

A study of Life Sciences & Healthcare M&A activity by Mergermarket, in association with Squire Sanders

GLOBAL M&A SERIES LIFE SCIENCES & HEALTHCARE 2013



Published by:



SQUIRE SANDERS

CONTENTS

Foreword	03
Life Sciences & Healthcare Overview	04
M&A Spotlight: North America	11
About Squire Sanders	18
About Mergermarket	20

Welcome to Squire Sanders' fifth edition of the Global M&A Series. Drawing from extensive data on M&A activity in the life sciences and healthcare sectors, this report offers insight into the challenges and opportunities facing the industry on a global scale.

Recent dealmaking trends in life sciences and healthcare demonstrate that these industries are making healthy progress amidst an inhospitable climate. This year has seen the return of higher value deals, with 455 transactions announced in the first half of 2013 reaching a total aggregate value of US\$78bn. This compares to the 516 deals announced in the first half of 2012 worth US\$73bn. North America and Europe continue to dominate, where pharmaceutical companies are battling to deliver innovative new products and are making acquisitions in pipeline drug development to bolster their portfolios. Meanwhile, healthcare companies, contending with upheaval induced by the Affordable Care Act in the US, and the tightest of economic and reimbursement pressures in Europe, are consolidating to fortify themselves against the challenging marketplace.

Even so, there are a number of positive trends in the sector. The valuation environment is extremely positive, driven partly by competitive jostling among corporates and financial investors to acquire innovative targets, and partly by the attractiveness of the targets themselves. The slowing curve of innovation has placed a premium on the highest potential pipeline therapies, but at the same time innovation in some spheres has quickened, not slowed. For example, the booming market for genetic sequencing has led to a handful of high-profile deals carried out in the last two years, with firms seeking to unlock the value in this promising new area.

While the lion's share of dealmaking looks likely to continue its focus around western markets, in particular the US and Europe, the critical importance of the Asia-Pacific region to global firms is spurring on more and more dealmaking activity. Much of this activity is taking place in India and China, markets where there is still an enormous amount of growth and development potential through strategic investments. Meanwhile, as US and European players fight to get a foothold in these sizeable emerging markets, pressures at home are driving consolidation and strategic repositioning, supporting a steady flow of domestic M&A.



Daniel Berick
Americas Chair
Global Corporate Practice
daniel.berick@squiresanders.com



Jane Haxby
EMEA Chair
Global Corporate Practice
jane.haxby@squiresanders.com



Stephen Chelberg
Asia-Pacific Chair
Global Corporate Practice
stephen.chelberg@squiresanders.com

LIFE SCIENCES & HEALTHCARE OVERVIEW

Against the tide of deep-set economic challenges, M&A in the global life sciences and healthcare industries has remained robust in the years since 2009. Among a number of drivers, businesses have used deals to outmanoeuvre the slowing pace of innovation, access or expand into new territories and reduce operational costs.

In 2012, 1,085 deals were announced worth a total of US\$183bn. This marks a marginal increase in volume (less than 1%) compared to 2011 and a 12% drop in aggregate deal value. But it is worth noting that deal volume in 2012 came close to pre-crisis levels; in 2007, 1,082 deals were announced worth a total of US\$222bn.

More recently, there have been signs that appetite for higher value dealmaking is returning. The first half of 2013 has seen 455 deals announced and an aggregate deal value of US\$78bn. This marks a dip in deal volume of 12% and a rise in value of 6% compared with the first half of the year prior, when 516 deals were announced worth US\$73bn.

