This Industry Practice Group was established to draw on the experience of CFA advisors, many of whom as former business owners and CEOs, have first-hand knowledge and have completed many transactions in this industry. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Healthcare M&A

M&A activity in the North American healthcare sector for Q3 2013 was down 24% from last quarter, with 409 deals announced or closed in the period according to data provided by S&P Capital IQ. Deal count however, remained on the uptick, adding 26 deals quarter over quarter. The pharmaceutical sector continued to see the biggest deals with Amgen’s $10.4 billion purchase of Onyx Pharmaceuticals leading the pack as the quarter’s largest deal. Vendors racked up the most deals. Two of the five largest vendor deals involved private equity investors purchasing electronic medical record companies.

Transactional Overview

Notable announced or closed transactions in the healthcare space include:

August 2013 - Under the terms of the agreement, Akorn will acquire Hi-Tech Pharmacal for $43.5 per share and restricted stock awards. Akorn intends to fund the transaction through a combination of Hi-Tech cash assumed and approximately $600 million in term loan borrowings. Akorn obtained $675 million of financing commitments to finance the transaction. The credit pact consists of a $600 million term loan and a $75 million revolving credit line. Hi-Tech Pharmacal Co., Inc., a specialty pharmaceutical company, develops, manufactures, and markets generic and branded prescription, and over-the-counter (OTC) products in the United States.

July 2013 - Community Health Systems, Inc. (NYSE:CYH) entered into a definitive merger agreement to acquire Health Management Associates Inc. (NYSE:HMA) from Mason Capital Management, LLC, BlackRock, Inc. (NYSE:BLK), and other investors for $3.9 billion in cash and stock on July 29, 2013. Community Health Systems will pay $10.50 per Health Management Associates share and issue 0.06942 shares per Health Management Associates share and restricted stock awards and deferred stock awards. Community Health Systems will also assume approximately $3.7 billion of indebtedness of Health Management Associates. Health Management Associates, Inc., through its subsidiaries, engages in the operation of general acute care hospitals and other health care facilities in non-urban communities in the United States.
September 2013 - CR Bard Inc. (NYSE:BCR) entered into an agreement to acquire Rochester Medical Corporation (NasdaqGM:ROCM) for approximately $250 million in cash on September 3, 2013. Under the terms of the agreement, Bard will pay $20 per share in cash. Bard will also pay $5.03 million for restricted common stock units, $4.23 million for restricted stocks and $12.8 million for options. Rochester Medical will operate as an owned subsidiary of Bard. The merger agreement contains certain termination rights for both Bard and Rochester Medical, and further provides that, upon termination Rochester Medical would be required to pay Bard a termination fee of $7.87 million. Rochester Medical Corporation engages in the development, manufacture, and marketing of PVC-free and latex-free urinary continence and urine drainage care products for the home and acute care markets.

Industry Dynamics

According to information from First Research, an industry research group, companies in the healthcare industry provide a wide range of health care and social services through hospitals, doctors’ offices, nursing homes, outpatient surgery centers, and other facilities. Major US companies include Ascension Health, Fresenius, HCA, Kaiser Permanente, and Tenet Healthcare.

Consumer spending on health care grew by about 4 percent from the year before, according to an analysis by the Health Care Cost Institute, with out-of-pocket costs running about $320 billion. Consumer spending on expensive drugs and medical specialists grew, but spending on inpatient hospital services, except for emergency care, dropped, the institute said.

As the burden of health care spending continues to shift to patients, largely through high-deductible health plans, health care spending overall has slowed, according to a study by the Brookings Institute. The biggest drivers of health care costs are expensive drugs, including rising prices for generic drugs, as well as capital-intensive medical technology, the study showed.

The US health care sector includes more than 780,000 hospitals, doctors’ offices, emergency care units, nursing homes, and social services providers with combined annual revenue of about $2 trillion. Key growth challenges include rising costs, health care reforms, and a shortage of physicians and nurses.

According to First Research, the US output for healthcare is forecast to grow at an annual compounded rate of 6 percent between 2013 and 2017.

Collectively, the Healthcare Practice Group provides M&A advice to public and private companies in all sectors of the healthcare industries, including healthcare information technology, medical devices, pharma, surgical equipment and supplies, biotechnology, assisted living and long term care.