



### HOW THE PANDEMIC, PRIVATE EQUITY AND THE MOU IMPACT COMPOUNDING PHARMACY VALUES, ALLIANCES AND THE SERVICEABLE MARKET

The pharmacy industry experienced an impressive surge of attention from investors during the past two years. Private equity (PE), SPACs, strategics, IPOs, incubators and billionaires piled cash into the sector seeking returns. While digital health garnered much of the focus, there is another, less-known subsector receiving attention: compounding pharmacy. Compounding is a fractionated segment of pharmacy uniquely positioned for consolidation because of several characteristics, including: cash-based revenue models, attractive gross margins, an expanding market, low-hanging service differentiators and tech synergies, just to name a few. In fact, there are a large swath of attributes in compounding pharmacy that make the space alluring to investment organizations. This article discusses those attributes, the value of those businesses, and the broader dynamics at play in the marketplace.

There are several shared challenges across all segments of pharmacy: Reimbursement, regulatory criteria, cutthroat competition, presence of monopolies, etc. Each of these challenges impact demand and valuations for pharmacy assets. Those buyers that are familiar with pharmacy, have experience in, and possess the scale to realize synergies quickly, are also the most adept buyers. They submit stronger offers, present more opportunity for sellers, and most importantly, have a higher probability of closing. Those buyers that are unfamiliar with the sector or lack experience, generally make substandard acquirers. Many tried to get into pharmacy during the pandemic but lacked expertise and synergies. They also faced fierce competition that added unknowns to their forays. Just look at Amazon's strategic pullback from pharmacy during the past 12 months.

If pharmacy is so difficult, what specifically is driving the interest in compounding?

***What's driving the interest in compounding pharmacy? Disruption, growth and industry architecture.***

Disruption, growth, and industry architecture (IA). First, acquirers are aggressively seeking to establish boots on the ground in all 50 states. Even though the FDA conceded on the MOU<sup>1</sup>, brick-and-mortar presence is crucial for a nationwide strategy. Second, telehealth is creating new revenue channels for compounding pharmacy by expanding the serviceable market. In fact, much of the growth in telehealth is a result or byproduct of the pandemic, as technology continues to improve access for patients and efficiencies

for providers. Last but not least, stickiness of patients, cash-based revenue models and high gross margins, make positive contributions to compounding pharmacy demand.

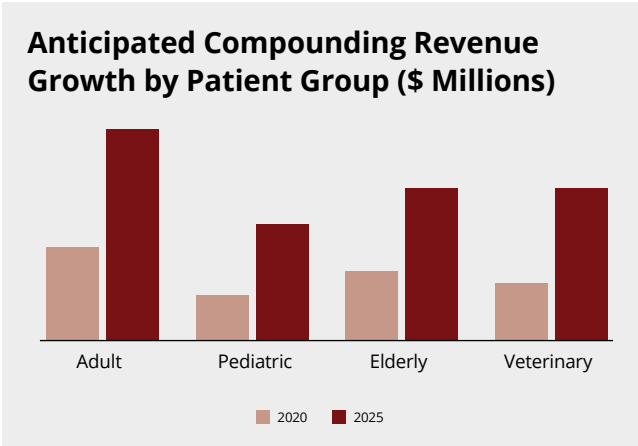


Figure 1 - <https://harborhealthcare.com/wp-content/uploads/2021/03/2021-Compounding-Pharmacy-Market-Outlook.pdf>

PE capital is pouring into pharmacy, forming a confluence in compounding by pumping up values and expanding opportunity. Unlike other segments where businesses must satisfy stringent acquisition criteria, the demand for compounding pharmacies with varying financial and business profiles is much greater. Valuations are dependent on several factors and are at historic highs, with multiples ranging between 5-10 times adjusted EBITDA for 503A and 10-14 times adjusted EBITDA for 503B, depending on the circumstances. As compounding pharmacy owners seek to retire, streamline their business model, improve their purchasing power, and/or create advocacy alliances, exit opportunities are increasingly attractive.

