

## The return of medtech scale-building?



[Elizabeth Cairns](#)

The largest medtech deal for a year and the fourth-largest ever will see Becton Dickinson become the fifth-placed medical device maker by sales in 2022, *EvaluateMedTech* data show. At \$24bn, its acquisition of C.R. Bard is worth more than half of BD's market cap, and coming just two years after the \$12.3bn purchase of Carefusion the deal clearly signals BD's scale-building ambitions.

The factors that prompted the last round of medtech consolidation in 2014 have not gone away, with a shrinking customer base, particularly in the hospital sector, exerting greater pressure on device prices. And with Cardinal Health snapping up Medtronic's medical supplies business [last week](#), this might just be starting to look like a second wave.

The deal is only the tenth in the history of the medtech sector to be worth more than \$10bn. Boston Scientific's ill-judged \$27bn takeout of Guidant was the first, in 2005.

| <b>10 at \$10bn-plus: medtech's 11-figure deals</b> |                          |                   |                     |
|---|--------------------------|-------------------|---------------------|
| <b>Announcement</b>                                 | <b>Acquirer</b>          | <b>Target</b>     | <b>Value (\$bn)</b> |
| Jun 15, 2014  | Medtronic                | Covidien          | 49.9                |
| Dec 5, 2005   | Boston Scientific        | Guidant           | 27.0                |
| Apr 28, 2016  | Abbott Laboratories      | St. Jude Medical  | 25.0                |
| Apr 23, 2017  | Becton Dickinson         | C. R. Bard        | 24.8                |
| Apr 27, 2011  | Johnson & Johnson        | Synthes           | 19.7                |
| Apr 24, 2014  | Zimmer Biomet            | Biomet            | 14.0                |
| May 13, 2015  | Danaher                  | Pall              | 13.8                |
| Apr 15, 2013  | Thermo Fisher Scientific | Life Technologies | 13.6                |
| Oct 5, 2014   | Becton Dickinson         | CareFusion        | 12.2                |
| May 8, 2006   | Thermo Fisher Scientific | Fisher Scientific | 10.6                |

*Source: EvaluateMedTech.*

Like Zimmer's takeover of Biomet in 2014 this is a local derby: BD's head office in New Jersey is a 40-minute drive from Bard's HQ. And, like the two orthopaedics groups, there is technological overlap, drug delivery tech making up 51% of BD's 2016 revenues and 21% of Bard's. This is unlikely to be enough to raise difficulties with antitrust law.

But Bard is a jack of all – or several, at least – trades, with cardiology, urology and surgery units each making up between a fifth and a quarter of its revenues. These will, on the whole, be new areas for BD, and will be housed in a newly created third business segment, BD Interventional, alongside the pre-existing Medical and Life Sciences businesses.

| C. R. Bard's businesses   |                  |             |
|---------------------------|------------------|-------------|
| Segment                   | 2016 sales (\$m) | Proportion  |
| Urology                   | 872              | 26%         |
| Drug delivery             | 758              | 21%         |
| General & plastic surgery | 724              | 20%         |
| Cardiology                | 694              | 19%         |
| Wound management          | 128              | 4%          |
| Nephrology                | 81               | 2%          |
| Diagnostic imaging        | 60               | 2%          |
| Endoscopy                 | 31               | 1%          |
| Other                     | 211              | 6%          |
| <b>Total</b>              | <b>3,317</b>     | <b>100%</b> |

*Source: EvaluateMedTech.*

As well as expanding BD's heft in general, the deal ought to boost it in emerging markets. Bard is growing fast outside the US, and following closing the new company ought to have revenues in China, for example, of more than \$1bn.

### Debt

BD is funding the deal in a combination of ways, but principally by borrowing. \$10bn will come from new debt, \$4.5bn from equity and equity-linked securities to be issued to the market, \$1.7bn from cash in hand and \$8bn in BD's common stock. Bard shareholders will own around 15% of the company after the close, expected in autumn, and the companies say the deal will be immediately accretive.

| Top 5 medtech companies in 2022 |                     |      |      |              |      |
|---------------------------------|---------------------|------|------|--------------|------|
|                                 | Global sales (\$bn) |      |      | Market share |      |
|                                 | 2017                | 2022 | CAGR | 2017         | 2022 |
| Medtronic                       | 30.8                | 37.5 | +4%  | 7.7%         | 7.2% |
| Johnson & Johnson               | 28.2                | 34.5 | +4%  | 7.0%         | 6.6% |
| Philips                         | 16.6                | 20.2 | +4%  | 4.1%         | 3.9% |
| Abbott Laboratories             | 15.2                | 19.2 | +5%  | 3.8%         | 3.7% |
| Becton Dickinson (post-merger)  | 14.6                | 18.4 | +4%  | 3.6%         | 3.5% |

*Source: EvaluateMedTech.*

The challenge will be integration, particularly coming after BD spent the last two years absorbing Carefusion. But, assuming no major divestments are called for, the deal should allow BD to leapfrog Siemens to become the world's fifth-largest medtech group in 2022. BD's management clearly believes that this kind of scale is a prize worth having; it will be intriguing to see whether other large medtechs follow this example.

To contact the writer of this story email Elizabeth Cairns in London at [elizabethc@epvantage.com](mailto:elizabethc@epvantage.com) or follow [@LizVantage](https://twitter.com/LizVantage) on Twitter

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Evaluate HQ  
44-(0)20-7377-0800

Evaluate Americas  
[+1-617-573-9450](tel:+16175739450)

Evaluate APAC  
[+81-\(0\)80-1164-4754](tel:+8108011644754)

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