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SQUARE GROUP

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Five Takeaways from Farragut's Webinar on the Outlook for Infusion

On August 13th, Farragut hosted a webinar to discuss the outlook for infusion, featuring industry leaders Ted Kramm, CEO of BioMatrix Specialty Infusion Pharmacy; Chris Reef, CEO of Vivo Infusion; and Colby Catania, Senior Vice President at Houlihan Lokey. They were joined by Farragut's own lead Medicare reimbursement analyst, Holly Stokes. This note highlights five takeaways from our discussion.

1. PE investor interest in infusion continues to drive high deal volume and valuations—a trend that Farragut anticipates will spur strong M&A activity through 2024 and 2025.

2. Major tailwinds in infusion are driven by its growth potential and cost efficiencies, though challenges such as margin pressures and staffing challenges remain top-of-mind considerations for investors.

3. Staying ahead of the evolving drug pipeline is crucial as new therapies evolve.

4. Biosimilars gradually reduce biologic ASP, but operators note that margins for the reference biologic can actually benefit through rebates offered.

5. The impact of drug negotiation under the Inflation Reduction Act is limited by stringent eligibility criteria and a capped number of drugs.

Further Discussion:

1. PE investor interest in infusion continues to drive high deal volume and valuations—a trend that Farragut anticipates will spur strong M&A activity through 2024 and 2025.

Infusion is a standout sector in the healthcare landscape—as highlighted by panelists and industry leaders. It garners significant interest compared to other specialties and attracts investors looking to diversify their portfolios, as it offers a hybrid investment opportunity to gain exposure to both healthcare services and the pharma pipeline.

Despite broader market fluctuations, the sector has demonstrated strong organic growth and recent transactions have set new valuation benchmarks. This trend is expected to continue into 2025.

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Although a massive surge in deal volume may not materialize as market conditions improve, the infusion industry remains a highly attractive opportunity for investors, with sustained high valuations and continued enthusiasm driving robust M&A activity in the near-term.

2. Major tailwinds in infusion are driven by its growth potential and cost efficiencies, though challenges such as margin pressures and staffing challenges remain top-of-mind considerations for investors.

Infusion is experiencing significant growth. The $150 billion industry remains in its early stages, with a substantial portion of infusion treatments still being administered in higher-cost hospital settings. Transitioning these therapies to more affordable home or Ambulatory Infusion Center (AIC) environments can reduce costs—an opportunity Farragut identifies as a compelling value proposition. Additionally, the expanding pharmaceutical pipeline, where an increasing number of therapies are expected to be administered via infusion rather than orally, furthers sector growth. As this pipeline continues to grow, so do the therapeutic classes within infusion. Panelists highlighted notable therapeutic areas in both the ASC and home settings, including: Neurology, with a focus on IVIG therapies; Immunology; Gastroenterology (GI); Allergy; Cardiology; Ophthalmology (which is emerging); and Oncology.

Despite these favorable conditions, the sector faces several challenges that investors must navigate. One challenge is margin compression, resulting from reduced reimbursement rates for select therapies and the inherently low-margin nature of some infusion services. Labor and nursing shortages pose additional challenges and exacerbate operational challenges, particularly in home infusion settings that require high efficiency and operational cost management. Furthermore, increasing denial rates from payers for high-cost therapies, coupled with frequent changes in medical policies, add complexity to the operational landscape. These factors require a nuanced understanding of payer policies and exclusions to manage pricing and service delivery efficiently and to navigate the market effectively.

3. Staying ahead of the evolving drug pipeline is crucial as new therapies evolve.

The infusion therapy landscape, particularly in areas like neurology, immunology, and treatments for autoimmune conditions, is evolving rapidly with the introduction of new therapies. Medicare Part B typically reimburses infusion based on the ASP plus 6% model, meaning that changes in reimbursement are more influenced by market dynamics than by direct CMS actions. For instance, newer drugs that lack competition tend to experience consistent year-over-year rate increases. In terms of the increase in magnitude, it is going to vary by drug and by therapeutic area. Although the Inflation Reduction Act (IRA) includes provisions to limit price increases beyond the rate of inflation, it's crucial to note that these provisions don't cap launch prices. This allows manufacturers to secure profits earlier in a drug's lifecycle, benefiting both themselves and infusion providers who continue to adapt to these emerging therapies. Overall, staying ahead of the evolving drug pipeline is critical in the infusion therapy space.

4. Biosimilars gradually reduce biologic ASP, but operators note that margins for the reference biologic can actually benefit through rebates offered.

The entry of biosimilars into the market exerts pressure on the ASP of reference biologics, generally leading to around a 30% reduction over several years. Unlike the more immediate impact seen with small molecule generics, this gradual effect is due to factors such as CMS not operating under a consolidated code model for biosimilars and the high degree of loyalty among patients and providers to established treatment regimens. Panelists noted that even as biosimilars enter the market, infusion providers can mitigate revenue risks by continually incorporating newer therapies, staying ahead of the curve.

Panelists noted that from an operational perspective, biosimilars have had a positive impact on margins, particularly through the rebates provided by manufacturers to PBMs and commercial payors. While the immediate revenue impact may be modest, the resulting margin improvements for infusion providers, especially when branded products remain on formularies, have been significant.

5. The impact of drug negotiation under the Inflation Reduction Act is limited by stringent eligibility criteria and a capped number of drugs

While the Inflation Reduction Act (IRA) is often perceived as a significant policy headwind for the infusion therapy space, its real impact may be less disruptive than expected. The IRA's Medicare drug negotiation provision is limited by strict eligibility criteria, such that drugs must be single-source, high-cost, and past their initial exclusivity period. This limits the number of infusion drugs affected in addition to other ineligibility policies. *For example, plasma-derived drugs like IVIG are excluded from negotiations under the statute*.

Additionally, the number of drugs subject to negotiation is capped, starting with just 10 Part D drugs in 2026; 15 Part D drugs in 2027; 15 Part B or D drugs in 2028; and 20 Part B or D drugs in 2029, and beyond. The long-term interpretation of these caps, especially with potential litigation following the fall of Chevron, adds further uncertainty. Finally, providers continue to adapt to new drug pipelines, reducing dependency on any single drug that might become subject to negotiation in the future.

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