



Buying and selling companies in the Healthcare, Pharmaceutical & Biotech Sectors

A step-by-step guide to finding the deal
that's right for you.



Healthcare, Pharmaceutical, and Biotech Sector



Executive Summary

The value of this guide

For over 40 years CDI Global has advised companies on mergers and acquisitions (M&A). Our team of experts have extensive knowledge of the healthcare, pharmaceutical, and biotech sectors, and understand the prime importance of making informed choices in these complex global industries. This guide aims to explore these benefits and pitfalls and demonstrate that with the right expertise, there are deals to be made that can greatly benefit your business.

Who is it for?

This guide is intended both for companies throughout the healthcare and life sciences sector and those seeking investment opportunities, such as private equity firms. It should also be particularly useful to senior executives and owners of smaller to middle market companies who would like to know more about potential M&A in these sectors, whether or not they are ready to make a move. For those who have never considered acquiring or divesting, we hope this guide will provide a fresh perspective.

Key takeaways

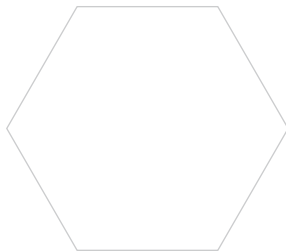
- The state of the Healthcare sector M&A market
- The benefits of buying or selling
- M&A – the promises and pitfalls
- Buying alternatives: Auctions
- Case study of one cross border transaction



Get an experienced perspective on your healthcare sector ambitions.

CDI Global works with businesses throughout the world to achieve the very best M&A outcomes. If you are considering buying or selling in the sector, or would simply like to discuss your options, sign up now for a free, no-obligation consultation with our healthcare experts by phone or Skype™.

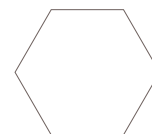
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Why buy or sell in the healthcare and life sciences sector?

Healthcare, Pharmaceutical, and Biotech are continually evolving and expanding industries as sector stakeholders around the globe are looking for new and more economical ways to deliver technology centric, or “smart,” patient-driven healthcare solutions. New entrants from outside the traditional scope of healthcare sector are redefining the global market and providing new opportunities in the industry. New business models, affordable healthcare options, wellness and fitness offshoots, and consumer acumen, are some of the ways these new business savvy players are addressing challenges in the industry and creating new opportunities by expanding the field.





The State of the Healthcare, Pharmaceutical, and Biotech Sector M&A Market.

Across economies, the entities that pay for healthcare—namely governments, insurers, employers and consumers—are pressuring providers, drugmakers, and medtech companies to stem the endless rise in costs. At the same time, investors accustomed to robust returns from healthcare companies are pushing for continued top and bottom-line growth.

Biopharma: Poised for sustained levels of activity as investors reward top-line growth. Pharma companies continued to use M&A to expand their R&D pipelines in therapeutic areas where they have expertise.

Midsized biotech companies, such as cell and gene therapy, oncology and next-generation biologics, will continue to attract interest from big pharma. The most attractive targets will have strong research and development (R&D) capabilities and technical expertise.

Contract development and manufacturing organizations (CDMOs) that focus on innovative drug development and technologies, including the messenger RNA (mRNA) technology now successfully used in COVID-19 vaccines, will be attractive to large pharma companies looking to add to their pipeline and development capabilities (across all therapeutic areas) via mergers and acquisitions.

Medtech: Restrictions on elective surgeries put a pause on many deals, though some segments are poised for strong activity. We anticipate a revival of activity in two areas. First, diagnostic and testing companies received major cash infusions during the pandemic and could use it to reinvest in core areas or to seek adjacencies in other businesses. Second, companies with limited exposure to elective procedures, or those with a strong balance sheet, could opportunistically pick up distressed assets.



Healthcare providers: Strong and getting stronger, with consolidation of physician practice management and alternative care sites. Elderly care facilities have been negatively impacted by the ongoing pandemic. We expect to see further consolidation across Europe, partly through the integration of single players and small groups into larger provider groups.

Digital healthcare services providers and health IT companies that digitize practice management should continue to see elevated interest from healthcare services companies looking to modernize their business models via M&A activity.

Investors showing interest in Healthcare IT technology that:

- Facilitates healthcare provider care across sites as employers, healthcare payers, and patients push care outside of hospitals and long-term care facilities;
- Helps employers improve member experience and outcomes while reducing cost;
- Uses analytics to shape better patient experiences; and
- Deploys big data analytics to modernize clinical trials.

