WARWICK M&A GROUP

Healthcare

Sector Report



Oct 2022
Issue #7

Johnson & Johnson's acquisition of Abiomed

CVS' $8bn Acquisition of Signify Health

M&A achieves product diversification

Higher deal values keep Healthcare activity slightly above 2021 Q3 levels

October in Numbers

$19.57bn	9	$3.09bn
Total deal value (Jan 2022)	No of deals closed	Average deal value
+9% (YoY)	*-3(YoY)*	*+6% (YoY)*

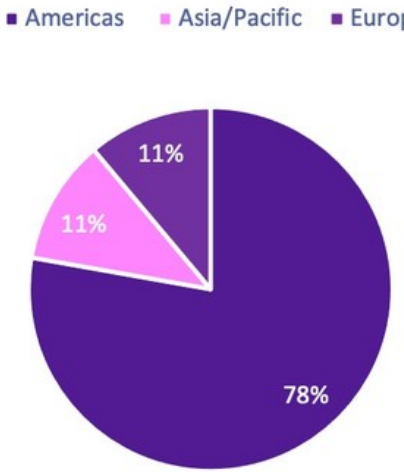
Average TEV/Revenue:	9.4x	**Average Day Prior Premium:**	26.8%
Average TEV/EBITDA:	24.0x	**Average Week Prior Premium:**	19.0%%
Average TEV/EBITDA:	24.0x	**Average Month Prior Premium:**	13.4%



Sectoral insight

- The market for mergers and acquisitions in the healthcare industry appears to be in flux. After a slow start to 2022, revenue from healthcare M&A activity in the second quarter of 2022 hit a record high of $19.2 billion. KPMG reports that technology plays a major role in these deals and states that many firms are focused on acquiring digital capabilities, such as digital care and cloud-based platforms.
- Healthcare merger and acquisition activity was low in the third quarter of 2022, with just ten transactions generating $8.3 billion in revenue - however, the trends were consistent with merger and acquisition activity running below pre-pandemic levels. In addition, the number of transactions and revenue volumes were up compared to Q3 2021, despite overall market performance that has seen significant reduction in M&A activity throughout the year.

Deal count by region



Johnson & Johnson's acquisition of Abiomed

Acquirer: Johnson & Johnson

Johnson and Johnson is the world's largest healthcare company with an incredibly diversified portfolio and global presence.

With a strong focus on medical devices, pharmaceuticals and new consumer health spinoff, building its own COVID-19 vaccine during the pandemic generated record cash flow for the company.

Market Cap:	$442.5bn
Net Debt:	$2.5bn
LTM Revenue:	$96.04bn
EV/ LTM EBITDA	13.6x

Target: Abiomed

Abiomed is a medical devices company responsible for the development, manufacturing and marketing of circulatory and oxygenation support devices. Its groundbreaking technology is focused on heart, lung and kidney assistance. Not only is Abiomed a world leader in cardiovascular medical technology with a one-of-a-kind portfolio for the treatment of coronary heart disease and heart failure, it has an 18 year track record of profitable growth.

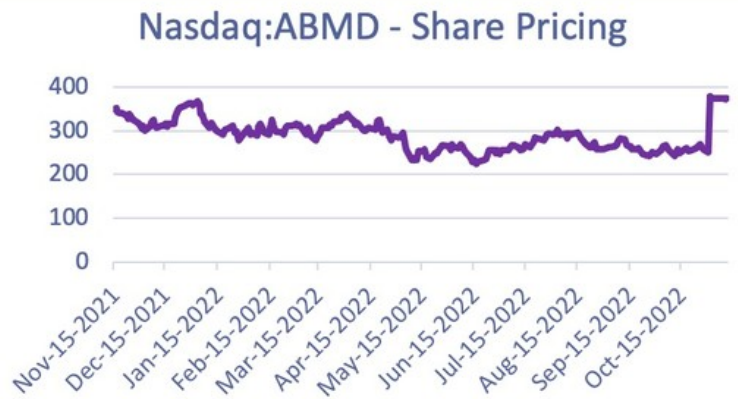
Market Cap:	$16.87bn
Net Debt:	$6.7bn
LTM Revenue:	$1.07bn
EV/ LTM EBITDA	58.1x

