



## **Successfully Partnering with Management: Comprehensive Pharmacy Services**



**A shared vision and alignment of values. Skillfully leveraging operating resources and domain expertise. And, ultimately, partnering with management teams to achieve exceptional results...**

## **Comprehensive Pharmacy Services is a case in point.**

Comprehensive Pharmacy Services ('CPS' or the 'Company') provides outsourced pharmacy services to hospitals and other healthcare facilities. The Company helps hospital pharmacists tackle complex problems such as medication reconciliation, hyper-inflated drug costs, centralized and timely distribution, regulatory and compliance concerns and 340B programs leading to increased quality, reduced re-admissions, and lower costs.

When we first met, CPS was an emerging leader with just over 300 clients nationwide. CPS was growing and effectively servicing their clients but was challenged by a smaller customer base within a consolidating industry, a long and complex sales cycle and encroachment by larger competitors. As with many companies at their stage, CPS also required assistance with M&A, financial reporting, performance measurement, and capital structure optimization.

Could we help CPS rapidly scale and create a leading hospital pharmacy services provider? To do so, we would need to build out the board of directors and management team, upgrade the sales and marketing functions, provide high-level customer introductions, create and launch new product and service offerings, effectively communicate cost savings, and complete tuck-in acquisitions at attractive valuations.

*But could these objectives be accomplished? And could the Company achieve this growth without disrupting their unique culture?*

Confident in our collective abilities, NexPhase backed CPS in 2012.

**"In partnership with NexPhase, CPS rapidly expanded its suite of services and solutions that empowered our clients to achieve their goals across the continuum of care. Our team is deeply grateful for their insights, strategic support, M&A expertise and collaborative approach."**

**– Don Nickleson, Former CEO, Comprehensive Pharmacy Services**

## **Results at a Glance**

- Increased facility count from 300 to over 700
- Grew employee count to 2,500
- Increased EBITDA by over 300%
- Completed and integrated two acquisitions
- Sold to a private equity firm

## **Thesis and Key Strategies**

In order to grow our market share, we focused on a large, under-penetrated market with attractive fundamentals: Integrated Delivery Networks ('IDNs') and urban academic hospital centers.

CPS had a strong value proposition as many hospitals were seeking to reduce costs for pharmacy services given rising drug pricing and increasing clinical complexity, but were unaware of and culturally resistant to outsourcing. The Company was well positioned to benefit from healthcare reform and the increasing complexity of healthcare regulation. Moreover, CPS maintained long term contracts with high renewal rates due to its strong value proposition and high switching barriers. As such, our initial focus centered around introducing CPS to new customers and eliminating purchase barriers as well as helping management capitalize on service expansion opportunities and multiple M&A growth pathways.

Through a collaborative planning effort, NexPhase and the CPS management team identified three key strategies:

- 1) Develop and implement a carefully-crafted strategic plan that included building out service offerings.
- 2) Reconfigure sales and marketing efforts to target IDNs and urban academic hospital centers.
- 3) Rapidly accelerate inorganic growth through selective acquisitions and integration of accretive tuck-ins.

Let's review each of these strategies. . .



## Developing a Strategic Plan

NexPhase Operating Partner, Barbara Hill, became the Non-Executive Chairperson of CPS and quickly set to work creating a comprehensive strategic plan with the management team. As the former President of Express Scripts who maintained numerous c-suite hospital and IDNs relationships, Barbara was well qualified to orchestrate this process.

Barbara acted as an advisor, offering suggested pathways and helping management build consensus on each strategic direction and new initiative. With a sense of urgency, she and the team enacted a plan to address the Company's challenges in order to create the nation's leading hospital pharmacy platform. This plan involved adding management resources including a new EVP of Development, Chief Strategy Officer and, ultimately, elevating the CEO to Executive Chairperson, hiring and training various staffing functions, launching a new sales effort to target large IDNs, a thorough upgrade of all marketing materials, and creation of an ambulatory and specialty pharmacy services line to create a new source of earnings for hospitals.

Within short order, these efforts showed promising results.

