

### Industry-Related Trading Multiples<sup>(1)</sup>

	TEV/LTM EBITDA				TEV/LTM Revenue			
	Sep-17	Dec-17	Mar-18	Jun-18	Sep-17	Dec-17	Mar-18	Jun-18
<b>PBMs</b>								
Express Scripts (NasdaqGS:ESRX)	6.8x	7.5x	7.4x	7.9x	0.49x	0.54x	0.52x	0.56x
Magellan Health (NasdaqGS:MGLN)	9.9x	10.6x	13.2x	12.5x	0.46x	0.48x	0.55x	0.45x
<b>Median</b>	<b>8.4x</b>	<b>9.0x</b>	<b>10.3x</b>	<b>10.2x</b>	<b>0.47x</b>	<b>0.51x</b>	<b>0.54x</b>	<b>0.50x</b>
<b>Average</b>	<b>8.4x</b>	<b>9.0x</b>	<b>10.3x</b>	<b>10.2x</b>	<b>0.47x</b>	<b>0.51x</b>	<b>0.54x</b>	<b>0.50x</b>
<b>Pharmacies</b>								
CVS (NYSE:CVS)	8.5x	7.8x	7.1x	7.0x	0.59x	0.53x	0.48x	0.48x
Rite Aid (NYSE:RAD)	9.9x	9.9x	5.0x	9.3x	0.28x	0.28x	0.15x	0.23x
Walgreens Boots (NasdaqGS:WBA)	12.0x	10.5x	9.9x	8.6x	0.78x	0.70x	0.64x	0.57x
<b>Median</b>	<b>9.9x</b>	<b>9.9x</b>	<b>7.1x</b>	<b>8.6x</b>	<b>0.59x</b>	<b>0.53x</b>	<b>0.48x</b>	<b>0.48x</b>
<b>Average</b>	<b>10.1x</b>	<b>9.4x</b>	<b>7.3x</b>	<b>8.3x</b>	<b>0.55x</b>	<b>0.50x</b>	<b>0.42x</b>	<b>0.42x</b>
<b>Distributors</b>								
Mckesson (NYSE:MCK)	10.2x	10.7x	10.5x	9.3x	0.20x	0.20x	0.18x	0.16x
Cardinal Health (NYSE:CAH)	8.1x	9.2x	8.9x	7.0x	0.19x	0.22x	0.21x	0.17x
AmerisourceBergen (NYSE:ABC)	8.5x	8.7x	8.3x	9.1x	0.14x	0.14x	0.13x	0.14x
<b>Median</b>	<b>8.5x</b>	<b>9.2x</b>	<b>8.9x</b>	<b>9.1x</b>	<b>0.19x</b>	<b>0.20x</b>	<b>0.18x</b>	<b>0.16x</b>
<b>Average</b>	<b>8.9x</b>	<b>9.6x</b>	<b>9.3x</b>	<b>8.5x</b>	<b>0.17x</b>	<b>0.18x</b>	<b>0.18x</b>	<b>0.16x</b>
<b>Managed Care</b>								
United Health (NYSE:UNH)	13.5x	14.3x	13.7x	14.6x	1.09x	1.17x	1.15x	1.24x
Anthem (NYSE:ANTM)	10.9x	12.0x	13.4x	13.4x	0.71x	0.77x	0.81x	0.85x
Aetna (NYSE:AET)	9.7x	10.6x	10.7x	9.8x	0.94x	1.03x	1.00x	1.01x
Cigna (NYSE:C)	11.5x	11.3x	9.3x	8.8x	1.19x	1.26x	1.04x	1.03x
Humana (NYSE:HUM)	12.1x	11.2x	10.4x	10.2x	0.60x	0.56x	0.71x	0.69x
<b>Median</b>	<b>11.5x</b>	<b>11.3x</b>	<b>10.7x</b>	<b>10.2x</b>	<b>0.94x</b>	<b>1.03x</b>	<b>1.00x</b>	<b>1.01x</b>
<b>Average</b>	<b>11.5x</b>	<b>11.9x</b>	<b>11.5x</b>	<b>11.4x</b>	<b>0.91x</b>	<b>0.96x</b>	<b>0.94x</b>	<b>0.97x</b>
<b>Specialty Pharmacy</b>								
Diplomat (NYSE:DPLO)	21.7x	21.8x	29.5x	30.6x	0.34x	0.35x	0.47x	0.52x
Bio Scrip (NasdaqGS:BIOS)	34.5x	25.3x	19.6x	20.9x	0.96x	1.02x	1.02x	1.19x
<b>Median</b>	<b>28.1x</b>	<b>23.6x</b>	<b>24.6x</b>	<b>25.7x</b>	<b>0.65x</b>	<b>0.69x</b>	<b>0.75x</b>	<b>0.85x</b>
<b>Average</b>	<b>28.1x</b>	<b>23.6x</b>	<b>24.6x</b>	<b>25.7x</b>	<b>0.65x</b>	<b>0.69x</b>	<b>0.75x</b>	<b>0.85x</b>

