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Medical device mergers on pause

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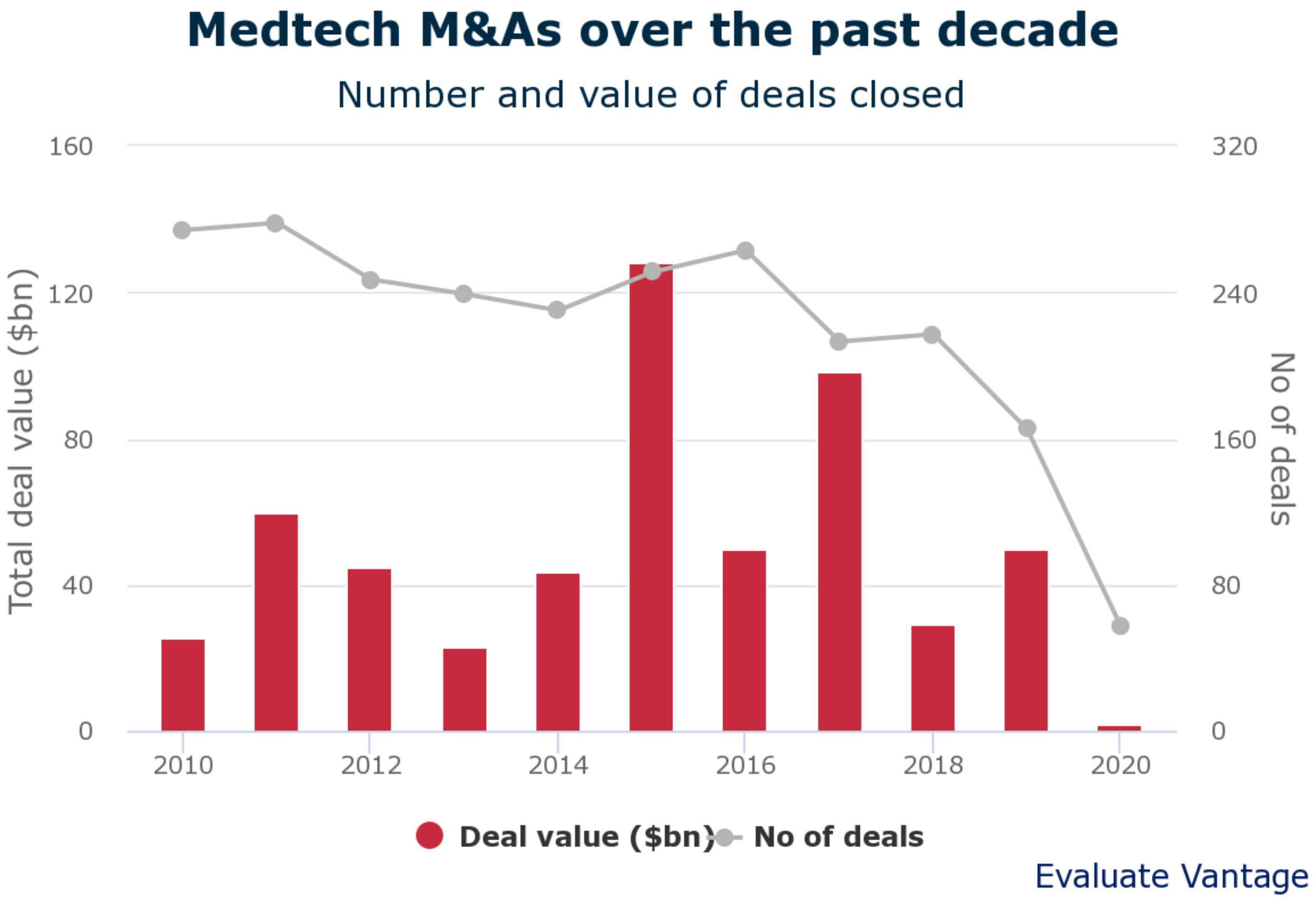
2019 was an average year for medtech M&A. 2020, not so much.

Thanks to Thermo Fisher Scientific and Invitae, two groups brave enough to push ahead with multibillion-dollar acquisitions during a pandemic, the total value of medical device M&A announced in the first half of 2020 nudged over $15bn – though this is still a distressingly low figure. The real shock, however, is not the value of the deals announced, but of those that have been closed.

