

# MERGER & ACQUISITION ACTIVITY REPORT

## Drug Industry Analysis



During the first half of 2007, merger and acquisition activity continued at record levels, fueled by the availability of favorable financing. However, the "credit crunch" that began in the summer of 2007 ended what had been an unusual string of private equity-led and highly levered "mega-deals." According to research firm Thomson Financial, U.S. merger and acquisition volume hit a record \$1.57 trillion in 2007, but slowed sharply in the second half of the year. In the U.S., deal volume tumbled almost 40% in the first half of 2008. According to Thomson Reuters, announced U.S. deal value and volume through May 2008 totaled \$428.6 billion and 3,750 deals respectively, down from \$699.8 billion and 4,754 deals for the same period in 2007. Private equity accounted for 26% of the U.S. deal value and 17% of volume for the first five months of 2008, compared with 37% and 19%, respectively, for the same period in 2007.




Mergers & acquisitions have played a significant role in the retail and wholesale drug sectors. At the forefront of the retail drug sector's continuous consolidation is Rite Aid's purchase of Brooks and Eckerd stores from Jean Coutu following last year's acquisition of 700 Sav-on / Osco stores by CVS from Albertson's. Consolidation trends continue to squeeze the little guy, forcing more independent pharmacies to become obsolete. Chains that operate 200 or more stores control over 80% of the U.S. market (Chain Store Guide). Meanwhile, another major transaction is in the works that could have major repercussions for the retail drug industry on the west coast, as Longs Drug Stores has captured the interest of two major drug chains. In August, CVS agreed to acquire Longs Drug Stores for \$71.50 per share in cash or \$2.90 billion, including the assumption of net debt. By acquiring Longs, CVS Caremark will launch itself past Rite Aid to become the largest chain in California with over 800 stores in the state. Subsequently, Walgreen made its own offer for Longs of \$75.00 per share in cash, which represents a \$3.50 per share premium to the purchase price pursuant to the merger agreement with CVS. Walgreens stated it would also pay the \$115.0 million termination fee set forth in the CVS merger agreement. Rite Aid, which has a large presence on the west coast, is struggling, recently refinancing and widening its loss forecast. Should it fail to turn around its operations it may be forced to sell some of its west coast assets likely to the loser of the Longs bid. On the other side of the country, Duane Reade's operations are finally starting to rebound, which could mean an exit for owner Oak Hill Capital may be in sight by early next year. Outside of its bid for Longs, Walgreens, known for organic growth, has also begun positioning itself to provide a variety of patient-focused specialty health care services in a series of recent acquisitions.




On the wholesale side, industry leaders such as AmerisourceBergen, Cardinal Health, and McKesson continue to purchase small companies that create effective synergies and diversify their revenue streams.

The following charts represent significant merger & acquisition activity within the retail and wholesale drug sectors that took place during 2007 and the first half of 2008.







RETAIL DRUG				
PURCHASER	ACQUISITION	CLOSING DATE	PURCHASE PRICE	ADDITIONAL DETAILS
<b>Rite Aid Corporation</b> (Camp Hill, PA) 	1,854 Brooks and Eckerd stores and six distribution centers located in 18 states from the <b>Jean Coutu Group (PJC) Inc.</b> (Canada). 	Jun-07	\$2.36 billion in cash and 250 million shares of Rite Aid common stock	The Company subsequently closed 120 stores and ended the fiscal year (3/1/08), with 5,059 stores.
<b>MERGER OF EQUALS</b>				
<b>CVS Corporation</b> (Woonsocket, RI) 	<b>Caremark Rx., Inc</b> (Birmingham, AL) 	Mar-07	Approximately \$26.00 billion	Combined Company was renamed CVS/Caremark Corporation. 









<b>Shoppers Drug Mart</b> (Canada)	Assets of the seven drug stores of <b>Centre d'Escomptes Racine</b> , in the Québec City marketplace.	Sept-07	\$77.1 million	The purchase price is currently being finalized.
	The specialty drug assets of the HealthAccess business of <b>Calea Ltd</b> and 100% of the shares of Calea's wholly owned subsidiary, <b>Information Healthcare Marketing Corp.</b> , which operates a related call centre business.	Jul-08	N.A.	
<b>Longs Drug Stores</b> (Walnut Creek, CA)	<b>Nutmeg Life Insurance</b> (Bettendorf, IA) from Hartford Life Insurance	Oct-07	Approximately \$11.4 million	
				
<b>Navarro Discount Pharmacies</b> (Miami, FL)	11 stand-alone <b>Sedano's Pharmacies</b> (Miami, FL)	Oct-07	N.A.	With the acquisition, Navarro operates 32 units with annual revenues topping \$350.0 million.
				
