

# M&A FOCUS: HEALTHCARE

# HEALTHCARE:

## Understanding the M&A market in 2017

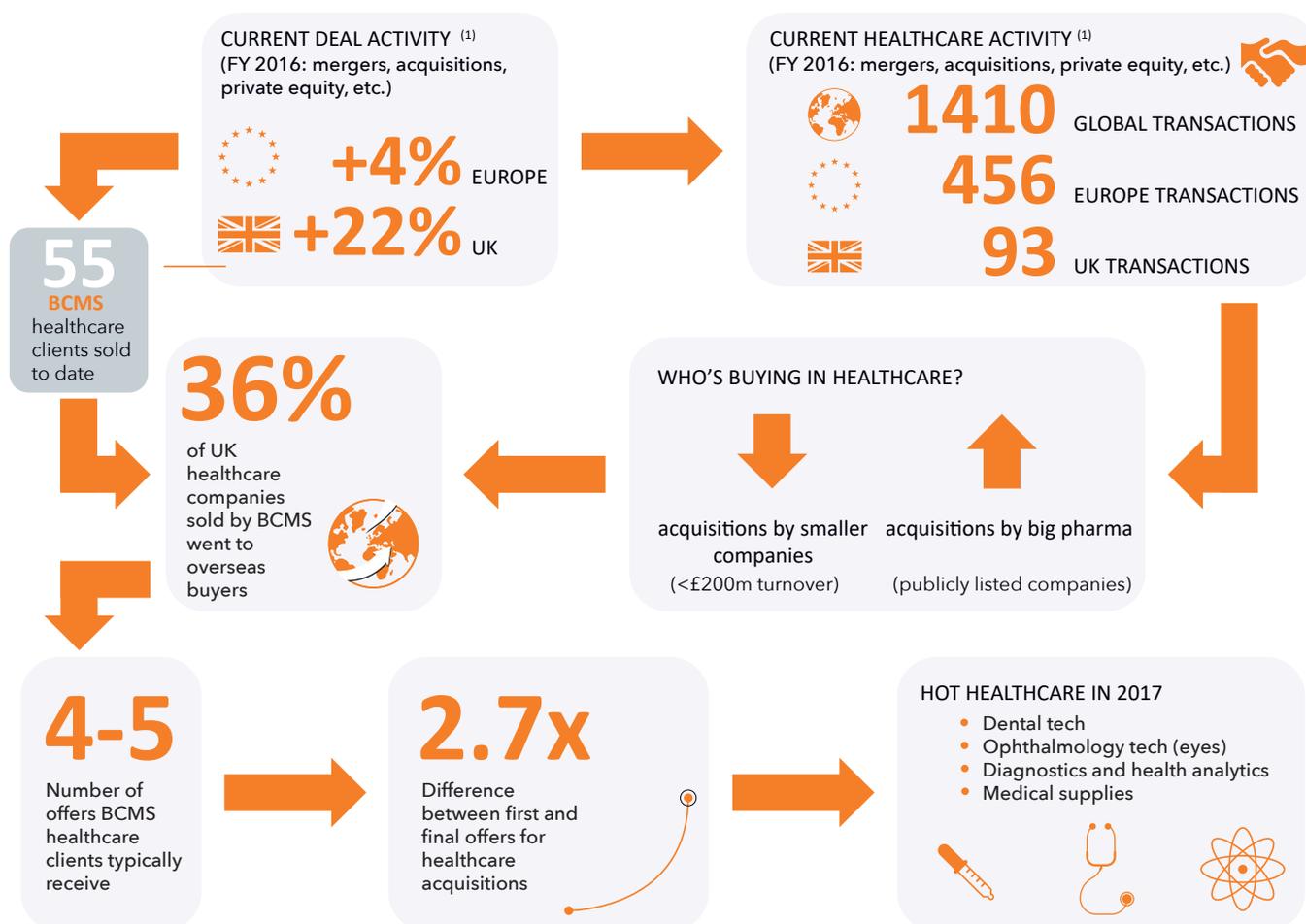


### A THRIVING, DYNAMIC MARKETPLACE

The healthcare and pharmaceutical sector has been one of the most thriving and dynamic areas of activity from an M&A perspective in the past two years. With an estimated \$67bn of biosimilar patents expiring before 2020<sup>(1)</sup>, biotech companies have been attracting a huge amount of interest from big pharma. The emergence of medical technology is being seen as a strong investment opportunity by private equity, but also by trade buyers who are keen to expand into this sector – but lack the internal expertise to fully develop it.

