

Acelity files to float, but is it secretly seeking a buyer?



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In filing for an IPO to raise vastly less than it is worth, the wound care company Acelity is following the path set by Bausch + Lomb and Biomet. Whether this will lead to a takeover for Acelity, as it did for its forerunners, is not known, but it is quite possible that a buyout is the intended endgame for the heavily indebted Acelity.

The \$100m amount is the standard placeholder figure when a large group files for an IPO – Bausch + Lomb and Biomet both used the same number. In fairness, Acelity might be fully determined to float, in which case industry experts put the amount it might actually raise at around \$1bn. But just as Valeant Pharmaceuticals and Zimmer stepped in before their conquests got a sniff of Nasdaq, a buyer might emerge here too. But who?

Capital structure

Data compiled by *EvaluateMedTech* show that Acelity is the second-placed wound care company by sales, following Johnson & Johnson, which has a 27% market share. However, its business is hampered by a remarkably poor capital structure: Acelity's nearly \$5bn gross debt pile cost it \$413m to service last year.

This means that a business that generated \$1.9bn of 2014 turnover, and was profitable on an underlying basis, was pushed into a net loss. True, the net loss narrowed from \$559m to \$230m last year, but an exit for its private holders would require either very brave IPO investors or a trade buyer convinced by Acelity's underlying business.

It is possible that J&J might wish to shore up its dominance here by adding Acelity's 11% share to its own, but the group has been slowly shrinking its medtech operations over the past few years, divesting its diagnostics arm and its Cordis interventional cardiology products among others. If J&J were to put a bid in for Acelity it would be a departure from its recent strategy.

J&J would have no trouble affording Acelity, at least. When its previous incarnation, Kinetic Concepts, was taken private by Apax Partners and a couple of pension funds in July 2011, the total value of the transaction was \$6.3bn.

The wound management segment at a glance		
Company	Global sales (\$m)	Market share
Johnson & Johnson	3,472	26.9%
Acelity	1,435	11.1%
Smith & Nephew	1,319	10.2%
Coloplast	1,235	9.6%
3M	1,226	9.5%
ConvaTec	1,139	8.8%
Baxter International	747	5.8%
Mölnlycke Health Care	645	5.0%
BSN medical	644	5.0%
Hartmann Group	541	4.2%
<i>Rest of market</i>	<i>499</i>	<i>3.9%</i>
<i>Total market</i>	<i>12,902</i>	<i>100.0%</i>

Another big player in the wound care market is Smith & Nephew, often spoken of as a takeover target itself, which just might be interested in Acelity to defend itself against predators. Baxter might also be a candidate if it wishes to build scale after the spinout of its biotech products into Baxalta.

While it is possible that Acelity is dangling an IPO like a fishing lure to flush out potential buyers who are already considering a bid and would rather buy a private group from its owners than try to swing a public company's shareholders, it should be remembered that going public could be its sole intention.

The debt position, however, is an important factor. Acelity said it would use some of the IPO haul to refinance its \$610m of 12.5% senior notes, due in November 2019. But the rest of its debt falls due before that, mostly in 2018. Acelity needs money, and it needs it fast.

If it does go public the float is likely to be even bigger than that of Fitbit, which raised \$732m in June, and which is hardly a classical medtech company anyway. Fitbit aside, the largest strictly medtech IPOs on Western exchanges – ever – are those of the Healthcare IT company Castlight Health, which raised \$204m in March 2014, and ortho group Tornier, which floated for \$166m in early 2011. There have only ever been 12 medtech IPOs that raised \$100m or more.

If Acelity makes it to the public markets it will be via the largest IPO in the sector's history. If.

Medtech IPOs pre-empted by takeouts					
Company	Date filed	Amount to be raised (\$m)	Buyer	Date bought	Deal value (\$bn)
Bausch + Lomb	March 22, 2013	100	Valeant Pharmaceuticals	August 6, 2013	8.7
Biomet	March 7, 2014	100	Zimmer	April 24, 2014	13.4
Ariosa Diagnostics	March 24, 2014	68	Roche	December 2, 2014	Unreleased

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