<b>Jean Coutu Group (PJC) Inc.</b> (Canada)	<b>Pro Doc Ltee</b> , a Quebec-based generic drug manufacturer	Dec-07	N.A.	
				
<b>Duane Reade</b> (New York, NY)	Leases of 6 <b>Gristedes</b> (New York, NY) locations throughout Manhattan.	Jun-08	N.A.	The Company has opened stores at five of the six former Gristedes stores and expects to open the sixth during the second half of 2008. The agreement with Gristedes has expired and the Company is not obligated to acquire the balance (2 additional) of the leases.
				
<b>Rite Aid Corp.</b> (Camp Hill, PA)	12 of <b>Spartan Stores'</b> (Grand Rapids, MI) 14 Pharm retail stores	May-08	\$18.3 million	Spartan is in negotiations to sell certain assets of its remaining two Pharm stores in independent transactions.
				





PURCHASER	ACQUISITION	CLOSING DATE	PURCHASE PRICE	ADDITIONAL DETAILS
Walgreen Co. (Deerfield, IL) 	<b>Option Care, Inc.</b> (Buffalo Grover, IL) - provider of specialty pharmacy and home infusion services from a national network of more than 100 pharmacies in 34 states 	Sept-07	Approximately \$850.0 million	Bison Acquisition Sub, a wholly owned subsidiary of Walgreens, purchased approximately 32.7 million shares of the company, or 94% of Option Care's outstanding stock.
	<b>Take Care Health Systems</b> (Conshohoken, PA), which operates 50 health care clinics in Chicago, Kansas City, Milwaukee, St. Louis and Pittsburgh. 	May-07	N.A.	
	<b>Familymeds Group Inc.</b> , (Farmington, CT) - includes all 53 of Family-meds' pharmacies.	Apr-07	Approximately \$60.0 million	Walgreens will continue operating a majority of the pharmacies with the others being closed.
	<b>CuraScript Infusion Pharmacy, Inc.</b> , a wholly-owned subsidiary of <b>Express Scripts, Inc.</b>	June-08	N.A.	The Company provides infusion services and has 12 facilities located in Alabama, Indiana, Kentucky, Missouri, Ohio and Tennessee.
	15 drugstores in Puerto Rico from <b>Farmacias El Amal</b> (Puerto Rico)	May-08	N.A.	Prior to the acquisition, Walgreen operated 73 stores in Puerto Rico.



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CVS Caremark (Woonsocket, RI)  <b>Competing Bids</b> →	<b>Longs Drug Stores</b> (Walnut Creek, CA), which operates approximately 521 stores (200 of which are corporately owned), three distribution centers and three office facilities. 	Aug-08	\$71.50 per share or \$2.90 billion including the assumption of net debt.	The Company plans to finance the acquisition with a \$1.50 billion bridge loan facility, together with existing cash and liquidity.
Walgreen Co. (Deerfield, IL) 		Sept-08	\$75.00 per share in cash for all of Longs' outstanding shares	Walgreens will also pay a \$115.0 million termination fee set forth in the CVS merger agreement

# WHOLESALE DRUG SECTOR

PURCHASER	ACQUISITION	CLOSING DATE	PURCHASE PRICE	ADDITIONAL DETAILS
<b>McKesson Corporation</b> (San Francisco, CA)	<b>Per-Se Technologies</b> (Alpharetta, GA), a provider of financial and administrative solutions for hospitals, physicians and retail pharmacies.	Jan-07	\$1.80 billion	The acquisition was funded with cash on hand and a bridge loan.
				
	<b>Physician Micro Systems</b> - a/k/a Practice Partner (Seattle, WA), a provider of integrated software for electronic health records (EHRs), medical billing and appointment scheduling for independent physician practices.	Feb-07	N.A.	Practice Partner's customer base includes more than 1,500 practices representing some 6,000 physicians.
				
	<b>Awarix, Inc.</b> (Birmingham, AL), an enterprise patient care visibility system.	Jul-07	N.A.	
				
	The outstanding stock of <b>Oncology Therapeutics Network (OTN)</b> (San Francisco, CA), a distributor of specialty pharmaceuticals	Oct-07	\$531.0 million	The acquisition was funded with cash on hand. OTN has annual sales of about \$3.00 billion.
				
