

Rare Canadian pharmacy takeover is inked

February 7, 2012

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Posted on Tuesday, January 31, 2012 10:37AM EST

In Canada, you don't see health-and-drug-related M&A very often, and you especially don't hear about deals for independent pharmacies that are worth almost \$1-billion.

Late on Monday, however, McKesson Corporation announced that it is buying a few units of Katz Group, a private Canadian company that operates a retail pharmacy network, in a deal worth \$920-million.

Specifically, McKesson is buying Drug Trading Company Ltd., which has a marketing and purchasing arm for a network of over 850 independent pharmacies that primarily operate under the I.D.A. and Guardian brands, and Medicine Shoppe Canada Inc., which runs a franchise business that provides services to 160 independent pharmacies.

For those who aren't familiar with the pharmacy and drug space, McKesson is a big name player with a \$20-billion (U.S.) market capitalization. The firm also has a long-standing relationship with the two businesses it is buying because it has been the primary pharmaceutical distributor to them for years. As for its Canadian footprint, McKesson Canada already supplies about 40 per cent of the medicines used by over 6,000 retail pharmacies and over 1,350 hospitals, clinics and institutions.

As for Katz's motivations, chairman Daryl Katz said the deal allows the firm to sell off non-core assets and enables it to intensify its focus on corporate-owned Rexall and Rexall/Pharma Plus Stores.

"We hypothesize that Katz Group wants to exit the small pharmacy-focused independent/franchise business because it is most impacted by recent drug reforms," noted National Bank Financial analyst Vishal Shreedhar. "In contrast, Katz Group's corporate store business (approx. 420 stores) benefits from stronger brand awareness, greater front store penetration and superior vendor support, making it a better growth platform."