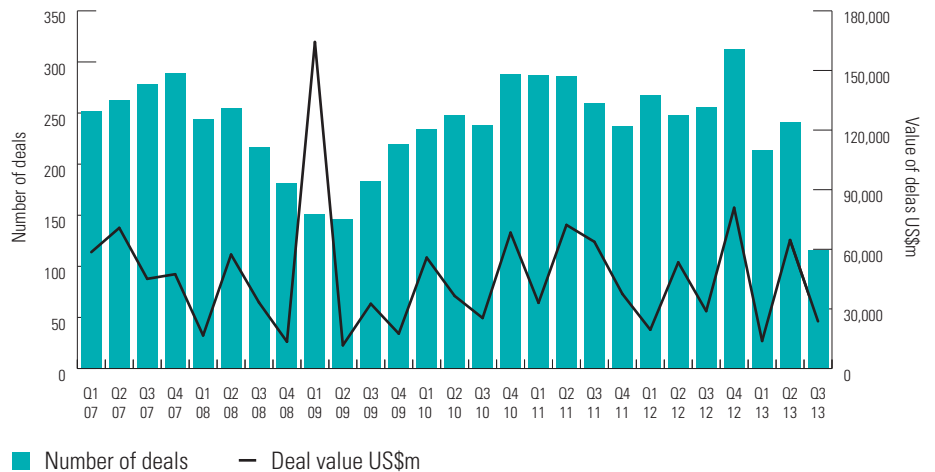
That said, analysis of deal size segments over the first three quarters does not reveal an upward trend in average deal value, with the majority of deals taking place in the US\$15m-US\$100m range a consistent feature.

The largest deals announced in the first half of 2013 have been driven by an array of strategic trends, including innovation in biotechnology, private equity exits and corporate spin-offs. The spread of deal drivers reflects the growing complexity of the global healthcare space and how firms are responding to it. Further, it reflects a holistic dealmaking environment that promises to generate a steady stream of activity.

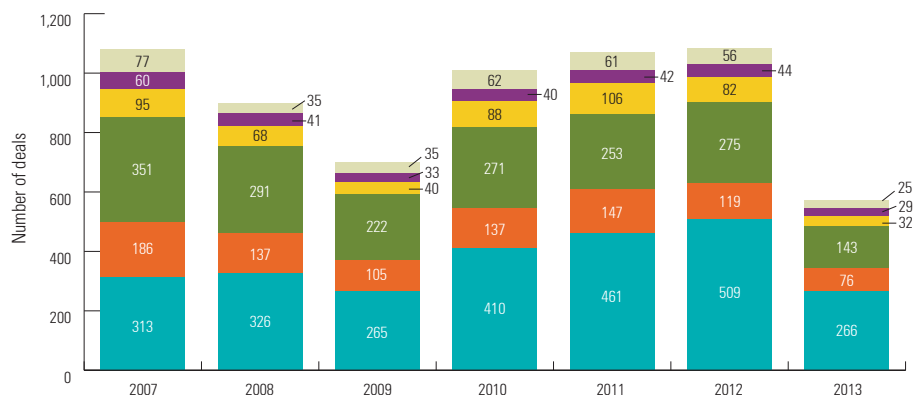
There are also a number of factors that will likely spur activity in the space in the long-term. These include ageing populations in many of the world's developed economies. Stephen Chelberg, Asia-Pacific Chair of the Global Corporate Practice at Squire Sanders, describes this trend as it is playing out in Japan: "The Japanese government is currently experiencing pressure to decrease the price of healthcare to keep the system sustainable as Japan's population ages and becomes more reliant on it."

In the pharmaceuticals sector, major drivers have been firms' pipelines drying up. "As firms attempt

