO operations to SIGNET Healthcare Partners
- ANI Pharmaceuticals, Inc. has acquired Novitium
- Woodward Pharma has acquired assets from GSK / Eisai
- Avista Pharma has been acquired by Cambrex
- Cold-EEZE has been acquired by Mylan

Partners, Sponsors, and Lenders

The Carlyle Group, Colbeck, Cerberus Capital Management, L.P., Cinven, Advent Venture Partners, Ampersand

Recent Clients & Counterparties

Fagron, ProPhase Labs, alcami, Avista Pharma, GlaxoSmithKline, accelovance, endo, Cambrex, Ashfield Engage, ANI Pharmaceuticals, Inc., Phlow, IVC

Strategic Capital Overview

Bourne Partners Strategic Capital partners with/invests in opportunities in our focus sectors where we can invest a significant amount of our own capital, add value, and align incentives/partner with management

10
direct or co-investment platforms

15+
Investments in PE funds since inception

$20+
billion in transaction experience

>11x
realized MOIC (average)

What We're Looking For

- Proven and experienced management teams
- Companies or platforms that align with incentives
- Highly flexible companies - equity checks up to and > $1B
- Cash flow positive, commercial stage transactions
- Companies where BPSC's value add can create a significant return on our personal capital

Current Portfolio Companies

amri, Millicent Pharma, Tanner Pharma Group, WellDyneRx, Pharmaceutical Associates, Inc., Covis Pharma, inova pharmaceuticals, Carlin Consumer Health

Private Equity Partners & Co-Investors

The Carlyle Group, Cerberus Capital Management, L.P., PEP Pacific Equity Partners, Enhanced Healthcare Partners, GTCR

Exited Portfolio Companies (Active Role)

novitium, Covis Pharma, Theramed, King Pharmaceuticals

Appendix

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