HARBOR HEALTHCARE CONSULTANTS
Mergers & Acquisitions

Market Outlook

2017 LONG-TERM CARE PHARMACY MARKET OUTLOOK — JULY 2017

The results are in and healthcare M&A activity continues to be a strong performer in the first half of 2017. Continuing the 2016 spending trend which recorded an estimated $36 billion in total deal value, a 60% increase over 2015. This is great news for an industry that is experiencing more activity now than at any time in the past decade. With a proven resilience to economic turbulence, the growth of healthcare is propelled by an aging global population, rising incidence of chronic diseases and rising demand for efficient, effective quality services. But with all this positive data coming from the healthcare sector, what does it mean for long-term care (LTC) pharmacies in 2017?

The beginning of 2017 issued LTC owners a bit of volatility. On one hand, the new administration dedicated itself to loosening the regulatory environment and doubling GDP over the next few years. On the other hand, the same administration and Congress are addressing the Affordable Care Act and rolling out some major legislative and regulatory changes, not all are for the better. Nevertheless, LTC owners have historically operated in one of the most regulated industries in the U.S. and will continue to navigate these waters with persistence.

With volatility expected to continue through the remainder of 2017, investor demand in the LTC segment is still anticipated to remain at peak levels. Acquirers are interested in LTC because they can reduce costs and operate more efficiently. Consequently, LTC owners can structure a sale that not only includes cost cutting strategies but addresses key performance drivers as well. As a result, sellers are pursuing these buyers more frequently because of the sentimental relationship they have with their business and the key personnel who helped them build it. Sellers want their company and its valuable staff members to experience growth and success, just as much as the prospective buyer does. These synergies between buyer and seller are critical.

Furthermore, growth industries such as the current LTC sector attract fierce competition and stringent regulatory oversight which can often stymie free enterprise. The challenge to cut costs and remain profitable even with a swelling end market creates a challenging balancing act for owner/operators. Value based care will continue to drive states to control costs and is also a cornerstone revenue model for LTC moving forward. Additionally, the Trump administration announced plans to cut Medicaid by up to $800 billion over the next 10 years. The writing is on the wall, healthcare cost controls are here to stay whether we like it or not. Finally, let's not forget the massive online retailer and logistics company, Amazon, is considering a move into the pharmaceutical industry, which will certainly cause a disruption in the space.

In summary, 2017 is an exciting time for LTC with activity and valuations at levels not seen in recent history. Buyers are clamoring for quality businesses in key geographic regions and the trend is expected to continue until the end of the year. Owners would be wise not to miss this opportunity while it is available. Regulatory challenges and competition exert downward pressure on margins and a volatile economic forecast creates a foggy outlook beyond the near term. It's never too soon for owners to plan to secure their future.

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