

## \$1bn Bayer-Panasonic deal suggests unit buys are the way to go



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The medtech merger scene in 2015 has been sparse to say the least in comparison with last year's frenzy. But an unusual trend is beginning to emerge: instead of outright acquisitions, most of the very largest purchases are of discrete business units.

The sale of Bayer's diabetes devices to Panasonic Healthcare today is the third such deal this year in the \$1bn-plus range – and with only two company purchases of similar magnitude, this shuffling of specialised units is clearly growing in appeal.

Panasonic will spend €1.02bn (\$1.15bn) to acquire Bayer Diabetes Care, which principally makes blood glucose tests and which has been on the block for some time ([Bayer's diabetes devices could work for an insulin company, November 26, 2014](#)).

At first glance Panasonic looks a surprising buyer, but there is a second trend at play here: the involvement of private equity. The Japanese electronics giant sold 80% of Panasonic Healthcare to KKR last year, retaining the rest.

In 2014 the medtech industry saw two large business unit purchases by private equity: Carlyle Group spent \$4.2bn on Johnson & Johnson's Ortho-Clinical Diagnostics and EQT Partners scooped up Siemens' hearing aids for \$2.8bn. This is a similar deal, done for similar reasons.

### Bargain?

Like J&J's diagnostics, Bayer's diabetes unit is shrinking. Revenue will decrease by around 2% a year out to 2020, according to *EvaluateMedTech's* consensus forecast.

Perhaps this explains how Panasonic Healthcare got it so cheap – back in November some suggested purchase prices reached as high as \$2.5bn. Bayer Diabetes Care generated sales of €909m last year, but the parent company does not split out divisional profits and losses, so its margins have not been disclosed.

And this is in the context of a very healthy wider diabetes market. The Diabetic Care segment of the medical device industry is growing at a highly respectable 4.7%, *EvaluateMedTech* data show, and Medtronic in particular is making huge efforts to expand in this area ([IBM collaboration is Medtronic's fifth diabetes deal in a month, April 14, 2015](#)).

The deal therefore allows Bayer to cut loose an underperforming unit and KKR to make a buck or two from the inevitable restructuring that will surely follow the deal's close early next year. And Panasonic Healthcare gets control over a new distribution channel for its own glucose monitors, though the two companies have collaborated for some time already.

At barely \$1bn the transaction is the fifth biggest deal so far this year and the third purchase of a business unit. Last year there were also three \$1bn-plus business unit buys, but that was alongside nine company purchases of similar size and over the full 12 months. Companies' interest in this type of deal is clearly accelerating.

**Three business units, two companies**

<b>Date</b>	<b>Acquirer</b>	<b>Target</b>	<b>Deal type</b>	<b>Value (\$bn)</b>
March 2, 2015	Cardinal Health	Cordis business of Johnson & Johnson	Business unit	1.94
March 2, 2015	Boston Scientific	Men's Health and Prostate Health businesses of American Medical Systems	Business unit	1.65
June 4, 2015	Opko Health	Bio-Reference Laboratories	Company acquisition	1.47
May 13, 2015	Danaher	Pall	Company acquisition	1.38
June 11, 2015	Panasonic Healthcare	Diabetes business of Bayer	Business unit	1.02