Bourne Partners tracks the PBM industry and related sub-sectors.

- Over the last 12 months, we’ve seen median valuations rise amongst PBMs and Distributors and drop in each of the other sub-sectors
- In the past 2 quarters, Magellan’s valuation has peaked relative to historical averages
- Express Scripts’ valuation is trending positively after the company was negatively impacted by potential contract loss and litigation with one of its largest customers in 2017
- While we have seen fluctuations in the space in the last 24 months, PBM performance has been much less volatile than that of the pharmaceutical manufacturers

Five year historical trading multiples within our limited PBMs basket are broken out further on the reverse side.

<sup>(1)</sup>S&P Capital IQ July 24, 2018

### Market Trends & Industry Developments

Below are some recent trends and market intelligence:

**Vertical Integration:** Multiple announcements relevant to the space have occurred in recent months as massive public companies are moving to vertically integrate with other players in the value chain to maintain leverage / negotiating power while passing benefits of discounted drug price surplus to the patient

**Market Fragmentation:** Due to the highly fragmented nature of the PBM industry beyond the three largest players, we expect to see a high volume of M&A in the coming years as large and mid-sized PBMs seek scale, and differentiated services and customer bases

**Script Growth:** Population growth will primarily drive script growth in the coming years with PBM market penetration at ~95%

**Revenue Growth Drivers:** The industry is expected to see meaningful top-line growth due to key revenue drivers such as drug price inflation (expected to grow ~5% annually in the next 5 years), growth in prescriptions, and rebate pool growth; much of this growth is represented in the continued expansion of pharmaceuticals gross-to-net spend

**Regulatory Pressure:** The PBM industry has been the target of scrutiny from pharmaceutical manufacturers and regulators; although the congressional budget office estimated that PBMs saved as much as 30% in total drug costs last year, the President and the FDA Commissioner believe the relationship dynamic between payers and manufacturers is driving higher list prices

**Transparent Business Model:** As pressure from authorities and plan sponsors / employers frustration mounts, the traditional opaque profit model of the PBM industry has faced some backlash paving the way for a transition toward a more transparent compensation structure

**Specialization:** Smaller PBMs with specialized services and access to smaller employers are likely to see growth as more small businesses move to self-funded plans and larger competitors veer away from these end markets

**Value-Based Reimbursement:** As demand for value-based reimbursement continues to grow, PBMs with the ability to effectively manage total patient care and measure outcomes will see increased valuations

**Specialty Spend:** As the trend of increased spend on specialty pharma continues nationwide, this will remain a key opportunity for PBMs to realize enhanced margins

(USD in mm)

