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FINAL

Walgreen deal a big winner for Highmark

By Christopher Snowbeck
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Pharmacy giant Walgreen Co. is spending an estimated \$140 million to buy Carnegie-based Medmark Specialty Pharmacy Solutions in a deal that will preserve local jobs.

The deal announced yesterday also will generate a gain for Highmark Inc., which formed Medmark in 2003 as a way to control ballooning costs in the specialty pharmacy market. That market currently is valued at about \$40 billion, and is growing annually at a rate of 15 percent to 20 percent — faster than the growth in spending for other pharmaceuticals, said Stan Blaylock, Medmark's chief executive officer.

The region's largest health insurer got into the specialty pharmacy business by purchasing Pittsburgh-based Fisher's SPS — a specialty pharmacy founded in 1998 — for a reported \$35 million. In 2004, Highmark sold a large chunk of Medmark to two Philadelphia venture capital firms that had invested \$28 million, but the health insurer retained a 43 percent stake.

The 2004 transaction generated a profit of about \$3.2 million for Highmark, according to the insurance company's financial statements. Terms of yesterday's deal were not disclosed.

Walgreen acquisition a win for Highmark

Health plans turn to companies such as Medmark to provide patients with specialty pharmacy drugs because the medications often aren't available in retail pharmacies. Typically the drugs are expensive, and can have side effects that require additional monitoring.

Medmark fills these prescriptions and provides billing, claims management and other administrative functions for health insurers.

"There are clearly benefits that Walgreens brings to us," said Mr. Blaylock, who will continue as Medmark's president. "They have a great brand name and heritage and experience in pharmacy ... and they bring tremendous financial support."

Based in Deerfield, Ill., Walgreen Co. is the nation's largest drugstore chain, with fiscal 2005 sales of \$42.2 billion and 5,251 stores in 45 states and Puerto Rico. The company also provides services to health plans

through Walgreens Health Services, the division in which Medmark will operate.

"We looked at it both as an investor, as a customer and as a member of the Pittsburgh business [community], and on all those metrics we were very happy with having Walgreens as the acquirer of Medmark," said Brett Moraski, vice president of corporate development and investments for Highmark.

Whereas patients typically have a broad choice of retail and mail order pharmacies for filling most prescriptions, patients requiring specialty medicines often are steered to specialty pharmacies by their health plan. Walgreen already provides these services for health plans, but expects to grow its business with the acquisition, said Michael Polzin, a spokesman for the company.

Christopher Snowbeck can be reached at csnowbeck@post-gazette.com or 412 263-2625.