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M&A comes back with a bang – or two – in medtech

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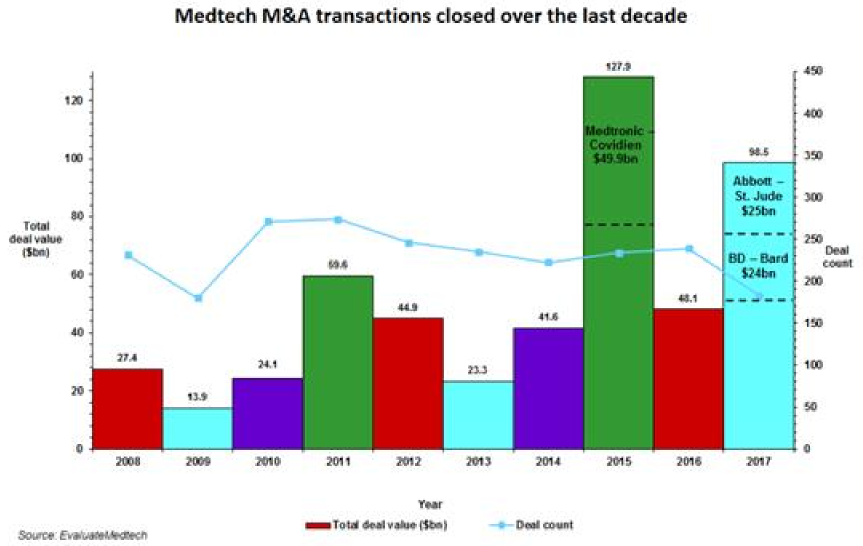
The preponderance of large deals comes partly as a consequence of soaring market valuations; paradoxically, it is also a cause of them.

In terms of mergers and acquisitions of medtech companies, 2017 started with a bang and ended with another. The purchase of St. Jude Medical by Abbott Laboratories for $25bn was closed in the first week of January, and Becton Dickinson completed its acquisition of C. R. Bard, a deal only slightly cheaper at $24bn, on the last working day of the year.

And what a year it was. The total value of all mergers closed in 2017 came in just shy of $100bn, the second highest annual total after the bumper year that was 2015 (see analyses below). But the number of deals is shrinking, and this is bad news for both patients and the sector itself.

More than twice as much was spent on M&A deals last year than in 2016: $98.5bn compared with $48.1bn. But only 183 contracts were signed, the fewest since 2009 when the financial crisis was biting hard.



The Abbott-St. Jude and BD-Bard deals are the third and fourth largest the sector has ever seen, fuelled by the still-present need to build scale in the face of continuing resistance to premium pricing for innovative technologies.

The biggest medtech mergers to date			
Completion date	**Acquirer**	**Target**	**Value ($bn)**
January 26, 2015	Medtronic	Covidien	49.9
April 21, 2006	Boston Scientific	Guidant	27.0
January 4, 2017	Abbott Laboratories	St. Jude Medical	25.0
December 29, 2017	Becton Dickinson	C. R. Bard	24.0
June 14, 2012	Johnson & Johnson	Synthes	19.7
Source: EvaluateMedTech			

Another factor is that device makers' customers are merging into ever-larger groups too. Hospital and care home chains across the US and Europe are banding together, so medtechs need to offer the largest suite of products possible to hook one of the shrinking pool of potential clients as a repeat customer.

This is why Bard, which was active in at least eight different market segments, became a takeover target. Previously buyers had mainly sought companies active on only one or two areas – but BD, a diagnostics company, opted to diversify, using the Bard deal to broaden its offering to hospitals and doctors' offices.

In buying St. Jude, Abbott stayed well within its cardiovascular wheelhouse. Its other deal last year, the $6bn purchase of Alere, was also intended to bolster its point-of-care diagnostics franchises.

The deal was ill-advised to say the least. Financial and legal irregularities at Alere caused Abbott to make increasingly frantic efforts to extricate itself from the deal, ultimately unsuccessfully (*Can Abbott kill the Alere deal?, December 8, 2016*).

Top 10 deals closed in 2017				
Completion date	**Acquirer**	**Target**	**Value ($bn)**	**EP Vantage coverage**
January 4	Abbott Laboratories	St. Jude Medical	25.0	Abbott and St. Jude – it's official
December 29	Becton Dickinson	C. R. Bard	24.0	The return of medtech scale-building?
July 30	Cardinal Health	Patient care, deep vein thrombosis and nutritional insufficiency businesses of Medtronic	6.1	Snippet roundup
October 3	Abbott Laboratories	Alere	4.6	Abbott-Alere deal to go ahead
February 27	Johnson & Johnson	Abbott Medical Optics, subsidiary of Abbott Laboratories	4.3	J&J sees a future in Abbott's eye care business
February 1	Allergan	LifeCell, subsidiary of Acelity	2.9	Acelity offloads Lifecell to Allergan for $2.9bn
April 3	Essity (prevously Svenska Cellulosa Aktiebolaget)	BSN Medical	2.9	-
April 28	Allergan	Zeltiq Aesthetics	2.5	Two deals in two days means aesthetics is looking good
August 9	Philips	Spectranetics	2.2	Philips spends $2bn on loss-making Spectranetics
January 31	Grifols	Blood screening business of Hologic	1.9	-
Source: EvaluateMedTech				

Whether wise or unwise, these megadeals are becoming the norm. An analysis of 2017's mergers and acquisitions whose values were disclosed shows the average price clocked in at over a billion dollars – only just shy of 2015's average of $1.2bn.

Even after the really huge deals – those worth over $20bn – are excluded, this average figure is still creeping skyward: $569m, compared with $467m last year.

Average deal sizes			
Completion date	**Value ($bn)**	**No of deals with known value**	**Average deal size ($m)**
2017	98.5	87	1,132
2017 excluding Abbott-St. Jude and Becton Dickinson-C. R. Bard	49.5	87	569
2016	48.1	103	467
2015	127.9	110	1,163
2015 excluding Medtronic-Covidien	78.0	110	709
2014	41.6	112	372
2013	23.3	104	224
2012	44.9	123	365
2011	59.6	133	448
2010	24.1	131	184
2009	13.9	85	164
2008	27.4	108	254
Source: EvaluateMedTech			

The preponderance of large deals comes partly as a consequence of soaring market valuations of these groups (*2017 saw the stars Align for big-cap medtech, 9 January 2018*). Paradoxically, it is also a cause of them, as investors plough in to companies talked of as M&A targets in the hope of a future takeout. At some point, though, these companies will simply become too expensive, and the sector will return to smaller deals.

Then again, there is another factor to consider. What effect the new US tax legislation might have on the frequency of megamergers is as yet unknown, but if US companies find it easier to repatriate foreign cash even greater sums could be spent on biz dev in 2018.

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