January 16, 2015

Best is yet to come as medtech mergers come roaring back

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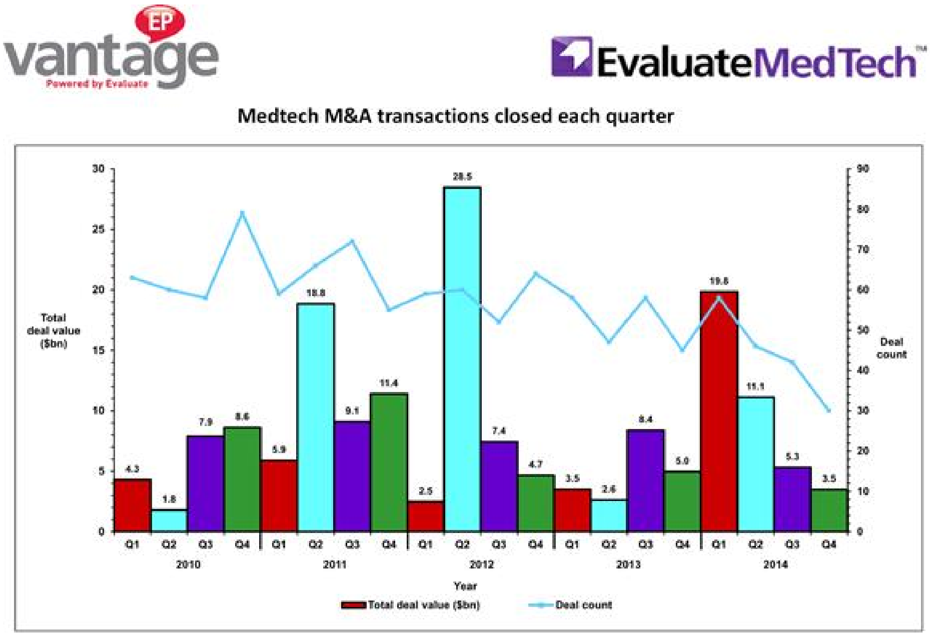
After a poor showing in 2013 the medtech merger market has recovered nicely, with the total deals closed in 2014 worth more than twice the previous year's figure. Seven of the top 10 deals are worth more than $1bn, showing huge appetite for consolidation at the top.

If 2014 was good the coming year is going to be spectacular. Deals worth more than $80bn in total are expected to close in the first half, led, of course, by the biggest takeover in the industry's history: Medtronic's purchase of Covidien. The standing record, 2006's total of $70bn, will be not just broken but pulverised (see tables).

The first half of last year was considerably better than the second, bringing in a total of more than $30bn in closed deals, as opposed to just $9bn. The average deal value in each period followed the same pattern, despite the number of deals also falling. Skewed by the $14bn takeout of Life Technologies by Thermo Fisher Scientific, the average for the first quarter was $342m; this fell to just $116m in the final quarter.



In contrast to the large deals announced in recent months, these transactions are not about exploiting tax loopholes. Rather they are examples of the amalgamation of similar companies that enable the resulting group to offer a wider range of technologies to hospitals and payers facing their own economic pressures.

This is the rationale behind the Thermo/Life deal, as well as the dental specialist Danaher's purchase of Nobel Biocare, and the ophthalmology player Essilor's takeout of lens maker Transitions Optical, among others.

Medtech acquisitions of the past decade		
Deal completion date	**Deal value ($bn)**	**Deal count**
2014	39.8	176
2013	19.5	208
2012	43.1	235
2011	45.2	252
2010	22.6	260
2009	13.2	172
2008	26.4	219
2007	51.4	258
2006	69.9	217
2006 (excluding Boston-Guidant)	42.9	216
2005	18.5	198
2004	19.8	150

The private equity concern Carlyle Group bought Johnson & Johnson’s sluggish diagnostics business to do it up and sell it on. A second huge private equity deal has since been announced, with EQT Partners announcing in November that it was taking Siemens’s hearing aid unit off its hands for $2.8bn.

Innovation

But some of 2014’s deals were more a means for companies to acquire promising, innovative technologies – the traditional rationale for an industry that is still, at the lower end at least, largely fuelled by trade sales. Covidien purchased the Israeli company Given Imaging to obtain its PillCam range of capsule endoscopes – tiny cameras that are swallowed by a patient to enable imaging of the intestinal tract to identify potentially cancerous polyps.

Top 10 takeouts closed in 2014		
Acquirer	**Target**	**Deal value ($m)**
Thermo Fisher Scientific	Life Technologies	13,600
Carlyle Group	Ortho-Clinical Diagnostics business of Johnson & Johnson	4,150
Danaher	Nobel Biocare	2,200
Essilor International	Transitions Optical	1,855
Grifols	Blood transfusion diagnostics business of Novartis	1,675
Smith & Nephew	ArthroCare	1,500
The Cooper Companies	Sauflon Pharmaceuticals	1,200
Covidien	Given Imaging	860
Ansell	BarrierSafe Solutions International	615
Merz	Ulthera	600

The PillCam line is highly innovative, a genuinely different technology from anything that had existed before. It was never intended to replace traditional endoscopy or colonoscopy but rather to find a niche treating patients who are unable to endure the standard procedure, plus those who were willing to pay extra to avoid its discomfort. At the time of the acquisition announcement Given was forecast to grow at an annual rate of 13% (*Covidien’s purchase of Given Imaging is third biggest deal announced this year, December 9, 2013*).

Too few?

On the measure of deal value, 2014 beat the previous year hollow. But the actual number of acquisitions closed was low – at 176, the fewest since the overall nadir of 2009 – and this could be worrying.

For smaller companies to raise money they must convince potential backers that there will be a profitable exit. The preferred method has always been and will continue to be a sale – 2014’s surge in medtech IPOs notwithstanding (*Tripling of medtech IPO yield points to changing industry, January 12, 2015*).

With a greater proportion of the sector’s M&A activity concentrated among the bigger players, start-ups could find it harder to persuade the moneymen that they too will attract a buyer. After all, a company focused on a billion-dollar megamerger with an eye to consolidation and tax advantages will not bother to hunt for the little fish too, no matter how potentially disruptive their technology.

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