With people living longer, the demands made on the medical and healthcare profession are becoming greater. Companies with expertise in remote monitoring, prosthetic limbs or other specialist medical services, for example, are noting an uptick in corporate activity. Here at BCMS, we have noted a real increase in the amount of activity in these areas in some of our recent completed transactions. Schauenburg International GmbH recently took a stake in pharmaceutical automation company, Astech Projects Ltd; H2 Equity Partners PV invested in medical device manufacturer, GBUK Ltd; and Drive Medical plc acquired support products manufacturer, Specialised Orthotics Services (SOS).

We expect to see the sector continue to thrive in the near to medium term. Financing costs remain low, and both big pharma and private equity have cash they are waiting to invest.



## THE HEALTHCARE SECTOR IS SEEING RECORD LEVELS OF M&A

Overall activity within the healthcare sector hit a record \$724bn in 2015 according to analysis by the Financial Times – up 66% on 2014. The deal “boom” was stimulated by healthcare businesses resuming an M&A focus during the year, after a hiatus caused cash to build up on balance sheets, coupled with valuations becoming more attractive.

### 2017 is set to be another strong year for pharma M&A – and companies are actively pursuing deals

The presidential election caused a further hiatus within the US deal-making market in 2016, but there is predicted to be a surge this year. Drugs pricing is currently very weak due to domestic pressures and multiple federal investigations<sup>(2)</sup>, while low valuations and a tax-friendly

political climate in the US is likely to stimulate deal making. Domestic deals within the US are likely to be pushed by President Trump’s administration, although overseas/cross-border acquisitions made by US firms might be muted, as restrictions may be placed on outbound M&A.

### Smaller companies are said to be “back on the radar” for M&A

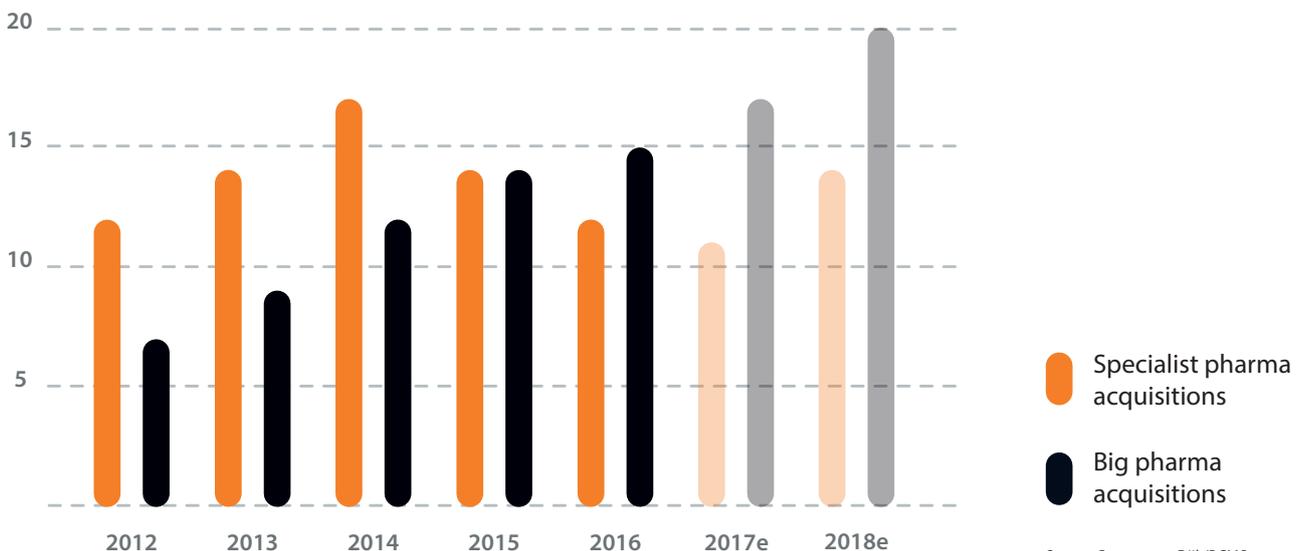
Speciality pharma has been driving deal making over recent years, preferring to grow by acquisition rather than via organic expansion. The downfall of Valeant<sup>(3)</sup> due to an investigation of “price gouging” has largely put a stop to this practice – Valeant had grown almost entirely by acquiring pharmaceutical companies and/or their drugs and incorporating them into its sales and supply chain. However, for 2017, analysts are predicting that big pharma will restart M&A and will be looking to buy smaller, innovative companies while financing costs remain low and the willingness to spend cash remains strong.