Where do the opportunities lie?

Everywhere in the sector. Over the past few years, companies have pursued four broad M&A strategies for growth that have been shown to help those companies gain a competitive edge.

1. Build or maintain leadership in a sector by increasing scale within a category, therapeutic area or call point.
2. Leverage an asset's research and development (R&D) capabilities. This was a strategy used by many Pharma and MedTech companies to leverage the R&D capabilities of that target. This is a way companies can access innovation through M&A, providing quick access to new technologies without having to develop them from scratch.
3. Buy Healthcare Information Technology (HCIT) assets that can help reduce costs. In the provider and payer sectors, companies made several HCIT company acquisitions that specialized in software that improved efficiency.
4. Access new profit pools by reaching across industry sectors, including the trend of combining pharmaceuticals, diagnostics, devices, and software. Patient centric treatment is also more in focus, as well as expanding geographic areas.

Looking ahead consider the following areas of opportunity:

1. Looking to Buy:

- a. Expand product portfolio and new technology. Some areas worth pursuing include the pharma and biotech pipeline, new medical device technology, software including AI and management analysis dashboard, among others. e.g. Siemens Healthineers AG buy cancer radiotherapy specialist Varian Medical Systems, Gilead Sciences acquired Immunomedics
- b. Entry points into other regions, specifically the Asian and South American markets.
- c. Consolidation in providers (clinics, specialist centers, care centers), software and IT services (CRO, CMO, labs, imaging centers), medical devices to cope with budget constraints. E.g. Stryker Corp's purchase of Wright Medical Group NV
- d. Strengthen or resolve gaps related to Covid operations and IP, e.g. in CMO, CDMO and vaccine and gene therapy development. E.g. ThermoFisher acquires CMO operations of Novasep, Merck's (MSD) acquisition of Themis.

2. Looking to Sell:

- a. Focus on core business and strengths. Divest lower performance businesses
- b. Create value in transferring and combining business with another player. Among others, explore Pharma and OTC and medical devices



What are the challenges?

The healthcare sector continues to face disruption from new entrants, new technologies, and new therapies. Combined with the impact of demographic evolution and chronic diseases, and continued budget pressure, established companies must continue to break down barriers and seek additional technological and marketplace advantages. Optimizing performance within their sector to combat pricing pressure is not always sufficient; companies must seek out new profit pools by reaching across to other sectors. CDI Global helps companies assess and execute their buy-side or sell-side strategy to successfully navigate these challenges and find the best opportunities in the sector.



"Identify the Right Opportunity"

What to do if you're looking to buy





"It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy."

1

The starting point:

It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy. This will provide a framework for defining the criteria when choosing your target. Buy-Side mandate development guided by experienced M&A professionals is critical to success.

2

Next steps:

Specify criteria and decide which are critical/important, then quantify each one (e.g. target size, profitability, growth rate, sales in key segments, etc.). A preliminary list of targets can be drawn up, but, at this point, a reality check is crucial. Do you have the time or expertise to locate the best targets? If not, you need help from an expert in the sector to develop an acquisition plan and advise on how and when to approach the companies in question.

3

Finance:

Engage with potential debt or equity providers to ensure they understand and back the plan, and that you will have sufficient financial firepower to do the deal. Also calculate how any extra leverage might affect the company.

Be mindful of fluctuations in currency exchange rates, they tend to be self-hedging if the changing value of debt and profits go hand in hand. Investing heavily in emerging economies/markets with volatile currencies can be tricky to manage, if they constitute a significant proportion of your corporate earnings. CDI Global's M&A advisors understand global markets and can shepherd you through the landscape and financial ramifications of your deal.

4

Identifying the right opportunity:

Many companies seek to strengthen their core competencies when acquiring, but other businesses may diversify, either into higher margin sectors, specific markets, or geographical areas. M&A here requires a very rigorous approach as almost every opportunity will be different. Whatever the strategy, ideal targets for acquisition will likely have one or more important characteristics:

- i. A steadily growing sales and profit profile
- ii. Good growth potential based on factors such as holding a niche position and/or valuable intellectual property.
- iii. Fragmented supplier and customer bases, relatively immune to cost/price pressures and more able to sustain margins.

