



 **adapthealth**

# Acquisition of McKesson Patient Care Solutions







November 25<sup>th</sup>, 2019

# AdaptHealth to acquire PCS from McKesson

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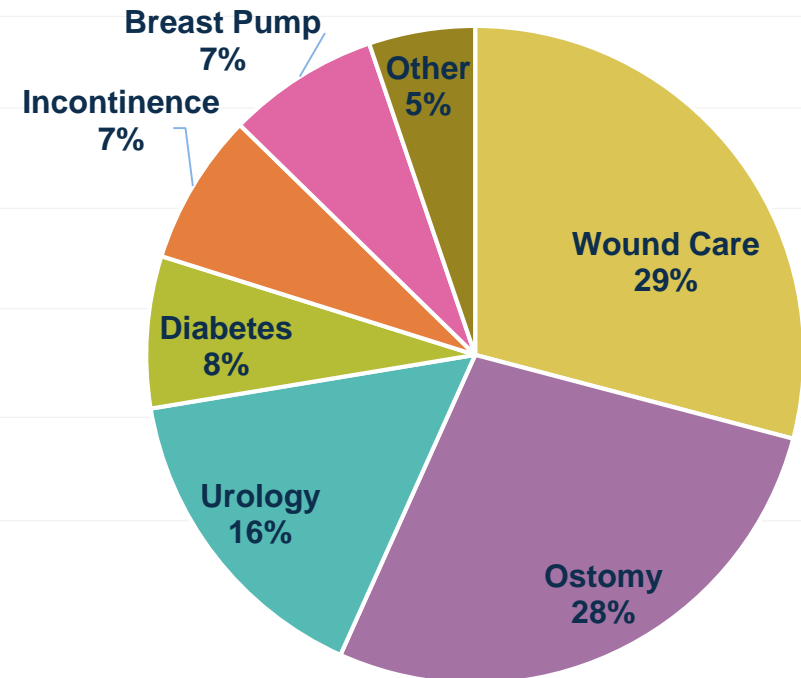
- + AdaptHealth to purchase Patient Care Solutions Inc. (“PCS”) from McKesson
  - + \$134mm TTM Net Revenue
  - + Product groups are supplies for Diabetes, Ostomy, Wound Care, Urology, Incontinence & Breast Pumps
- + Anticipated close date 12/31/19
- + The total investment is expected to be approximately \$30mm, including the cash purchase price of \$14m plus restructuring costs until PCS is fully integrated on AdaptHealth’s platform in the latter half of 2020
- + AH expects to achieve profitability at PCS by Q4’20; run-rate EBITDA and EBITDA Less Patient Capex margins expected to be high single digits

# PCS brings several new business lines and enhances presence in other existing AH LOBs

<b>Wound care</b>	Dressings, hydrogels, tapes, and films	
<b>Ostomy</b>	One- and two-piece solutions; various sizes	
<b>Urology</b>	Catheters, trays, syringes, accessories	
<b>Diabetes</b>	Blood glucose meters, lancing devices, lancets	
<b>Incontinence</b>	Diapers and pads	
<b>Breast Pump</b>	Electric, manual, portable, home units	

