M&A fuels the Medtech sector

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Singapore: Mergers and acquisitions in the medical device sector in 2014 touched the peak in terms of value when medtech giant, Medtronic, acquired Irish firm Covidien at a whopping $42.9 billion in cash. In fact, the year witnessed some of major significant deals in the medtech space, majority of them initiated by US and Europe-based multinational firms, with an objective to expand market presence, capitalize on the market or to acquire upcoming technologies that would milk cash in the future.

Experts acknowledge that the pharmaceutical industry is in a phase where patents are on the verge of expiry and the novel drug pipeline is getting narrow, indicating drying up cash status of the companies. In such a scenario, it seems that the medical device sector is the next bet to ensure easy return of investment and high profitability.

Ernst and Young highlights that in the 12-month period ending June 2014, the total value of M&A involving a US or European medical technology company jumped by 135 percent to $85.6 billion, reaching a five-year high, majority of surge credited to Medtronic-Covidien deal. Excluding the megadeal, cash spent on medtech acquisition deals increased by 28 percent to $29.3 billion from June 2013 to June 2014.

PwC reports that M&A volume in the pharmaceutical and lifescience sector increased by 53.1 percent in the first quarter of 2014 and within the industry, medical device manufacturers were more active in shaking hands with 19 total deals in the first quarter of the year itself.

Medical device industry witnessed an all-time record high in terms of deal valuations in 2014, with a total of 96 mergers and acquisitions announced, representing an increase of 18.5 percent from 2013, stated analysis firm, GlobalData.

Jumping into the bandwagon, global biopharmaceutical company, Abbott, recently acquired private, venture-backed medical device company, Topera, developer of electrophysiology technologies to improve the diagnosis and treatment of atrial fibrillation, at $250 million.

Philips, to expand its healthcare product profile, acquired the US medical device maker Volcano at $1.2 billion to cash in on healthcare devices for aging population. Merz, a global pharmaceutical company in medical and aesthetic dermatology and neurological movement disorders, acquired Ulthera at $600 million, to capitalize the dermatology market.
Ms Niharika Midha, analyst at GlobalData mentioned that the unusually high amount of M&A activity in 2014 highlights a trend that goes beyond mega-mergers and into the expansion of product portfolios.

She remarked, "A considerable number of deals in 2014 involved larger companies swallowing up smaller ones with novel technologies that were clinically proven to be superior to existing devices. This definitely sets the tone for the coming year, as the medical device industry consolidates into fewer prominent players that directly compete with each other and innovation is fueled by heightened demand."

What is driving M&A in medtech sector?
Global firm, Stryker, in a bid to emerge as a medtech giant has been on acquisition spree in last couple of years. In 2013, the company acquired MAKO Surgical to add advanced robotic arm technology in its profile. To gain an edge in hip-and-knee replacement market, Stryker, in 2014, completed acquisitions of US based Pivot Medical and later closed acquisition deal with Berchtold, a surgical equipment company.

Are MNCs spending too much on medtech sector? Is there a need to invest in Asia medtech sector tailored to local requirements and what are the opportunity for emerging Asian companies developing medical devices?

Mr Hareesh Nair, partner at Singapore-based Quadria Capital nods that acquisitions are up in the medical device sector and the main motives of acquisition are access to distribution channel, entering regulated market, acquiring market technology and investing in core capabilities.

"Acquisitions strengthens a company to enter into new market. For instance, China is a controlled market and if a company based in US wants to make visibility in china market, acquiring or partnering with a Chinese firm is the viable option. Similar to pharmaceutical sector where MNcs acquired emerging companies for their potential new drugs, medtech firms gets access to early stage technology for medical devices," he commented.

Mr Viren Mahurkar, managing partner, Hitchinrock Advisors, Singapore, highlighted that challenge in Asia is that all medtech and pharmaceutical companies are looking for assets to grow their business but there is not more than six companies with more than billion dollar revenue across China and India. Even the companies that exist are primarily distributors. Therefore, acquisition in Asia would primarily open the access to regionalmarket."

Commenting on the bidder's strategy to churn profit through acquisitions, Mr Mahurkar shared his perspective that when Abbott acquired Piramal Healthcare, its stock prices jumped high. So acquisition could be termed as a market capitalization strategy. But when Pfizer bought Wyeth, its shares went low. This indicates that while companies may be putting large sum of money on a profit oriented deal but it may not justify the return of investment.

Medtech opportunity in Asia
Industry experts suggest that there is a tremendous opportunity of growth happening in Southeast Asia and that would open the platform for partnership in medical device industry. However, the model would have to be different and very much localized as per the market here.

When Medtronic acquired China Kanghui Holdings at $816 million in 2012 and Stryker acquired Hong Kong based Trauson in 2013, both MNCs targeted at expanding their direct presence in China in orthopedics product portfolio.
There were five China-based acquisition deals in medtech sector in 2013-14 and India made 16 deals in the same period, both countries remaining the top choices for market expansion in Asia.

Taking on the partnership model, Medtronic collaborated with India's Apollo Hospitals by investing $24 million in research, development and manufacturing in India and Roche has announced to set up a new diagnostics equipment manufacturing facility in China to develop equipment and kits for clinical laboratory testing.

Merger and acquisition in Asia will have its own challenges and the size and value could be smaller but MNCs seeking distribution network, market access, and localized product for regional market would need to develop and sell products that meet the clinical practices of region, through acquisition or partnership.