The compounding pharmacy industry is constantly transforming. The segment encounters rapid shifts in demand for therapies and is under persistent threat of regulatory

action. Compounding pharmacy owners are a rare breed and must constantly adapt to a changing ecosystem. Although challenging, there are opportunities for owners who pursue them. Whether those opportunities are in telehealth, ivermectin, a competitor's woes, geographic advantages, LDN, a rapidly growing niche, contracts and relationships or other competitive advantages, there are ample ways for compounding owners to leverage their business into new markets and monetize those strategies through M&A. Those who want to retire can, and those who want to continue their entrepreneurial endeavors, but eliminate the headaches, now have the option of doing so.

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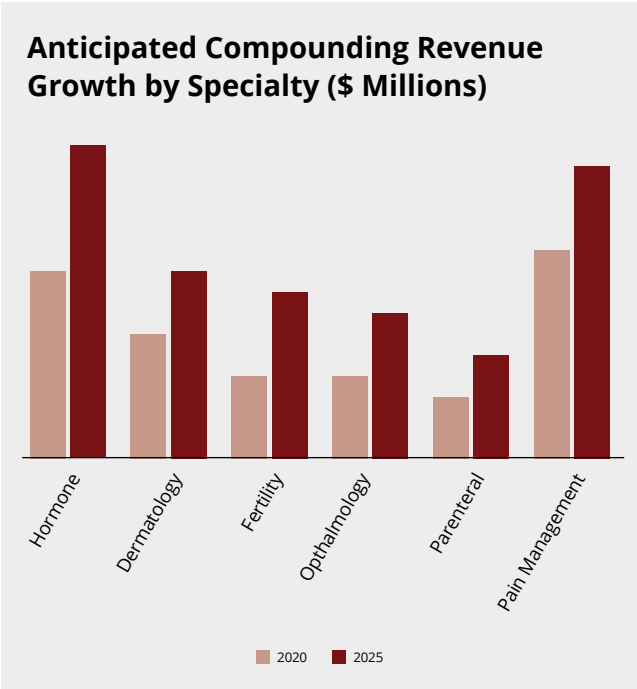
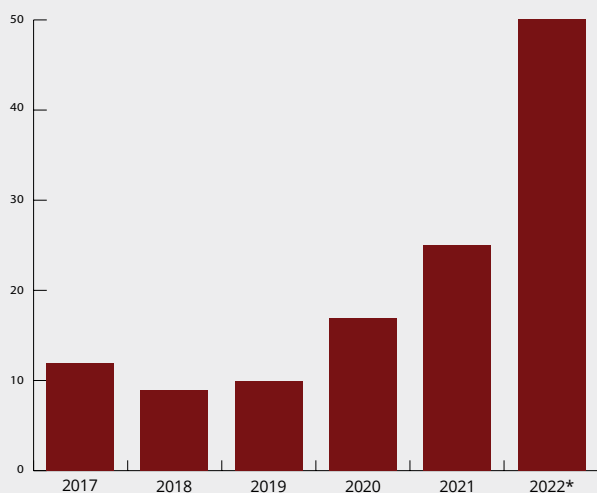


Figure 2 - <https://harborhealthcare.com/wp-content/uploads/2021/03/2021-Compounding-Pharmacy-Market-Outlook.pdf>

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### Number of Compounding Pharmacy M&A Transactions



*\*2022 Estimated Forecast based on survey of strategic and financial sponsor activity in compounding pharmacy*

This is an incredible time for compounding pharmacy owners to monetize the equity of their business. The pandemic boosted telehealth, augmenting revenue and opportunity for pharmacies. Capital is rushing into the space, buyers are clamoring for assets and compounding pharmacy is highly fractionated, making it the ideal candidate for consolidation. Sure, USP 800 is here and there are always new challenges, but pharmacists managed headwinds before and continue to do so through adaptation and business savvy. With the economy in recovery

mode, it is impossible to say when this window of opportunity will close. If interest rates continue to rise, market sentiment will have a greater impact on the economy and accessing cash to buy a pharmacy may prove more difficult. Additionally, there is always the unfortunate possibility that bad players could trigger sweeping regulatory action, ruining the market for everyone else. For now though, the compounding pharmacy business is booming.

#### References

1 <https://a4pc.org/2022-02/press-release-fda-concedes-in-compounding-mou-case/>

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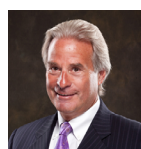
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