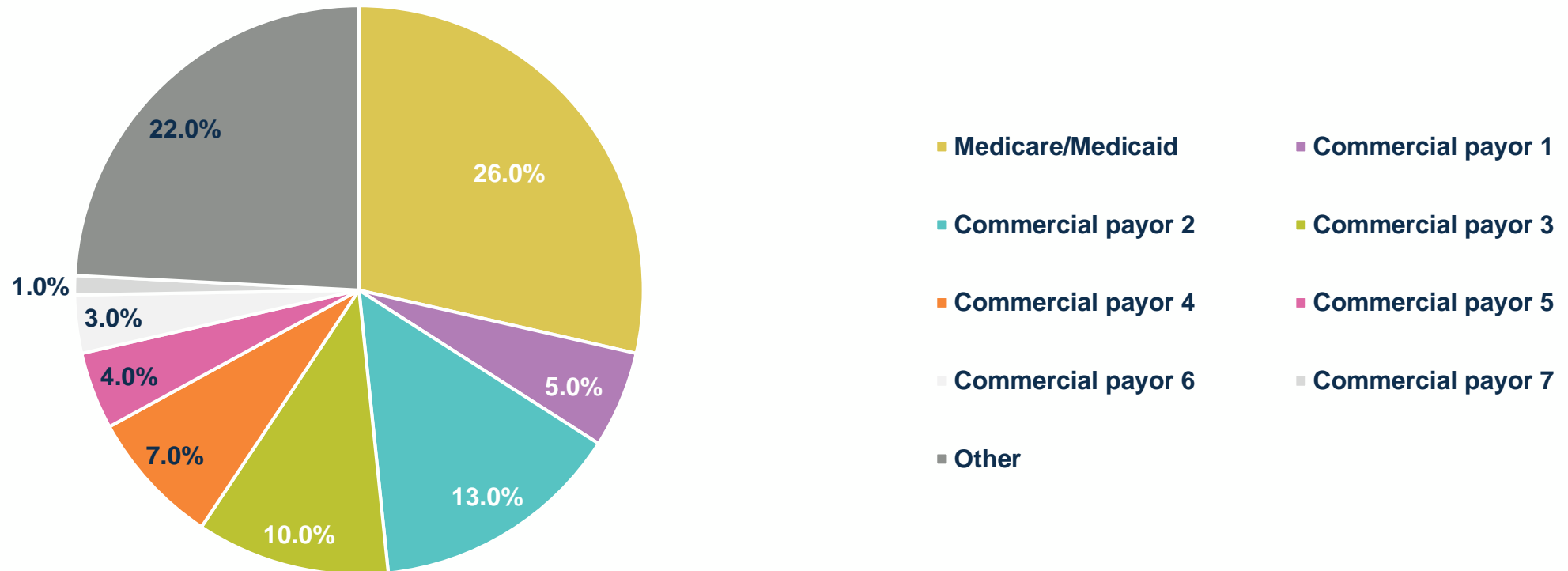
# PCS services \$40bn market growing 7% annually

	US Market (FY2019)		PCS	
	Size	Growth	Net Rev. TTM	
Wound care	\$5bn	5%		
Ostomy	\$1bn	4%		
Urology	\$11bn	4%		
Diabetes	\$16bn	9%		
Incontinence	\$6bn	7%		
Breast Pump	\$1bn	8%		
<b>Total</b>	<b>\$40bn</b>	<b>7%</b>		



# PCS is a contracted provider for 300+ payors

Top 8 payors constitute 78% of sales



# Strategic rationale for this transaction

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## + Why Supplies?

- + Broaden product offering at referral source (e.g., wound care clinics, LTC, HHA, etc.) and payors
- + Diversify revenue mix, lessening contribution from sleep categories, as well as competitive bid products
- + Strengthen basket of HME to include in value-add, capitated, or related payor opportunities
- + Leverage provider---patient---payor workflow, including e-prescribing already developed by AH
- + Lean into resupply excellence developed for PAP resupply --> applicable to ostomy, urological and diabetic supplies
- + Expand industry consolidation opportunity

## + Why PCS?

- + Opportunity to acquire scaled asset (~\$134mm in net revenue) at attractive entry price
- + Broad payor contracts helps complement existing AH payor relationships
- + Leverage existing PCS and AH sales teams to across broader footprint of referral sources
- + Future distribution relationship with McKesson allows AH to focus on order generation and billing

# Drivers to improve PCS performance

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## Increase revenue base & recurrence

- Energize resupply business with AH Verus platform to increase reorders with proactive outreach
  - Leverage AH technology platforms to facilitate documentation (e.g., SNAP, Parachute)
  - Increase customer acquisition with targeted marketing
  - Build out co-morbidity-based disease management (e.g., diabetes from PCS with CPAP from AH)
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## Drive higher efficiency & profitability

- Improve collection rate and reduce bad debt expense consistent with AH performance
- Optimize payor pricing and formulary selection; focus on largest/least profitable payors upfront
- Drive improved pricing of purchased goods with enhanced GPO-based pricing relationships
- Utilize global labor footprint at scale to boost operating margins



Thank you