5

Auctions:

On the face of it, auctions appear a good solution for time-limited senior executives seeking acquisitions. Initially the selling company does all the work, hiring an investment banker to prepare a glossy prospectus followed by a fast paced auction to achieve the sale. There are three immediate disadvantages in participating in auctions:

- i. The prospectus will often go to many other potential buyers, thus inviting maximum competition.
- ii. You may receive it irrespective of the suitability of the offer, which can distract from the original goals.
- iii. The focus for the bank conducting the auction is getting the best price for the seller.

Because of this, your chance of acquiring a company that's a good fit at a reasonable price is greatly diminished. Companies can waste a lot of time evaluating prospectuses to discover there would be little strategic benefit acquiring what's for sale.

Following the herd is rarely fruitful. Unfortunately, companies disappointed by auctions can allow this to color their view of M&A as a whole, to their detriment. This is a missed opportunity as other approaches are available, such as specialist search, which can be extremely effective.

6

Why use a specialist?

Serendipity is not an effective strategic tool. You need experienced advisors who will help you diagnose your requirements and know where to find what you need, anywhere. You need someone who understands your sector inside out and talks your language, yet also works cross-border as a matter of course, with a global knowledge and reach. Someone who is also used to managing the whole M&A process, dealing with the myriad of accounting, legal and specialist advisors and driving the deal home.

CDI Global deploys experienced specialists that listen to your needs in order to craft comprehensive strategies based on your precise requirements. Having an expert in your corner means maximizing your team's time and getting the job done to secure the best possible M&A outcome.





What to do if you're looking to buy...continued



"We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction."

7

Due diligence:

CDI Global has the experience to recognize the warning signs of a bad deal and works with you to avoid those pitfalls. These warning signs include:

- i. The seller appears not to be irrevocably committed to selling.
- ii. The seller has limited or poorly prepared due diligence materials.
- iii. The seller may not have proper support from professional advisors.
- iv. The timetable is unclear or key deadlines in the process are missed or not respected by the seller.
- v. The business starts to under-perform or miss key financial targets.
- vi. The seller reneges on key aspects that have already been agreed.
- vii. Due diligence uncovers one or more 'skeletons in the cupboard'.

However, cross-border deals in the healthcare sector can have specific pitfalls, especially when dealing in certain Asian countries where regulatory and accounting standards are different. Once again expert advice is needed to avoid costly mistakes. If your new acquisition brings with it hidden environmental liabilities, it can have a ruinous impact on your whole business, not just the new company. You need to find these during due diligence, and for that you need expert help. We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction.

8

Managing the transition:

With the deal nearing agreement, you will need clear plans (30-day, 90-day or similar) on what will be done immediately once the new business is acquired. It's vital to get role changes and/or redundancies implemented quickly. Will the owner or senior managers continue to be involved? Will you have to act to prevent departures of key personnel? You need to have clear answers to these important questions. CDI Global can help develop a strategy to navigate your post-merger integration to help optimize efficiency and synergies.





What to do if you're looking to sell?



1 The starting point:

For private companies, this often arrives when the owner reaches a certain age and wants to enjoy the fruits of their labor. Is the next generation willing or able to pick up the reins? If not, what are the options to transition the business? Is selling the right answer?

2 Next steps:

Do you sell all the business or keep a stake? The latter could be an attractive option if you're confident about future growth with your shares becoming more valuable in time. Even if you sell everything, be prepared for buyers who want to lock you into the business for a period, post-sale, particularly if they're paying a high price. Typically, buyers will have very well-defined requirements and what they want is usually simple – certainty about what they are buying and the risks and liabilities that come with it.

For your part, be clear about your minimum price and whether you wish to stay involved in the business in future. Don't compromise on these points. There is usually no need for negotiations to become as complex as they often do. Again, an experienced M&A advisor can usually craft a plan based on your desired timing. They also know where to find potential problems in the small print – anything that could claw back money from you as the seller in future years or leave you with residual liabilities (particularly with environmental issues or pension liabilities).

3 Finance:

It is the buyer who ultimately fixes the value of your business based on market, competition, and your unique selling points. It's important that you have a view, and make your calculations accordingly, but in the final analysis what they are willing to pay is the critical determinant of value. Every deal is different, so basing your valuation on what has happened previously can lead to disappointment and disruption to your business planning. Be clear, but also realistic, about your price and expectations and be prepared to walk away if these are not met.

