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Big device deals are back in fashion

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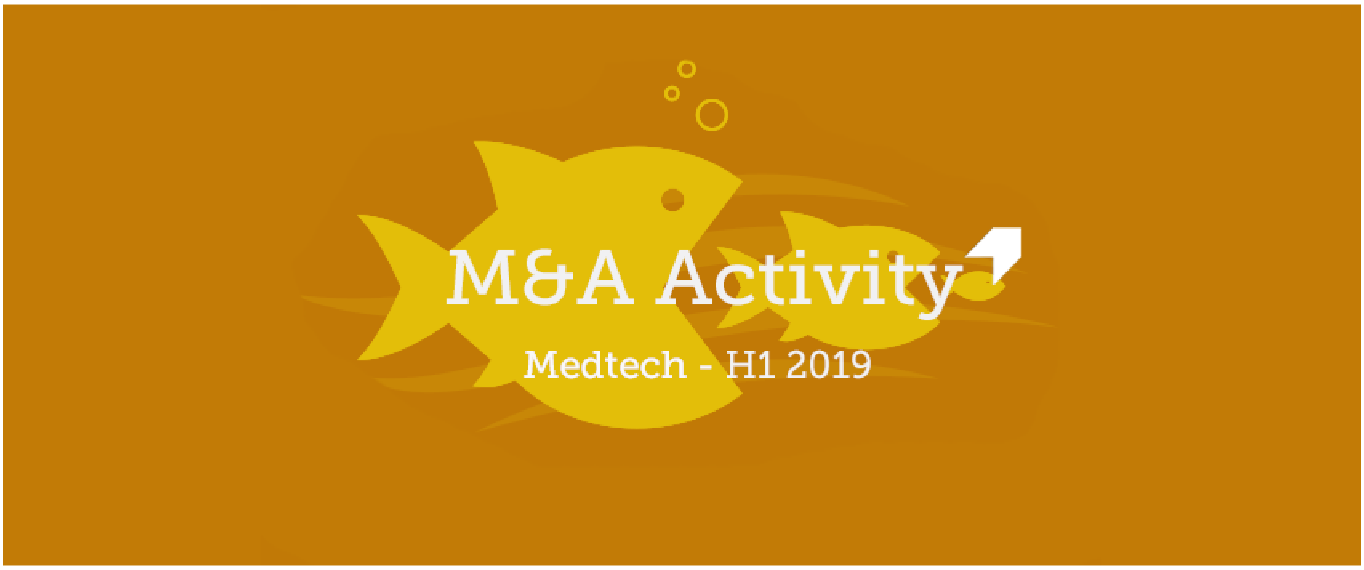

The medtech market's fast growth and unfettered demand attracts investment groups, while hospital suppliers consolidate.

Six months into 2019 and the medtech sector has already surpassed 2018's M&A total. Deals worth more than $29.5bn have been closed so far this year, swelled by Johnson & Johnson's purchase of surgical robotics group Auris Health and the sale of healthcare records company Athenahealth to private equity: both these transactions weighed in at more than $5bn.

Even so, the total is far short of 2017's, which almost cracked $100bn. The mean price paid, though, is creeping back up to 2017 levels: the 39 mergers with disclosed value were worth $755m each on average, more than twice as much as last year.

Medtech acquisitions of the past five years				
Deal completion date	**Deal value ($bn)**	**No of deals**	**No of deals with known value**	**Average deal size ($m)**
H1 2019	29.5	74	39	755
2018	26.8	206	86	312
2017	98.5	210	96	1,027
2016	48.6	261	110	442
2015	128.1	247	113	1,134
2014	43.6	229	114	383
Source: EvaluateMedTech.				

Much of the activity here is at the top end. Eight multibillion-dollar deals have closed so far this year, more than in all of 2018, but the number of acquisitions worth less than $1bn is way down. 16 deals in this size bracket have been closed so far in 2019. Extrapolating this out to the next six months would give a 2019 total of 32, rather less than the 40 seen in 2018 or the 41 a year earlier.

An inkling of the reason for this concentration of larger mergers is given by a look at the type of companies being bought. The four largest buys this year all concern businesses that supply hospitals, a fairly commoditised space where competition is fierce and generally price-based. The need for large groups to build scale to broaden their offering and make themselves appealing to often cash-strapped customers is clear, and consolidation the answer.

No of deals closed by size bracket, past five years			
Completion date	**$0-100m**	**$100m-1bn**	**$1bn+**
H1 2019	16	17	8
2018	39	41	7
2017	49	32	19
2016	66	32	12
2015	66	32	18
2014	60	47	8
Note: only includes deals with known value. Source: EvaluateMedTech.			

The other notable point is the continuation of the trend of private equity increasingly involving itself in medical technology. Last year four of the top 10 transactions saw medtech companies or business units fall to private equity shops, and so far this year two such deals have occurred.

Flush with cash and the debt financing permitted by low interest rates, private equity is being more active in acquiring companies and carve-outs across many sectors, not just medtech. But heath tech groups can be particularly appealing: unlike natural resources, for example, the product supply is not finite, nor is it subject to increasing regulatory strictures.

The developed world’s ageing population means demand for devices is only going up, and investment groups are often convinced that they can increase efficiency, curbing spending and making the kind of hard choices that might be better made away from the scrutiny that attends listed companies.

Top 10 deals closed in H1 2019				
Completion date	**Acquirer**	**Target**	**Value ($m)**	**M&A focus**
Apr 1	Johnson & Johnson	Auris Health	5,750	Endoscopy; general & plastic surgery
Feb 11	Veritas Capital and Elliott Management	Athenahealth	5,700	General hospital & healthcare supply; healthcare IT
Feb 22	Colfax	DJO Global	3,150	Orthopaedics; physical medicine
Apr 1	Fortive	Advanced Sterilization Products business of Johnson & Johnson	2,800	Endoscopy; general hospital & healthcare supply
Feb 21	Fresenius Medical Care	Nxstage Medical	2,000	Blood; nephrology
Mar 31	Montagu Private Equity and Astorg	Nemera	1,150	Drug delivery
Feb 1	3M	M*Modal	1,000	Healthcare IT
Jan 31	Sonic Healthcare	Aurora Diagnostics	540	In vitro diagnostics
Jun 11	Boston Scientific	Vertiflex	465	Orthopaedics
Jan 29	Boston Scientific	Millipede	450	Cardiology
Source: EvaluateMedTech.				

Some acquisitions were motivated by medtech companies attracted by their target's technology, rather than investment groups' solely financial considerations.

Dialysis giant Fresenius Medical Care closed its takeout of Nxstage Medical, maker of portable and home-based blood filtration machines. The $2bn deal hit antitrust obstacles, as had been widely expected, but eventually closed in February after Fresenius divested Nxstage's bloodline tubing set business (*A long road to the next stage for Fresenius, February 27, 2019*).

And Boston Scientific closed not one but two technology-specific bolt-on deals as it ramps up its inorganic growth strategy to better compete with its larger rivals. The acquisition of Millipede, which makes a device to repair the mitral valve, will enable Boston to go up against Abbott, though that company's MitraClip is well established on the market. And its purchase of spine implant developer Vertiflex will boost Boston's orthopaedics offering and allow it to square up to groups like Medtronic and Stryker.

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