[1]above closing price on 14th Jan 2022

Transaction Summary

- On November 1st 2022, Johnson & Johnson will acquire through a tender offer all outstanding shares of Abiomed, for an upfront payment of $380.00 per share in cash.
- Following the announcement, Abiomed's stock rose by 52.21%. However, J&J's stock fell by 0.3% despite J&J being cash-rich. This deal is debt-financed hence indicating investor uncertainty in the face of the economic climate in the US.

Abiomed's Stock Spike following the announcement



Announcement date:	1st November 2022
Offer per share:	$380
Transaction value:	$16.6 bn
Implied Premium:	50.7% [1]
Acquirer adviser(s):	J.P Morgan Chase
Target adviser(s):	Goldman Sachs

The acquisition will expand J&J's product pipeline

Rationale and Outlook

- By acquisition of Abiomed, this deal *aims to expand* J&J's cardiovascular portfolio, significantly complimenting its Biosense Webster electrophysiology business. This is J&J's biggest acquisition in six years, hence broadening its MedTech position as a growing cardiovascular innovator, advancing the standard of care in heart failure and recovery.

- Increased diversification for J&J's portfolio has the added advantage of boosting revenues and outreach through their shared customer base. J&J's CEO has specifically mentioned its new approach for execution of their strategic priorities as aggressive medtech mergers and acquisitions.

- J&J predicts slightly dilutive EPS in the first year, post which the EPS is expected to be accretive. With the Russia-Ukraine conflict and tightening monetary policy by Central Banks, transactions have slowed down hence, given these conditions this deal does face imminent risks.

- Abiomed Inc.'s Impella heart pumps have received the only US FDA approvals for treating patients with severe coronary artery disease. Thus the addition of Abiomed would prove to drive solutions for one of healthcare's highest unmet needs through J&J's well-funded research and development department.

- While the BOD of both companies have approved the transaction, it will need regulatory approval and is additionally conditioned on the tender of a majority of the outstanding shares of Abiomed's common stock.

Expanded pipeline



Abiomed will significantly expand J&J's medicine pipeline.

CVS' $8bn Acquisition of Signify Health

Acquirer: CVS

CVS Health is America's largest drugstore chains, providing integrated healthcare services. The company operates retail specialty pharmacy stores and special mail order pharmacies. CVS Health has over 9,900 retail pharmacies and 90 million plan members. The company offers prescription medications, health care products, beauty products, personal care products, and cosmetics. It also offers pharmacy benefit management services, disease management and related services, and administrative services, Medicaid health care management services.

Market Cap:	$127.7bn
Net Debt:	-
LTM Revenue:	$306.9bn
EV/ LTM EBITDA	-9.75x

Target: Signify Health

Signify Health, Inc. operates a healthcare platform that utilises analytics, technology and healthcare provider networks in the US. Through their Home & Community Services segment, they provide health evaluations at patient's homes or healthcare provider facilities, alongside running diagnostic screenings and other ancillary services. They also work to enhance healthcare delivery through their development of episodic payment programs under their Episodes of Care Services segment.

Market Cap:	$8.556bn
Net Debt:	-
LTM Revenue:	$843.4mn
EV/ LTM EBITDA	56.7x

Transaction Summary

The deal is one of the first moves under CVS's strategy of expanding its healthcare services business and it will enable the company to accelerate growth of its value-based care programs. It comes as competitors such as UnitedHealth Group, Amazon and Walgreens have been further moving into the healthcare sector, signalling consolidation.

Following the announcement, the US Department of Justice has requested for additional information around the deal, indicating that CVS could potentially face a tough antitrust investigation rather than a quick approval. The transaction is expected to close in H1 2023.