Also, in any deal, be careful about committing to significant investment to make your business more saleable. This may be necessary to remove an obstacle to sale (e.g. an environmental issue), but investment aimed at producing future growth may not impress buyers, particularly if the future profit uplift is reflected in the expected sale price. Buying on a promise is not attractive to either strategic acquirers or financial buyers, i.e. private equity.

4 Due Diligence:

What does a 'good' buyer look like?:

- i. They have the right attitude and commitment to do the deal.
- ii. They can provide proof of sufficient finances to complete the transaction.
- iii. They have the resources, in particular the right people, to progress the deal.
- iv. They have a track record of closing other similar deals.



5. Legacy / Cultural Considerations:

A final important consideration is whether the buyer is willing to meet terms you may set for the treatment of your staff after you depart. You must decide how important that is and be very clear if it is a requirement. In addition, for a privately-owned company, do you want the company name and brand to continue?



Case Study



CDI Global Advises Germaine de Capuccini in Sale to Acon Investments

In 2014, CDI Global Spain approached the company on behalf of a PE. Things got sour at the family level and the sale was aborted. We kept a good relationship with the key owner, Raúl Vidal, and later brought him a new PE (US based Acon) willing to buy. This time, through the influence of Raúl, we acted on behalf of the selling family.

During the process, based on our industry expertise in Cosmetics and Pharma, multiple parties outside Spain, industrial players and financial sponsors in USA and Europe and China, were assessed and approached by CDI Global. Acon was selected because of their high interest to invest in a platform company active in Europe with business in Latin America.

CDI Global had to resolve some specific requirements of the buyer, i.e. an additional local co-investor, Torreal (large family office investor), the ending of Germaine business with some embargoed countries and a spin-off of multiple assets and businesses unrelated to the cosmetic sector. CDI Global managed the demand for an aggressive offer and acceptance by all family members.

CDI Global was selected based on our industry expertise in healthcare and track record in Pharma and Cosmetics. The experience in complex shareholder and deal structure, global coverage and direct access to key management of corporations and financial investors in Cosmetics, convinced the client to appoint CDI Global as its exclusive advisor.

About ACON: ACON Investments, L.L.C. is a Washington, DC-based international private equity investment firm that manages private equity funds and special purpose partnerships that make investments in the United

States, Latin America and Europe. Founded in 1996, ACON has responsibility for managing approximately \$5.3 billion of capital.

About Torreal: Torreal is the investment firm of the Abelló Family. Founded in 1990, with historical investments in more than 60 companies, Torreal is 100% owned by the Abelló Family.

ACON
ACON INVESTMENTS

TORREAL



GERMAINE DE CAPUCCINI

About Germaine de Capuccini S.A:

About Germaine de Capuccini S.A: is a leading developer, producer and supplier of specialized, professional skincare and cosmetic products. The Company's customers include estheticians and dermatologists at full service spas, day spas, beauty salons, hotels and clinics. Approximately 45% of the company's sales are in Spain with the balance distributed across 80 countries worldwide, including its largest foreign markets of Italy, Mexico, Belgium, and the United Kingdom.



About CDI Global

We hope this guide has stimulated your interest in M&A – and alerted you to both its potential opportunities and hazards. Our 40 years of experience has shown CDI Global how to navigate the shifting marketplace, and guide companies through the process to find opportunities that match their goals.

**We have the knowledge.
Would you like to reap the benefit?**

CDI Global offers expertise in:

- Healthcare, Pharmaceutical, and Biotech sectors – unlike banks and investment advisors, our team has both worked and conducted M&A advisory within various sectors across the industry. We know the industry structure and dynamics inside out.
- Bespoke and pro-active approach. We go out and find the best deal for your unique requirements, and offer pragmatic, hands on support.
- Extensive network of contacts, particularly among privately owned companies in the healthcare sector.
- Cross-border M&A expertise and global footprint. CDI Global has expertise on the ground in each territory and operates on the basis of cross-border cooperation.
- We focus on best strategic fit, not just best price.
- Experience in search projects and approaching SME owners on a highly confidential basis, improving closing rates and sourcing “not-for-sale” vs auction opportunities.
- Experience and support in organizing local Due Diligence, managing negotiations and providing results.
- Commitment to the long-term, both in our strategic advice and when working with clients.
- Respect we have earned from both parties in our transactions - based on trust and professionalism.



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