

Medtech M&A regresses to the mean in 2016

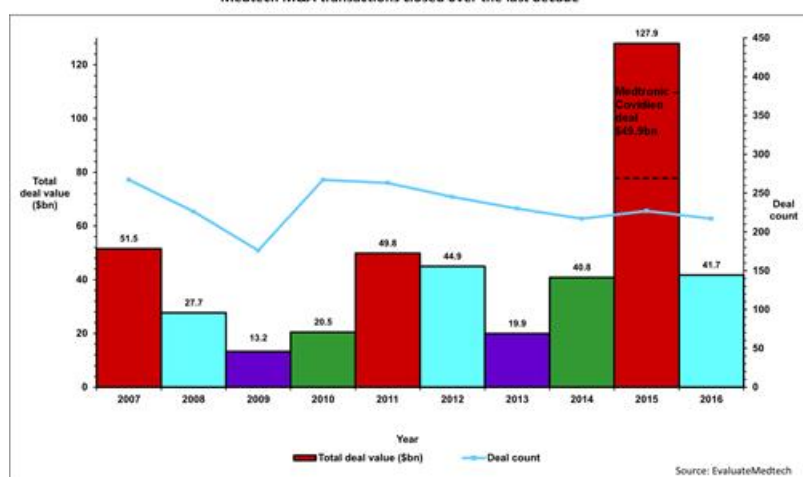


Elizabeth Cairns

When it comes to the consolidation of medtech companies 2016 is the new 2014. The two years saw the same number of M&A deals closed - 217 - and a very similar figure for their total value - \$41.8bn last year, versus \$40.8bn two years earlier.

This has the effect of making 2015 stand out all the more starkly, its total looking truly extraordinary at nearly \$130bn (see graph below). Several billion-dollar deals were closed last year, but all were relatively modestly priced: the largest was Canon's purchase of Toshiba's medtech division, at \$6bn.

Medtech M&A transactions closed over the last decade



This deal is unusual in that it is not an outright takeover. 2016 is notable for being the only year on record where the largest deal is the transfer of a subsidiary from one conglomerate to another.

Indeed the Canon-Toshiba deal is the largest business unit buy on record. It has transformed Canon's medical device business, which a year ago was dwarfed by Toshiba's in terms of revenue. Canon is now the fourth biggest seller of diagnostic imaging systems, behind Siemens, GE and Philips.

Many of the top 10 deals closed last year concerned companies staying in their lane. The dental sector has been consolidating for some years - Danaher bought Nobel Biocare in 2014 - and Dentsply clearly felt there was room for one more takeover.

Thermo Fisher's purchase of the electron microscope maker FEI enabled it to acquire technology it did not already have, but it was certainly not a leftfield move, meshing as it did with Thermo Fisher's mass spectroscopy machines for protein analysis. However, at the time Wells Fargo analysts suggested that the main rationale for the deal was financial engineering - specifically exploiting tax advantages.

Thermo's other deal, for the genomics analysis specialist Affymetrix, also allows the integration of similar technologies, in this case genomic sequencing and diagnostic products as well as service provision.

Top 10 deals closed in 2016

Acquirer	Target	Value (\$bn)	EP Vantage coverage
Canon	Toshiba Medical Systems, medical technology business of Toshiba	6.0	If anyone can? Canon bids most for Toshiba
Dentsply Sirona	Sirona Dental Systems	5.5	Another dental megamerger
Thermo Fisher Scientific	FEI	4.2	-
Danaher	Cepheid	4.0	Danaher strikes again with Cepheid buy
Stryker	Sage Products	2.8	Stryker flips from ortho to hospital
Thermo Fisher Scientific	Affymetrix	1.3	Thermo kicks off 2016's megamerger
Stryker	Physio-Control	1.3	Stryker to enter top five
Panasonic	Diabetes Care business of Bayer	1.1	Unit buys are the way to go
Zimmer Biomet	LDR	1.1	Zimmer Biomet shows some backbone
Medtronic	Heartware	1.0	Medtronic takes HeartWare

The story is very different with Stryker, the other company to have two deals in the top 10. Stryker went on an M&A binge in 2016, closing seven deals – six of them in April. Its two biggest acquisitions were emphatically not cases of staying in its specialism. Instead they moved the company from its orthopaedic heartland into the hospital supply sector, enabling it to sell disposables and accessories that provide recurring revenues rather than the one-off equipment sales yielded by Stryker's ortho products.

Stryker made a noble attempt, but the prize for 2016's most acquisitive company goes to Zimmer Biomet, with eight takeovers to its name. Most of these are somewhat opaque, with figures attached to only two: the generous-looking billion-bucks takeout of an unprofitable spinal implant developer, LDR; and its acquisition of a 59% stake in the confusingly named surgical robotics outfit Medtech for \$77.5m ([Zimmer Biomet becomes the latest ortho to go robotic, July 19, 2016](#)).

Zimmer Biomet's 2016 takeouts

Completion Date	Target	Value (\$m)	Sector(s)
July 13	LDR	1,082	Orthopaedics
July 18	Medtech*	78	General & plastic surgery; urology
March 01	Ortho Transmission	-	Orthopaedics
May 16	Cayenne Medical	-	Endoscopy; general & plastic surgery; orthopaedics; wound management
June 8	Compression Therapy Concepts	-	Cardiology; physical medicine
August 15	CD Diagnostics	-	In vitro diagnostics; orthopaedics
September 15	Clinical Graphics	-	Diagnostic imaging
October 27	Respondwell	-	Healthcare IT

*Majority stake

Back up

If the total value of M&As has dropped significantly from last year the number of deals has remained remarkably constant. Any hope that this represents a return to tech-focused tuck-ins is challenged by a look at the average deal sizes, calculated using only those acquisitions with disclosed values.

Average deal sizes			
Year	Value (\$bn)	No of deals with known value	Average deal size (\$m)
2016	41.7	95	439
2015	127.9	110	1,163
2015 (excluding Medtronic-Covidien)	78.0	109	716
2014	40.8	110	371
2013	19.9	102	195
2012	44.9	123	365
2011	49.8	129	386
2010	20.5	129	159
2009	13.2	85	156
2008	27.7	108	256
2007	51.5	155	332

At \$439m, and without any deals in the tens of millions of dollars, this number suggests that most of the M&As contracted last year were mid-size, with relatively few cases of larger groups buying in tech from start-ups.

One thing is sure: 2017 will see the total value of mergers closed pick up once more. Deals worth around \$20bn in total are already on the books and expected to close in the coming year, and of course the Abbott-St. Jude mega deal closed this month, taking 2017's likely total to around \$45bn – more than 2016's sum, and the year is not yet a month old.

To contact the writer of this story email Elizabeth Cairns in London at elizabethc@epvantage.com or follow [@LizEPVantage](https://twitter.com/LizEPVantage) on Twitter