Evaluate Vantage

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Abbott and St. Jude – it's official

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Abbott last year denied rumours that it was about to buy its fellow cardiovascular device player St. Jude Medical, but the deal is now officially on. The $25bn price tag has not changed, but perhaps St. Jude's willingness to accept the terms has – the company's share price is down 15% from August when the speculation first arose.

As for Abbott, it is taking a chance on a company that has been through, and is still facing, some hard times. But it must be confident of turning things around, and the recent turmoil at St. Jude probably means that it is bagging a relative bargain (*St. Jude not a lost cause, but still needs some miracles, March 2, 2016*).

One question the deal raises is whether Abbott will still follow through on its $5.8bn acquisition of the point-of-care testing specialist Alere, which was delayed after foreign corruption investigations. This was thrown further into doubt during the group's first-quarter conference call when Abbott's chief executive, Miles White, refused to comment on whether it would still go ahead.

Abbott says it has the financial capacity to close both deals, but the implications of the St. Jude acquisition on Alere are unclear, Leerink analysts write. They believe that the odds of the Alere deal closing "are higher than assumed in the current stock price", and add that the downside is limited if Abbott walks away.

Number three

But St. Jude is the big fish that Abbott is after: the deal will catapult it from number six in the current medtech market rankings to number three, behind Medtronic and Johnson & Johnson (*Testing times for medtech in 2022, April 26, 2016*).

	Sales ($bn)		Market rank	
Company	**2015**	**2022e**	**2015**	**2022e**
Abbott	9.58	12.30	6	7
St. Jude	5.54	8.12	17	16
Abbott + St. Jude	15.12	20.42	3	3

The acquisition will also propel Abbott from number six to number two in the cardiology market by 2022.

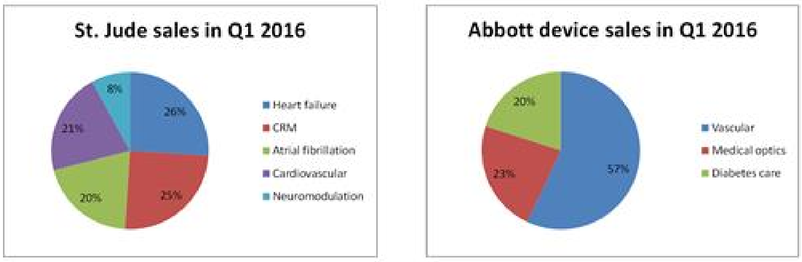
Top medtech companies by cardiovascular sales		
	Sales ($bn)	
Company	**2015**	**2022e**
Medtronic	10.13	13.37
Abbott + St. Jude	7.75	10.16
St. Jude	5.07	7.30
Boston Scientific	4.98	6.47
Edwards Lifesciences	2.49	4.63
Terumo	1.93	3.02
Abbott	2.69	2.86

This is assuming that Abbott does not need to offload any of St. Jude’s assets to fulfil antitrust requirements. But this seems fairly unlikely as there is little overlap in the companies’ offerings.

Abbott’s main cardiovascular expertise is in stents, as well as mitral valve repair with the MitraClip device. Its other device divisions include diabetes and vision care, and it also has a diagnostics unit.

St. Jude, meanwhile, does not sell stents – but it does have imaging technology to aid stent placement. Its cardiac rhythm management (CRM) division has been on the slide recently, with revenues shrinking 10% during the first quarter.

More promising are its heart failure products, including the CardioMEMS monitor and the left ventricular assist devices gained through the acquisition of Thoratec – the heart failure unit saw first-quarter sales increase 49%, making it St. Jude’s biggest division.



In spite of St. Jude’s ongoing CRM troubles, the rest of the business continues to perform and its first quarter beat analyst expectations. The company seems at least to be on the road to recovery – making it a good moment for Abbott to strike.

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