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February 25, 2019

GE Healthcare float sunk in favour of Danaher deal

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GE sells its Biopharma business for $21.4bn, but is its IPO cancelled or merely on hold?

The planned IPO of General Electric's healthcare business has been shelved after the group agreed to sell GE Biopharma, a subunit of GE Healthcare, to Danaher for $21.4bn in cash. GE Biopharma sells instruments, consumables and software involved in drug discovery and development.

Followers of both groups view the deal as a win: Danaher's shares are up 7% so far today, and GE's 11%. The fact that GE has loaded the deal up with $400m of pension liabilities, a drag on its balance sheet for some time, will have helped its share bounce.

When the deal closes towards the end of this year GE will still have a medtech business capable of generating around $17bn of revenue, largely thanks to the medical devices for which it is best known – imaging equipment such as MRI machines.

Russian doll

GE's various units are nested inside one another. GE Biopharma, which had sales of around $3bn in 2018, is one of two businesses that make up GE Life Sciences. GE Life Sciences is part of GE Healthcare, which, with sales of $19.8bn last year, itself makes up 16% of General Electric's overall revenues.

The other part of GE Life Sciences is known as pharmaceutical diagnostics and comprises GE's imaging tracers. This is of little interest to Danaher and naturally it makes sense for GE to keep it alongside its imaging systems.

So what next for GE Healthcare? It remains a possibility that GE might still decide to spin out its remaining medtech offering. The group's chief executive, Larry Culp, has stated that he wants to focus General Electric on just two sectors: aviation and power. Keeping GE Healthcare would be a reversal of this strategy.

Another point that suggests the IPO might still go ahead, albeit on a smaller scale and later than expected, is that today's development sounds a lot like what GE was planning all along.

Laying out its IPO strategy last summer, GE said that the spin-off of its Healthcare unit would take place in a series of transactions whose structure was yet to be determined (*GE finally spins out Healthcare, June 26, 2018*). It was first to sell 20% of its interest in the Healthcare business and then to distribute the remaining

80% to GE shareholders tax-free. GE Biopharma makes up 15% of GE Healthcare by revenue.

Services and strategies

Danaher is also in the throes of major change. A serial acquirer, this acquisition is its biggest ever, putting its 2015 acquisition of Pall for $13.8bn in the shade. It also has a spin-off of its own to be getting on with, having stated last July that it would float its dental unit in the second half of 2019.

If both these moves go ahead as intended the Danaher that emerges will arguably be more of a service provider to the pharma industry than a classical medtech company. Without its dental business it is mostly in vitro diagnostics, not least companion diagnostics necessary for targeted drugs, in part thanks to its takeovers of Beckman Coulter and Cepheid.

Put this together with GE Biopharma, as well as the 2018 acquisition of sequencing consumables company Integrated DNA Technologies, and a new Danaher emerges.

Both Danaher and GE are pursuing very different, but equally clearly defined, strategies. Now it is all about the execution.