

Philips spends \$2bn on loss-making Spectranetics



[Elizabeth Cairns](#)

Philips's move to buy the vascular intervention company Spectranetics in a deal worth €1.9bn (\$2.2bn) – the fourth-largest this year – could be a smart one. Spectranetics is expected soon to score a landmark product approval and is on course for 11% year-on-year sales growth.

But the Dutch firm will have to convince shareholders that it is worth the high price to aid its expansion as a pure-play medtech group – the acquisition is pitched at a 27% premium to yesterday's close and will be financed by cash and debt. Philips will have to keep a sharp lookout for costcutting opportunities if it is to achieve its aim of rendering the deal accretive next year.

Spectranetics makes devices that clear blockages in coronary and peripheral arteries. As well as catheter-mounted balloons designed to open up closed arteries it also has products that use lasers to burn away plaques blocking arteries; this segment brings in around 67% of its revenues, according to analysts from Berenberg. It also sells lead management devices, used to remove implanted pacemaker wires, which account for 27% of its sales. Spectranetics had sales of \$271m last year and projects 2017 sales of \$293-306m.

And these ought to grow. It has filed a US PMA application for its Stellarex paclitaxel-coated balloon, and approval is expected in the coming months. This product will be an important growth driver in Spectranetics' portfolio, Philips says, adding that the drug-coated balloon arena is one of the fastest growing segments in peripheral vascular technology.

Spectranetics' business is very US-focused, with around 83% of its sales coming from the country. Philips will aim to broaden its base to Europe and beyond.

Bigger and better?

The deal is reminiscent of Philips's takeover of Volcano two years ago. Spectranetics is also active in intravascular ultrasound, a technology used to locate blockages in blood vessels and guide stent or balloon placement. This overlaps with Volcano's technology ([Philips buys Volcano and hopes it will not get burned, December 17, 2014](#)).

But there are differences. The Volcano deal was half the price of this one and unlike Spectranetics that company was profitable – though only just. Still, Volcano was struggling when Philips stepped in whereas Spectranetics appears to be a fast-growing, high-margin business.

Philips managed to make a success of the Volcano buy so Spectranetics ought to offer little trouble. The acquisition is a good fit with its strategy of expanding into image-guided therapy – which the Dutch group believes has the potential to generate €1bn in revenue by 2020 – and with some cost synergies Spectranetics ought be accretive by 2018.

As well as buying Spectranetics Philips is buying back stock. It is embarking on a two-year €1.5bn buyback programme covering around 46 million shares to offset dilution caused by its employee incentive programmes. According to management, Philips had put both deals in train before it emerged that the activist investor Third Point had bought shares in the company. This week the confectioner Nestle announced a \$21bn buyback after pressure from Third Point.

The Spectranetics deal might be relatively costly for a technology-focused tuck-in, but this is the kind of manoeuvre Philips has shown itself adept at pulling off. Having shaken off the last of its lighting businesses the group is now a health specialist and will be the fifth-largest medtech company in 2022.

Top 5 medtech M&A of 2017

Announcement	Acquirer	Target	Value (\$bn)	Focus
23 Apr	Becton Dickinson	C. R. Bard	24.0	Cardiology; Diagnostic imaging; Drug delivery; Endoscopy; Gastroenterology; General hospital & healthcare supply; Nephrology; Urology; Wound management
18 Apr	Cardinal Health	Medical supplies business of Medtronic	6.1	Cardiology; Patient monitoring
13 Feb	Allergan	Zeltiq Aesthetics	2.5	General & plastic surgery; General hospital & healthcare supply
28 Jun	Philips	Spectranetics	2.2	Cardiology
14 Feb	Hologic	Cynosure	1.7	General & pastic surgery; General hospital & healthcare supply

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