The medtech deals completed so far in 2020 have a total value of less than $2bn. This is despite mergers worth a total of more than $21bn remaining open. The Covid-19 pandemic seems to have made it harder to hammer out the legal or financial complications of closing deals than it did to conduct the negotiations in the first place.



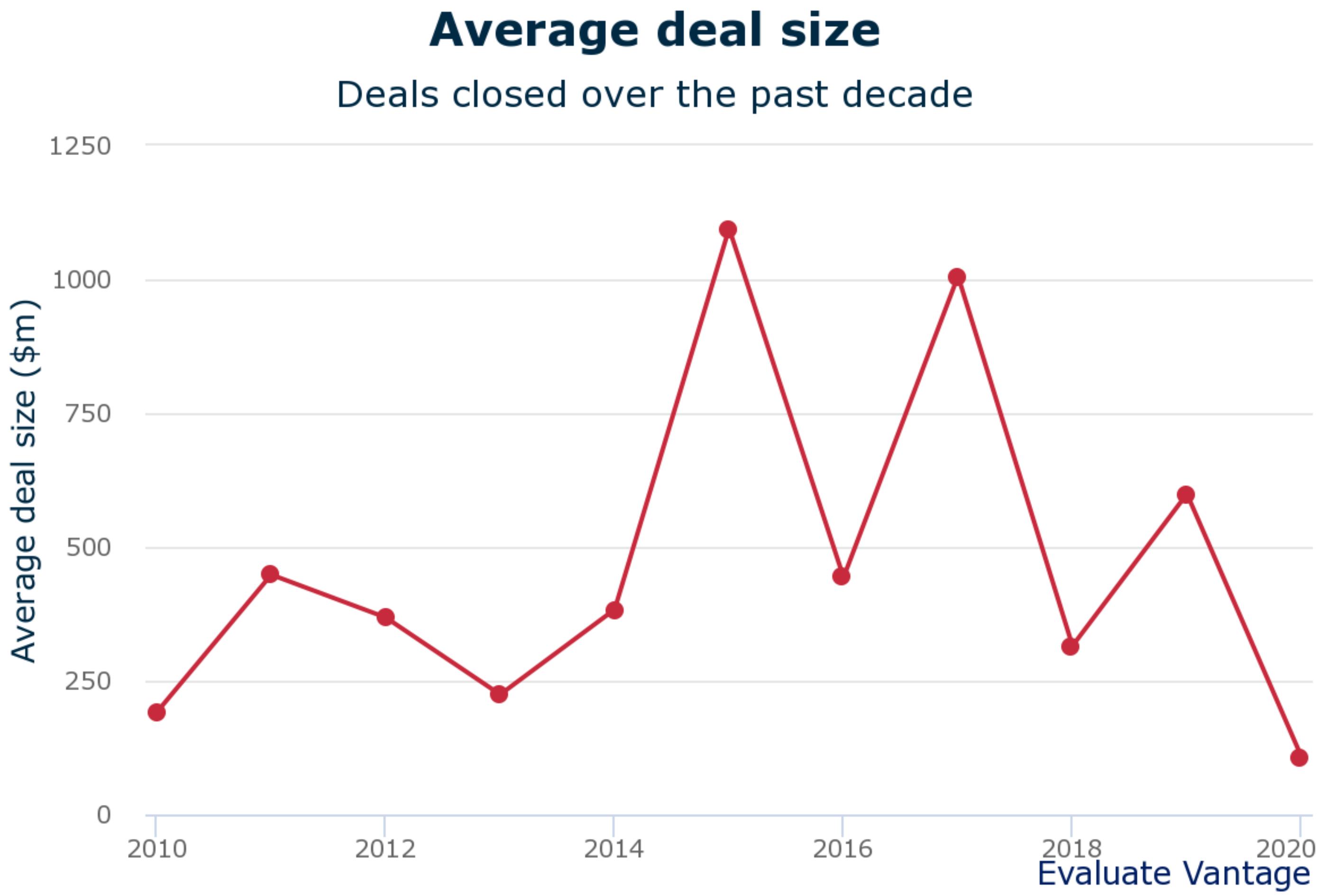
Of course, the pandemic is not the only element at play. The largest pending deal is Stryker's $11.5bn purchase of Wright Medical, which was announced in November but has since run into trouble with the US Federal Trade Commission and the UK's Competition and Markets Authority. Given that last December the FTC scuttled Illumina's proposed $1.2bn acquisition of Pacific Biosciences, this is a serious threat.