“Big pharma firms are looking to buy smaller, innovative companies while financing costs remain low and the willingness to spend cash remains strong”



## TRENDS: DEAL MAKING DATA IN UK HEALTHCARE

As the chart below shows, the volume of specialty pharma acquisitions has decreased over recent years. The number of acquisitions of UK companies by specialty pharmaceutical/healthcare companies with turnover up to £200m is expected to fall in 2017 and 2018. However, acquisition activity from big pharma – listed pharmaceutical/healthcare companies – is once again on the increase, driven by the desire to purchase smaller, innovation heavy companies.



## KEY SECTOR: MEDICAL DEVICES

The medical device sector is one where BCMS has noted significant deal activity over time, and 2016 saw a record number of deals within the sector. While major pharma and biotech companies are able to develop some drugs and products through internal innovation, the desire to stay ahead of the curve in the fast moving field of medical technology means medtech companies will continue to be courted by both trade acquirers and private equity.

In early 2017, we also saw Swedish industrial group, Indutrade – via its subsidiary ESI – acquire BCMS client, Sunflower Medical Ltd. Stockholm-listed Indutrade has grown through acquisition, and the transaction has secured the business its first foothold in the UK medical devices market. ESI CEO Morgan O'Brien articulated the motives for acquisition: "Sunflower Medical is a fast-growing and well-managed company, and so will fit in with our portfolio very well. We're excited to have made our debut acquisition in healthcare, and we will be helping the management team develop its international footprint in the near future."

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## BCMS AND HEALTHCARE: AT A GLANCE

4-5

Healthcare and pharmaceutical companies sold by BCMS attract competing bids from an average of 4.7 companies/organisations. Medical device companies are seeing the most interest, attracting bids from 5-6 parties on average.

2.7x

Within the healthcare sector, the average offer accepted is typically 2.7 times higher than the value of the first offer received. Innovative healthcare companies (such as some specialist biotech companies and medtech businesses) have been sold for over 10 times the initial offer.

36%

Over a third (36%) of UK healthcare companies sold by BCMS were acquired by overseas buyers. Of these cross-border deals, 46% were to companies within the United States. With patent expiries looming, biotech companies remain particularly attractive to US buyers.

### Sources

1. US\$67 billion worth of biosimilar patents expiring before 2020, Generics and Biosimilars Initiative <http://www.gabionline.net/Biosimilars/General/US-67-billion-worth-of-biosimilar-patents-expiring-before-2020>
2. Sweeping drug-pricing investigation pulls in East Bay company, San Francisco Business Times: <http://www.bizjournals.com/sanfrancisco/news/2016/11/04/drug-price-investigation-impax-ixl-bernie-sanders.html>
3. Valeant: The Harder they fall, Financial Times: <https://www.ft.com/content/dbc52fa8-f0d6-11e5-9f20-c3a047354386>

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Tel: 0118 207 9800 | Email: [info@bcms.com](mailto:info@bcms.com) | [www.bcms.co.uk](http://www.bcms.co.uk)

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