## Precedent M&A Transactions Analysis

Announced Date	Target	Buyer	Geographic Location	Enterprise Value	LTM Revenue	LTM EBITDA	EV / LTM Revenue	EV / LTM EBITDA
Nov-17	National Pharmaceutical Services	Diplomat Pharmacy, Inc.	USA	\$47.0	\$32.0	\$5.4	NA	NA
Nov-17	Leehar Distributors, Inc.	Diplomat Pharmacy, Inc.	USA	595.6	388.0	41.0	1.5x	14.5x
Oct-17	eviCore healthcare, LLC	Express Scripts Holding Company	USA	3,600.0	NA	NA	NA	NA
Jan-16	Helios Comp	OptumRx, Inc.	USA	1,600.0	NA	NA	NA	NA
May-15	AnazaHealth Corporation	Fagron NV	USA	97.8	NA	16.3	NA	6.0x
Mar-15	Concentra, Inc.	Select Medical Holdings Corporation	USA	1,055.0	1,000.0	NA	1.1x	NA
Mar-15	Catamaran Corporation	OptumRx, Inc.	USA	13,385.5	21,581.9	845.7	0.6x	15.8x
Feb-15	Healthcare Solutions, Inc.	Catamaran Corporation	USA	405.0	NA	35.0	NA	11.6x
Feb-15	Envision Topco Holdings, LLC	Rite Aid Corporation	USA	2,640.1	4,071.4	94.3	0.6x	28.0x
Sep-13	PMSI, Inc.	Helios Comp	USA	408.0	NA	31.9	NA	12.8x
Aug-13	Restat, LLC	Catamaran Corporation	USA	409.5	NA	NA	NA	NA
Jun-13	CarePoint Partners, LLC	BioScrip, Inc.	USA	221.1	140.5	NA	1.6x	NA

Notes:

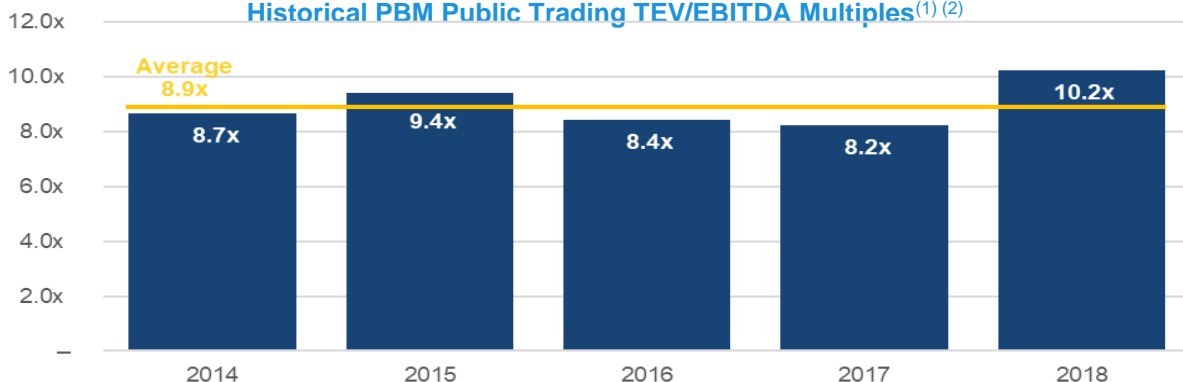
NA - Not Available

Source: CapitalIQ July 24, 2018

Median	\$502.5	\$694.0	\$35.0	1.1x	13.7x
Mean	2,038.7	4,535.6	152.8	1.1x	14.8x
High	13,385.5	21,581.9	845.7	1.6x	28.0x
Low	47.0	32.0	5.4	0.6x	6.0x

While there is a lack of data on publicly traded PBMs and Specialty Pharmacies, we do have a meaningful dataset of closed M&A transactions in the space over the past few years. The dataset above shows healthy valuations in recent years where the median EBITDA multiple is 13.7x. Precedent transactions valuations represent a more analogous reference to companies considering potential M&A or a capital raise. This subset of transactions does not include announced/pending mergers in the industries of interest (Ex: Aetna/CVS, Express Scripts/Cigna, Walmart/Humana, Pillpack/Amazon).

## Historical PBM Public Trading TEV/EBITDA Multiples<sup>(1) (2)</sup>



<sup>(1)</sup> S&P CapitalIQ, July 24, 2018; basket consists of the only two publicly traded pure-play PBMs, Express Scripts (NasdaqGS:ESRX) and Magellan Health (NasdaqGS:MGLN)

<sup>(2)</sup> All multiples represented above are from June 30<sup>th</sup> of each respective year

Bourne Partners is a healthcare-focused investment banking advisory and strategic capital firm based in Charlotte, NC that advises\* and invests in companies within the pharmaceutical services, specialty pharmaceuticals, and consumer health segments. Our firm's management team is composed of healthcare executives and experienced investment professionals with broad experience and expertise in healthcare investing and business development activities. The firm also invests opportunistically in select private equity funds and in companies and products that align with the firm's strategic initiatives. For more information on market activity in the PBM industry or to discuss how Bourne Partners may be able to add value to your company, please contact:

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