Announcement date:	5th September 2022
Offer per share:	$30.50
Transaction value:	$8bn
Implied Premium:	6%
Acquirer adviser(s):	Bank of America
Target adviser(s):	Goldman Sachs, Deutsche Bank

CVS's strategy towards in value-based care

Rationale and Outlook

- The global healthcare industry is expected to grow at a CAGR of 8.4% to reach a size of $6 trillion in 5 years. The acquisition of Signify will aid CVS' growth by enabling the business to break into the at-home, value-based healthcare sector.
- Another key motivation for the deal stems from Signify's expansive and innovative proprietary analytics and technology solutions, which CVS will look to rapidly fold into its own data analytics and actuarial services programme as part of its insurance division, Aetna.
- One of the main concerns surrounding the acquisition comes from the high likelihood of a full-scale Department of Justice antitrust review. CVS' direct competitor, UnitedHealth Group, controversially completed their acquisition of Change Healthcare for $13 billion, after months of antitrust scrutiny.
- Nonetheless, given that affordable healthcare is a key deliverable of Biden and the Democratic party, it is unlikely that the DOJ will let another takeover of this size slip through the net.
- Concerns are also being raised about the potential impact on patient care, with clinicians being forced to give internal referrals instead of having the liberty to do so externally. This is of particular importance given the at-home nature of the care Signify offers with their clientele as well as their overall demographic.

CVS portfolio composition



We selected 4 deals with potentially biggest impact on the industry

September 8th, 2022 — **$122mn**

Cochlear™

Reached an agreement on the acquisition of:

oticon MEDICAL

Stage of the deal: ○ ○ ● ○ ○ **Chances of success:** **Closed**

Comment: The acquisition will provide Cochlear with greater scale and will enable them to increase investments in R&D and market growth activities, as well as diversify into the hearing loss segment.

Oticon Medical is expected to add $50-55 million to annual revenue. Cochlear's priority post-closing of the transaction will be to return the business to profitability as quickly as possible. Cochlear targets a long-term net profit margin of 18%.

October 11th, 2022 — **$392mn**

Walgreens

Reached an agreement acquire the remaining 45% stake of:

carecentrix

Stage of the deal: ○ ○ ● ○ ○ **Chances of success:** **Medium**

Comment: The deal accelerates WBA's transformation to become a consumer-centric healthcare company, leveraging innovative platforms that extend their capabilities into fast-growing segments of healthcare.

Allows WBA to offer services to patients at every stage of the care continuum CareCentrix delivered pro forma sales of $1.5 billion, and can provide long-term, sustainable growth to WBA.

July 25th, 2022 — **$491mn**

New Amsterdam Pharma

Reached an agreement to merge with:

FRAZIER LIFE SCIENCES

Stage of the deal: ○ ○ ○ ○ ○ **Chances of success:** **Low**

Comment: The SPAC transaction to bring pro forma cash balance to at least $470 million providing the necessary capital fund the business through 2026 and beyond. Allows NewAmsterdam Pharma to develop more Phase 3 drugs, including obicetrapib, a drug to combat cardiovascular disease.

The goal is to market obicetrapib in the United States, Europe, Japan and China, to improve revenue growth.

September 8th, 2022 — **$244mn**

DCC

Reached an agreement on the acquisition of:

Medi-Globe® A MEDI-GLOBE COMPANY

Stage of the deal: ○ ○ ● ○ ○ **Chances of success:** **High**

Comment: The synergistic acquisition of Medi-Globe would significantly expand DCC Vital's position in the medical devices sector and would add nearly $120.5m (€120m) in revenues.

It would create a leading international platform in single-use medical devices for minimally invasive procedures, with strong product development capability. The acquisition is consistent with DCC's ambition to scale operations in these higher growth sectors.

Glossary

Accretive Acquisition: An accretive acquisition increases the acquiring company's earnings per share (EPS). Accretive acquisitions tend to be favorable for the company's market price because the price paid by the acquiring firm is lower than the boost that the new acquisition is expected to provide to the acquiring company's EPS.

The Team



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