## Reconfiguring Sales for Rapid Growth

Historically, CPS had focused on rural and suburban hospitals. To achieve our newly established goals, CPS would have to pivot to large, urban academic hospital systems and IDNs, but this would require a completely new approach to identifying and qualifying sales leads, sales force staffing and compensation. It would also require high-level, c-suite introductions in order to drive new revenue streams.

NexPhase worked with management to enhance their marketing capabilities and helped create a five-person sales team focused on proactively targeting IDNs. Our efforts resulted in the addition of over 500 hospitals and healthcare facilities including several nationally-recognized systems. After significant effort, the Company developed a strong marketing presence as the thought leader in hospital pharmacy management that could uniquely address the pharmacy needs of marquee health systems.

## Acquiring and Integrating Tuck-Ins

Aside from our promising sales and marketing efforts, how could we help turbo-charge growth and protect the Company's emerging position? M&A was the answer. Though the Company had completed a few small acquisitions in the past, the management team looked to NexPhase to build a systematic approach to add-ons given our significant experience in M&A and post-close integration.

At the time, NexPhase had completed over 50 acquisitions (today over 75) across a range of different industries and market cycles. We were highly conversant in sourcing attractive add-ons as well as in the legal, financial and structuring challenges of M&A. In concert with management, we worked to identify and acquire companies that would have a major impact of the CPS business model.

The first acquisition was Pharmacy Systems, Inc. ('PSI'). Founded in 1973, PSI delivered pharmacy, supply chain, and rehabilitation services to healthcare organizations. The acquisition of PSI propelled CPS to become the nation's largest hospital and health system pharmacy services provider. Together, the two companies managed nearly \$2B of drug spend and were able to leverage their complementary capabilities to help clients improve quality, reduce costs, and achieve positive patient outcomes.

The second acquisition was PharmaSource, a carve-out from CVS that managed pharmacies for rehab facilities and fit perfectly within the new Specialty Hospital Division at CPS. NexPhase provided critical M&A support to facilitate these accretive acquisitions and cemented the Company's market-leading position.



## CPS Today

CPS is now the nation's leading inpatient hospital pharmacy services provider. Together we created the first end-to-end inpatient hospital pharmacy solution, filled numerous new management positions, launched customer success teams and executed multiple tactical strategies including investments in marketing and remote solutions and better purchasing practices. The Company now has over 700 clients, a 95% yearly customer retention rate and typically drives drug cost savings of nearly 10% during the first year alone. CPS employs 2,500 clinical, regulatory, and operational experts.

## A Successful Exit

In 2019, Comprehensive Pharmacy Services was sold to Frazier Healthcare Partners, a private equity firm. During our 6 year partnership, CPS grew its customer base from 300 to 700 hospitals and healthcare facilities, expanded employee count to 2,500, grew EBITDA by over 300%, and successfully acquired and integrated two accretive tuck-ins. Most importantly, we helped the Company achieve its vision and create value for its founders while preserving their identity and corporate culture.

## Partnering with NexPhase

NexPhase is a New York based private equity firm founded in 2007 with \$1.6B in private equity capital under management. We have completed over 75 investments during the past 14 years and partner with leading healthcare companies that benefit from attractive long-term macro trends.

These trends include a universal preference for aging in the home, the transition from fee for service to fee for performance, delivery of care in lower cost settings, consolidation of fragmented markets, tailoring treatments to specific conditions and disease states, the explosive growth of specialty pharmaceuticals and biologics, growth of patient out-of-pocket spending, and disruptive technologies that improve the delivery of healthcare products and services.

Identifying exceptional companies that leverage these trends, we seek to partner with management in order to create upside through the skilled application of operating resources, domain expertise and our investment toolkit. Our partners are aligned with us, possessing a shared vision and cultural values, as well as a desire to invest in people, products and processes in order to propel their businesses to the *Next Phase*.

**"We saw an incredible opportunity with CPS. Through years of collaborative partnering, we helped create the nation's leading pharmacy platform that exceeded growth projections through investments in people, processes, and infrastructure. It was a pleasure partnering with this highly talented management team."**

**– Andy Kieffer, Partner, NexPhase Capital**

## We Should Talk

**Are you ready to take your business to the Next Phase?**

**Let's discuss how we can help.**

## Transaction Opportunities

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