

Value of medtech mergers down 80%



[Elizabeth Cairns](#)

There was no way 2016 was going to even come close to the vast total value of medtech M&As closed in 2015, but even so at less than \$17bn the total for the first half is tiny. At the half-year point in 2015, deals worth \$34bn had been closed – even after excluding the most mega of megamergers, that of Medtronic and Covidien.

Including the Medtronic-Covidien tie-up, the total for H1 2015 was \$84bn, meaning the H1 2016 total is only a fifth of what it was a year ago. Sector-wide pushes for scale are cyclical by nature, and to some extent the low-hanging fruit has already been plucked. And promisingly, the number of deals has remained fairly steady (see tables) – the sector may be returning to the mid-size deals that best reward innovation.

Medtech acquisitions of the last decade		
Completion Date	Value (\$bn)	Count
H1 2016	16.9	106
2015	127.4	213
2015 (excluding Medtronic-Covidien)	77.5	212
2014	40.2	212
2013	19.7	227
2012	44.6	244
2011	47.7	261
2010	20.5	265
2009	13.2	174
2008	27.7	226
2007	51.5	266

Counting only those deals whose value was made public, the average size of the acquisitions closed in the last half-year was \$401m, less than half that for H1 2015, even excluding the \$50bn Covidien acquisition. But 106 deals were signed, compared with 96 this time last year.

This is probably a good sign. With the larger groups having moved on from the large scale-building they have pursued over the last couple of years there is now more room for the kinds of smaller, technology focused acquisitions that are the bread and butter of the medtech sector.

Medtech acquisitions - H1 2016 v H1 2015				
Completion Date	Value (\$bn)	No of deals	No of deals with known value	Average deal size (\$m)
H1 2016	16.9	106	42	401
H1 2015	84.1	96	42	2,003
H1 2015 (excluding Medtronic-Covidien)	34.2	95	41	835

For every medtech start-up whose management is determined to make a go of it, intending to list at the first

opportunity and eventually become a big-cap multinational, there are dozens whose ambition extends no further than developing a product, proving it works and selling themselves.

A trade sale of a start-up with a single invention, or maybe a handful of devices, is often the best way to bring the technology to the widest group of patients. The resurgence of smaller deals is, hopefully, a return to business as usual.

Dental, diagnostics and diabetes

Of course, some large mergers have been conducted. Dentsply's \$5.5bn merger with Sirona Systems has completed to produce the second largest maker of dental products with worldwide sales of \$2.4bn last year. With an impressive growth rate of 13%, Dentsply Sirona is forecast to leapfrog Danaher to take the top spot in 2022 when it will do \$5.6bn of business according to *EvaluateMedTech* data.

That deal was the only one of the top 10 mergers to be a strict scale play. All the others were more to do with repositioning; either gaining access to a new suite of technologies or pivoting to address a different, and growing, market.

Previously known mainly for its orthopaedics products, Stryker smartly moved towards the fast-expanding hospital sector with two deals inside a month, buying ICU device maker Sage Products and Physio-Control, which sells equipment including defibrillators and heart monitors for use by paramedics and the military as well as in hospitals.

Likewise Panasonic pivoted towards diabetes – a safe bet for an expanding market if ever there was one. Resmed, previously known for sleep apnoea devices, bought informatics specialist Brightree after the catastrophic failure of its ventilation device in a clinical trial for heart failure ([ResMed crashes after death rate increase, May 15, 2015](#)).

Top 10 deals closed in H1 2016		
Acquirer	Target	Value (\$m)
Dentsply Sirona	Sirona Dental Systems	5,506
Stryker	Sage Products	2,775
Thermo Fisher Scientific	Affymetrix	1,300
Stryker	Physio-Control	1,280
Panasonic	Diabetes Care business of Bayer	1,110
ResMed	Brightree	800
NuVasive	Ellipse Technologies	410
DiaSorin	Focus Diagnostics, subsidiary of Quest Diagnostics	300
Smith & Nephew	Blue Belt Technologies	275
Conmed	SurgiQuest	265

Otherwise the reasoning behind most of the mergers was largely to do with obtaining innovative technology.

Thermo Fisher Scientific paid a generous premium for genomics analysis group Affymetrix despite it being unprofitable, so it could get hold of promising technologies including non-invasive prenatal testing for diagnosing foetal genetic abnormalities from the mother's blood. Smith & Nephew moved into robotic surgery by acquiring Blue Belt Technologies, whose tech, used to help perform orthopaedic procedures, should mesh well with S&N's core products.

Top 10 deals closed in 2015		
Acquirer	Target	Value (\$bn)
Medtronic	Covidien	49.9
Zimmer Biomet	Biomet	14.0
Danaher	Pall	13.8
Becton Dickinson	CareFusion	12.2
LivaNova	Sorin	3.4
Wright Medical Group	Tornier	3.3
St. Jude Medical	Thoratec	3.3
EQT Partners	Audiology Solutions business of Siemens	2.7
Hill-Rom	Welch Allyn	2.1
Cardinal Health	Cordis business of Johnson & Johnson	1.9

That said, there are scale-building deals in the pipeline, with Abbott's \$25bn purchase of St. Jude Medical to close in the coming months.

Other companies have announced bolt-on deals that do not move them into new areas, such as Zimmer Biomet buying LDR for \$1bn and Medtronic taking out HeartWare for slightly less. These are not scale plays, exactly, and they do bring in innovative tech, but they are not direction-changers.

Still, compared with the vast deals of last year, almost all of which were intra-segment consolidation, this is reassuring. It would not be a disaster if tuck-in technology-focused acquisitions take over from the headline-grabbers.

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