Investors however have shaken off concerns, with Wright's share price trading just below the acquisition price of $30.75. The deal was not expected to close until the latter half of 2020 anyway. It might still meet this schedule, thus boosting 2020's numbers, but the involvement of the antitrust watchdogs mean this cannot be relied on.

Partly owing to the lack of this deal, the average size of completed mergers is lower than at any point in the past decade. The mean acquisition size was just $108m in the first six months of 2020; this figure has been erratic over the past 10 years but shows an overall downturn since 2015.

It is also interesting that the two big acquisitions announced so far in 2020 are both diagnostics deals. The unveiling of the $11.5bn Thermo Fisher-Qiagen deal predates the WHO's designation of Covid-19 as a pandemic, and thus the deal has little to do with tests for the coronavirus itself – though Qiagen has subsequently developed and launched Covid-19 tests.

Neither was Invitae's $1.4bn takeout of Archer DX a Covid-19 play. This was to do with cancer testing, notably Archer's pan-cancer liquid biopsy Stratafide. Blood testing for cancer is increasing in popularity during the pandemic as blood can be drawn in doctors' offices or even at the patient's home, while tissue biopsies require hospital appointments. More liquid biopsy developers could come to be seen as acquisition targets if the state of emergency drags on.



As for what the second half of this year might hold, the trends in business development will depend on whether new waves of infections and deaths occur, and their magnitude if they do. If major lockdown measures are eased M&A activity ought to pick up, and orthopaedics companies might be a hotspot.

An uncertain future

Companies such as Zimmer Biomet and Smith & Nephew, which have suffered as less urgent surgical procedures have been delayed, might wish to diversify their offering by picking up companies developing emergency trauma products, or even technologies outside their traditional specialities, such as telemedicine or patient monitoring devices.

Shifting the geographical focus of a company by acquiring businesses from other parts of the world might also be a helpful strategy for some groups to pursue. As the Covid-19 outbreak continues to worsen in the US it would make sense to increase reach in Europe or Asia as these areas get transmission rates under control. One factor militating against this, however, is that Asian companies in particular have seen their stocks rise as US-listed companies falter, putting any such transaction on the expensive side.

Conversely those companies – often US-based – whose share price has slid this year will make cheaper targets. The rumoured takeover of Intersect ENT by Medtronic would, if confirmed, fall into this bracket: before rumours of the deal broke Intersect’s valuation sat at around $450m, having fallen by nearly half across the first six months of 2020. Medtronic has the heft to buy small groups while they are cheap and wait out the pandemic, benefiting from increased sales when the wider situation improves.

As for the very largest deals, a resurgence will depend not only on the risk of a major second wave having passed but also on economic factors such as the availability of cheap credit. If the second half of 2020 sees the same number of medtech megadeals announced as the first – two – the industry might be regarded as having got off lightly.

Top 3 deals announced in H1 2020				
Announcement date	**Acquirer**	**Target**	**Value ($m)**	**Focus**
Mar 3	Thermo Fisher Scientific	Qiagen	11,500	In vitro diagnostics
Jun 22	Invitae	Archer DX	1,400	In vitro diagnostics
Jan 12	Teladoc Health	Intouch Health	600	Cardiology; obstetrics & gynaecology
Top 3 deals closed in H1 2020				
Completion date	**Acquirer**	**Target**	**Value ($m)**	**Focus**
Feb 12	Laborie Medical Technologies	Clinical Innovations	525	Gastroenterology; healthcare IT; in vitro diagnostics; obstetrics & gynaecology
Apr 2	Align Technology	Exocad	420	Dental; healthcare IT
Feb 18	Baxter International	Sepra Products business of Sanofi	350	General & plastic surgery
Source: EvaluateMedTech.				