

## Acelity offloads Lifecell to Allergan for \$2.9bn



[Elizabeth Cairns](#)

In the first week of December Acelity pulled its IPO, and now it is clear why. The private equity-owned woundcare group has sold its Lifecell unit to Allergan for \$2.9bn in cash, allowing Allergan to add regenerative products to its reconstructive surgery and aesthetic lines, and setting Acelity up for further divestments or an outright trade sale.

The companies ought to be a reasonable strategic fit, with Lifecell's tissue matrix grafts fitting with Allergan's reconstructive breast surgery products, for example. There might also be savings on the staffing side as Allergan already has an aesthetics/plastic surgery sales force. But at around 6.4x sales the deal does not seem cheap, and Allergan's shareholders reacted with total indifference.

### One of three

Lifecell is one of three companies that make up Acelity, having been bought by KCI (itself formerly known as Kinetic Concepts) in 2008 for \$1.7bn. Five years later KCI bought the UK woundcare group Systagenix and renamed itself Acelity.

Lifecell specialises in aesthetics and is therefore a fitting acquisition for the company that makes Botox. It has around \$450m in annual sales, but according to *EvaluateMedTech's* consensus forecasts will grow slowly out to 2022.

It has three main products: the tissue matrices Alloderm and Strattice, used in post-mastectomy breast reconstruction and hernia and body wall defects respectively, and Revolve, a fat grafting product that enables breast reconstruction using the patient's own fat rather than an implant.

Alloderm, a human allograft tissue matrix, brings in around \$280m a year and Strattice, which is based on porcine tissue, around \$160m. By 2022 the two together are expected to sell \$467m.

### Allergan's and Acelity's medical aesthetics units

Company	Segment	EvaluateMedTech device classification	Global sales (\$m)		
			2016	2022	CAGR
Allergan	Breast Silicone Implants	Breast Prosthesis	313	378	+3%
Allergan	Other Plastic Surgery	Surgical Prosthetic Devices (unspecified)	50	99	+12%
Allergan	Dermal Fillers	Dermal Fillers	852	1,504	+10%
Allergan	Other Facial Aesthetics	Unclassified	1,217	2,243	+11%
Allergan	Medical Dermatology	Unclassified	647	1,131	+10%
		<i>Total Medical Aesthetics</i>	<i>3,079</i>	<i>5,356</i>	<i>+10%</i>
		<i>Total Allergan revenues (incl other medtech &amp; non-medtech)</i>	<i>15,064</i>	<i>22,150</i>	<i>+7%</i>
Acelity	Alloderm and Strattice	Surgical Mesh	414	467	+2%
Acelity	Cymetra	Surgical Mesh	2	1	-8%
Acelity	Graft Jacket	Advanced Wound Dressings	15	17	+2%
Acelity	Allocraft DBM	Bone Fillers	3	3	+4%
Acelity	Repliform	Other Urinary Incontinence Devices	9	10	+2%
		<i>Lifecell total</i>	<i>443</i>	<i>498</i>	<i>+2%</i>
		<i>Total Acelity revenues (incl other medtech)</i>	<i>1,904</i>	<i>2,137</i>	<i>+2%</i>

Source: EvaluateMedtech

But Strattice in particular faces headwinds, according to Evercore ISI analyst Umer Raffat, as the number of procedures using abdominal wall reconstruction products have declined in recent years, with surgeons choosing lower-cost synthetic alternatives for less complex procedures. That said, Strattice revenues have stabilised, and as a result Lifecell revenues are growing overall, albeit at a pace short of scorching.

Allergan ought to be able to wring savings out of the deal, however, and boost Lifecell's products' sales by bringing its infrastructure and global reach to bear on the unit. Analysts at Bernstein point out that Lifecell's gross and operating margins are 75% and 40% respectively, below Allergan's speciality business, but add that savings made could allow accretion of around 3% in 2017.

This is Allergan's 10th acquisition of 2016, and brings the amount it has spent this year to nearly \$6bn. It will need to see returns on these deals soon.

### Selling the parts

From Acelity's side the deal is not bad at all, though not as good as an outright sale. When the group announced plans to go public 18 months ago it was fairly clear that this was not the first choice of exit for its owners, the private equity company Apex Partners and the pension funds CPPIB and PSP Investments ([Acelity files to float, but is it secretly seeking a buyer?](#), August 28, 2015).

Breaking Acelity up and selling off the pieces is a better option than an IPO, it seems. Eyebrows were raised a couple of weeks ago when the offering was yanked – Acelity's claim that the market would not be receptive rang rather false given that Convatec, a similar company in many respects, had pulled off the biggest IPO in the sector's history a month or so earlier ([Mega float could push Convatec towards profit](#), October 26, 2016).

So what next for Acelity? The group is heavily indebted, with the \$1.7bn in 10.5% second-lien senior secured

notes due in 2018 and the \$610m 12.5% senior notes due in 2019 only the most urgent of its commitments.

The Lifecell divestment will presumably mitigate this. Perhaps the company is now looking at the products that came from the Systagenix acquisition to see if they too might appeal to a buyer. But the Lifecell unit was always slightly separate from Acelity's other products, and further slicing what is left arguably makes less sense.

Acelity's top priority is surely a sale, lock, stock and barrel. Unfortunately it is hard to see who might buy. In its current state Acelity is one of the largest wound-management companies, and few of the players in this space could pick up the remainder of the group without incurring the wrath of antitrust authorities.

The company must find a buyer that wants to get into this sector. Woundcare is a highly commoditised market and Acelity is slow-growing and laden with debt; this is, on the face of it, rather a tall order.

<b>Top five wound management companies in 2022</b>			
	<b>Global sales (\$m)</b>		
<b>Company</b>	<b>2016</b>	<b>2022</b>	<b>CAGR</b>
Johnson & Johnson	3,472	4,198	+3%
Coloplast	1,193	1,822	+7%
Smith & Nephew	1,275	1,716	+5%
Acelity	1,464	1,644	+2%
3M	1,231	1,550	+4%

*Source: EvaluateMedTech*

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