	<b>McQueary Brothers Drug Company, Inc.</b> (Springfield, MO), a regional distributor of pharmaceutical, health, and beauty products to independent and regional chain pharmacies in the Midwestern U.S.	Jun-08	\$190.0 million	
				

PURCHASER	ACQUISITION	CLOSING DATE	PURCHASE PRICE	ADDITIONAL DETAILS
<p><b>Cardinal Health</b> (Dublin, OH)</p> 	<p><b>Viasys Healthcare</b> (Conshohocken, PA), distributor of respiratory, neurology, medical disposable and orthopedic products.</p>  <p><b>Enturia Inc.</b> (Leawood, KS), provider of infection prevention products.</p>	<p>Jun-07</p> <p>May-08</p>	<p>\$1.50 billion</p> <p>\$490.0 million</p>	<p>Viasys had 2006 revenues of \$610.0 million.</p>
<p><b>PSS World Medical</b> (Jacksonville, FL)</p> 	<p>Medical supplies distributor <b>Activus Healthcare Solutions</b> (West Lake Village, CA)</p>  <p>A 5% equity ownership in <b>athenahealth, Inc.</b> (Watertown, MA), a privately-held provider of Internet-based healthcare information and business services.</p> 	<p>June-07</p> <p>Jul-07</p>	<p>\$13.0 million</p> <p>\$23.0 million</p>	<p>Activus generates \$22.0 million in annual revenues.</p> <p>All current Activus operations will be consolidated into PSS World's facilities in Phoenix, AZ and Fullerton and Sacramento, CA.</p>
<p><b>AmerisourceBergen Corporation</b> (Chesterbrook, PA)</p> 	<p><b>Bellco Health</b> (North Amityville, NY)</p> 	<p>Oct-07</p>	<p>Approximately \$162.2 million, net of \$20.7 million of cash acquired.</p>	<p>Bellco, which was privately owned, has annualized revenues of about \$2.00 billion.</p>
<p><b>The Blackstone Group</b> (New York, NY)</p> 	<p><b>Pharmaceutical Technologies and Services (PTS)</b> a segment of Cardinal Health (Dublin, OH)</p> 	<p>Apr-07</p>	<p>\$3.20 billion</p>	<p>PTS generates more than \$1.70 billion in annual revenue</p>

PURCHASER	ACQUISITION	CLOSING DATE	PURCHASE PRICE	ADDITIONAL DETAILS
<b>Henry Schein</b> (Melville, NY)  	<b>Becker-Parkin Dental Supply Co.</b> (New York, NY), a privately held retailer of dental products and equipment.  <b>Software of Excellence International Ltd.</b> (New Zealand), a provider of clinical and practice management solutions for dental professionals.  	Jul-07  Sept-07	N.A.  \$62.2 million	Management estimates the acquired operations will contribute approximately \$40.0 – \$45.0 million in revenue for the first full year.  SOE has annual revenues of \$20.0 million.
<b>Omnicare</b> (Covington, KY)  	<b>Advanced Care Scripts, Inc.</b> (Orlando, FL), a specialty pharmacy services company, focusing on oncology and neurology.	Jul-08	N.A.	Advanced Care is generating revenue at an annualized rate of \$237.0 million.
<b>Medco Health Solutions</b> (Franklin Lakes, NJ)  	All of the outstanding common stock of <b>PolyMedica Corporation</b> (Wakefield, MA), which provides diabetes care, under its Liberty Medical brand.  	Oct-07	\$1.50 billion	The Company funded the transaction through a combination of \$1.00 billion in revolver borrowings and cash on hand.

SPINOFF				
<b>PharMerica Corporation</b>  	<b>Kindred Healthcare</b> (Louisville, KY)  	Jul-07	N.A.	PharMerica, the new Company, has revenues of approximately \$1.90 billion with a customer base of about 300,000 beds in 41 states.
<b>AmerisourceBergen Corporation</b> (Chesterbrook, PA)  	AmerisourceBergen and Kindred combined their respective institutional pharmacy businesses PharMerica Long-Term Care (PharMerica LTC) and Kindred Pharmacy Services (KPS), into a new, independent, publicly traded company called PharMerica Corporation.			

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<b>HIG Capital LLC</b> (Miami, FL)	<b>PMSI -</b> AmerisourceBergen Corporation's (Chesterbrook, PA) workers' compensation business	Jul-08	\$40.0 million plus a contingency payment of up to \$10.0 million.	The transaction is expected to be completed by the end of Sept. 08.  In the third quarter, AmerisourceBergen recorded a \$222.5 million non-cash charge to discontinued operations to reduce the carrying value of PMSI.



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