

## DEAL DOCTORS WITHOUT BORDERS

BY SHAHAB FATHEAZAM, LINCOLN INTERNATIONAL

Two large healthcare acquisitions recently made headlines, the \$20.1 billion acquisition of U.S.-based Genzyme Corp. by France-based Sanofi-Aventis SA and U.S.-based Abbott Laboratories' acquisition of India-based Piramal Healthcare Ltd.'s Healthcare Solutions. It's expected that in 2011 global M&A activity should total more than \$3 trillion, with about half initiated by emerging markets. This applies to many sectors, but it is deep-rooted in healthcare. During the past decade, the number, size, geographic diversity, complexity and reasons for healthcare cross-border M&A activity have increased in a meaningful and profound way.

In the first quarter of 2011, pharma and medtech cross-border transactions numbered seventh in value among the top 15 sectors. And it's not only large players that are active in this space, as the majority of cross-border M&A healthcare deals are under \$500 million.

The growing prevalence of cross-border M&A healthcare transactions is due to the increase in size and sophistication of foreign capital sources. Among the eight largest stock exchanges outside the U.S., there were 71 healthcare initial public offerings in 2010 and 322 M&A transactions where the buyer or seller came from Japan, the U.K., China, Hong Kong, Canada, India, Brazil or Australia. At the same time, nearly half of all healthcare companies in the BRIC countries of Brazil, Russia, India and China are considering global M&A activity in 2011.

U.S. private equity groups are increasingly going global and recognizing the resilience of the healthcare market, which is another factor fueling cross-border deal activity. Their global healthcare investment activity went from six transactions in 2009 to 16 in 2010. In the first quarter of 2011, investment activity reached 38 transactions, valued at approximately \$8.5 billion. Over the past five years, multiples for middle-market transactions went from 12 times EBITDA to 14 times EBITDA. In the U.S., the size of cross-border transactions keeps pace with domestic transactions; average healthcare deals were approximately \$450 million for both domestic and cross-border activity in 2010.

Three countries in particular are emphasizing healthcare cross-border transactions: Japan, China and India. They are beginning to lean toward this sector and away from pure technology. Companies in these countries want access to consumers in the West and

East, which drives the interest in cross-border activity. A recent Bloomberg News survey predicts that Asia will have the most active buyers and the most attractive acquisition targets. This builds on 2010's activity, when 8,700 deals were completed in the Asia-Pacific region, second only to North America.

India has emerged as a successful cross-border M&A country where healthcare is an important part of the pie. Its healthy domestic stock market gives India the backbone and confidence necessary to venture overseas. The Bombay Stock Exchange closed in 2010 with a respectable 17% gain from 2009. During this period, \$51 billion in non-private-equity-group deals were completed. The number of deals totaled 651, of which 286 were cross-border, most outbound from India.

Healthcare deals accounted for 30% of the cross-border market in India last year, the largest segment after the financial sector. Strong Indian balance sheets, the easing of rules around the Foreign Direct Investment framework, the desire of Western healthcare companies to have access to new markets and the growing generic pharmaceutical industry all fuel the two-way M&A market in India. When Abbott announced its acquisition of the Piramal unit, it positioned itself to be a player in India's \$8 billion pharmaceutical market. By 2020, Abbott expects its sales in India to reach more than \$2 billion. For this growth, Abbott paid more than \$2 billion up front, and \$400 million in milestone payments over four years.

At the start of 2011, Japanese Prime Minister Naoto Kan proclaimed that this year will be the "third opening of Japan," giving a nod to the transforming periods in its history. One part of this development is the series of "in-out" and "out-in" M&A deals, many in healthcare. From 2007 to the present, 19 healthcare acquisitions were made by Japanese acquirers in outside markets, the largest being the 2008 \$9 billion acquisition of U.S.-based Millennium Pharmaceuticals by Japan's Takeda Pharmaceutical Co. Ltd.

The strength of the yen is a big factor in Japan's success, but there are other factors driving this trend. The aging Japanese population and the maturity of postwar Japanese industry have slowed growth to an alarming level, especially when compared to the growth in India and China. Thinking strategically, many Japanese companies are "going global" through acquisitions, expanding their markets and buying management, know-how, distribution and platforms.

Sekisui Medical Co. Ltd.'s acquisition of U.S.-based Genzyme's diagnostics business is a telling example; through the \$265 million transaction (the largest healthcare deal from Japan in 2010), Sekisui gained products, research and development, and a platform in the U.S. market.

Japanese healthcare companies will also be stepping up their non-U.S. acquisitions as evidenced by Daiichi Sankyo Co. Ltd.'s deal for India-based Ranbaxy in 2009, as well as the dozens of acquisitions being made in China and India by Japanese nonpharma healthcare companies.

Finally, China, an overanalyzed, frenzied and not well-understood market, is also a big player in this space, fueled by the country's strong currency and the government's encouragement of cross-border transactions. Healthcare is a priority in China, including pharma, diagnostics, medical technology and services. Over the past three to four years, the Chinese have pledged upward of \$126 billion toward the healthcare industry.

While restrictions are being lifted for Chinese companies to buy abroad, the domestic stock market is also being primed for cross-border activity and is the high-multiple option for the Chinese as U.S. listings have proved disappointing, causing many companies to delist. The number of foreign skilled workers in China has rocketed to high levels, mostly in the handful of industries prioritized by the state, including healthcare. This wealth of talent also acts as a conductor for foreign acquisitions.

The role of the Chinese state in fanning cross-border transactions is more centralized and less market-driven than that of its Asian

neighbors, but its laserlike focus on this mission gives a particular impetus to this trend. Another sign is that J.P. Morgan Chase & Co.'s storied healthcare conference in January had a "China track" with more than 15 presenting companies. In 2009, 21 M&A deals were launched in the U.S. by Chinese companies; that number increased to 32 in 2010.

On the U.S. side, globalization is more than a cliché. This is the last frontier for smaller companies to expand and compete more effectively with their larger counterparts. One CEO of a midsized U.S. diagnostics company told me recently that the desire to be current and on top of international growth opportunities is what keeps him up at night. Failing globally is the new "not keeping up with the Joneses," which means we can expect cross-border M&A activity to continue to climb.

To fully leverage the growing cross-border market opportunities, U.S. advisers would benefit from increasing their knowledge of the various business customs and cultures around the world. The concept of "one size fits all," U.S.-style auction is past. U.S. companies must follow different rules and customs to effectively work with foreign companies. Even companies in the U.K., a country with similar customs to the U.S., tend to have their own preferences for acquiring companies and a low opinion of the U.S. style. Understanding the many global business rules and customs is imperative to assist a client's expansion in the thriving global market, be it in healthcare or other burgeoning industries.

*Shahab Fatheazam is a Managing Director and head of the health-care group at Lincoln International.*

AS FEATURED ON



TheDeal.com (ISSN 1547-7584) is published by The Deal LLC.  
© Copyright 2011 The Deal LLC. The Copyright Act of 1976 prohibits the reproduction by any means of any portion of this publication except with the permission of the publisher.

WWW.THEDEAL.COM