



2023 LTC PHARMACY: WHY INFLATION AND MARGINALIZED PATIENTS WILL DRIVE M&A VALUES IN THE COMING YEARS

LTC Pharmacy underwent more disruption and change in just the past few years than the preceding decades. Revenue models morphed, strategies reversed, and service transformed. The M&A landscape is now replete with both private equity-backed and independent operators scooping up quality businesses. At the same time, LTC facility M&A is speeding up after a slow start to the year, putting additional pressure on pharmacies to have preferred contracts with larger chains and/or competitive access to key markets.

As interest rates climb, inflation persists, and economic unpredictability lingers, firms seek to divest non-core assets and focus on long-term strategies. For LTC pharmacy that means providing quality service to all patients. Especially marginalized individuals and those not in typical facilities like those at home and/or in behavioral health facilities.

Many years ago, when long-term care pharmacies customarily traded on a “price per bed” basis, skilled beds fetched the highest premium because they serviced a patient population with better margins and improved contracts. During this era, large strategic acquirers outbid most of their smaller competitors due to their large cash reserves that were earmarked for acquisitions, coupled with an innate ability to realize the greatest overnight synergies. However, their large bureaucratic corporate structure often did not align with sellers’ wants and desires in a transaction. Regardless, money talks and sellers looked past many of the suitor’s shortcomings (i.e. staff consequences, service model issues, etc.).

Fast forward to today, where valuations, acquirers and deal structure are changing entirely. Private equity is diving into the segment and making a big splash.

“*The Biden administration announced Tuesday the first 10 prescription drugs that would be selected for negotiation under the Medicare Drug Price Negotiation Program designed to lower the costs of prescription medicines... These selected drugs accounted for \$50.5 billion, or about 20%, of total Part D gross covered prescription drug costs between June 1, 2022 and May 31, 2023, according to an HHS news release*”⁴

Financial sponsors seek platform businesses. Hybrid buyers are searching for addons in new geographic regions. In the race to the top for the highest value patient populations, non-skilled (assisted living, LTC at-home, group home, I/DD, behavioral health, etc.) pharmacy is nipping at the heels of the skilled segment. The average script price per patient is up to 40% higher in some non-skilled niche patient categories. Lastly, in contrast to years ago, pharmacies are less frequently valued



on a per bed basis and instead are more commonly valued on a multiple of EBITDA. This is not always the case however, and sellers must exercise caution when considering the methodologies used by their buyer in an LTC pharmacy transaction.

With the economy in a state of flux, concerns over the Inflation Reduction Act and an election around the corner, speculating where values are headed in the next year is anyone's guess. Considering long-term care is historically recession proof, in 2020 we witnessed the segment's vulnerability to economic forces. For now, with the addition of new players to the buyer pool, values and opportunities for sellers are stronger than ever. Larger enterprises are still pulling higher multiples but even those margins narrowed in the past 12-24 months. Counteracting the seller tailwinds is stricter lending requirements and other sources of friction that slow the sale process and make transacting more tedious. It is imperative sellers interact confidentially with different buyer organizations to identify potential synergies, value, and growth opportunities. Keeping all deal points in focus throughout the process is imperative to complete an M&A engagement and experienced bankers are earning their fees in today's market conditions by offering financial engineering, marketplace familiarity, and regulatory expertise. As the continuity of care evolves, and patients that fall outside of typical populations require more care, LTC pharmacy continues to respond to the expanding market. As always, where there is growth, there are buyers willing to execute deals on quality businesses, particularly those operating in niche markets like LTC pharmacy.

References

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