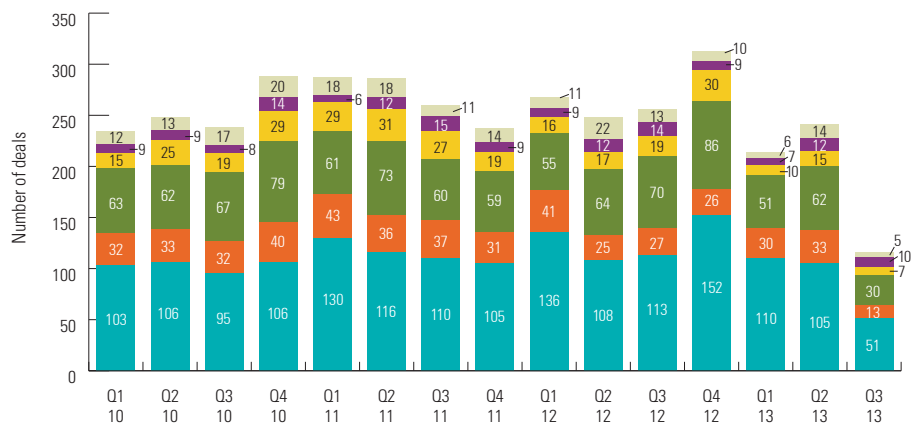
Life sciences and healthcare M&A trends



Life sciences and healthcare deal size splits by year



Life sciences and healthcare deal splits by quarter



Key for above two graphs:

Not disclosed (blue), <US\$15m (orange), US\$15m-US\$100m (green), US\$101m-US\$250m (yellow), US\$251m-US\$500m (purple), >US\$500m (light green)

to replenish their pipelines, they have looked to acquire smaller businesses in more niche areas, such as rare diseases, that are more certain to ensure profits, albeit smaller ones," states Maureen Bennett, Co-chair Healthcare & Life Sciences industry group at Squire Sanders.

Private equity dealmaking in life sciences and healthcare has recovered since the global economic downturn, though it remains below pre-crisis levels. In 2012, there were 182 buyouts announced worth a combined US\$14.5bn, compared to 2007's 225 transactions worth US\$58.8bn. Although deal volume has stayed robust in recent years, with 2011 and 2012 seeing an equal number of buyouts announced, deal value declined 50% in 2012 compared to the previous year, when US\$28.9bn worth of deals were announced. Unlike the M&A climate overall, this trend does not seem to be driven by hesitancy among investors to commit capital. Rather, the lacklustre buyout environment seems to be a symptom of a scarcity of targets. The industry is being squeezed from all angles at present; so many strategic acquirers are scouring for potential investments to help them get an edge over competitors. In fact, strategic buyers seem to have taken a page from private equity firms' book, as Bennett explains: "We are seeing large pharmaceuticals firms providing early-stage

financing for new drug companies. Through doing so, they are building relationships early and are well positioned to make an acquisition further down the line."

Another key issue is the financing environment, though buoyant debt markets suggest that funding is becoming more accessible for institutional investors.

Private equity buyers remain interested in targets that are well positioned to capitalize on positive trends, particularly those related to evolving demographics or epidemiology. A case in point is the US\$454m buyout and take-private of US care home business Assisted Living Concepts by TPG Capital. Assisted Living operates 210 senior living residences in 20 states. Although the industry is set to boom due to an ageing population, Assisted Living has been underperforming in recent years, posting quarterly losses in the single digit millions. TPG Capital's investment follows a trend of deals in the retirement space: last year Health Care REIT bought Sunrise Senior Living for US\$1.3bn. Since then, Health Care REIT has sold part of the business for US\$130m to a trio of US-based private equity firms Beecken Petty O' Keefe & Company, CoastWood Senior Housing Partners and Kohlberg Kravis Roberts.

But the current environment looks attractive for private equity exits. Both Warburg Pincus and Blackstone Group successfully made high profile exits from investments in the last year. This past May, Warburg Pincus announced the US\$8.7bn sale of US-based eye-health company Bausch & Lomb Incorporated to the growing Canadian pharmaceutical firm, Valeant Pharmaceuticals International. The deal is a major coup for Warburg Pincus, who have been exploring options to sell the business, including a potential IPO, since late 2012. Originally, Warburg bought Bausch & Lomb in a leveraged buyout for US\$4.5bn, and the acquisition price includes US\$4.2bn to pay off debt. Valeant's strategy is to continue to grow through acquisitions, seeking small tuck-ins as well as larger mergers of equals. The firm has been highly acquisitive recently, announcing 14 deals worth a total of approximately US\$4bn in the last year alone.

In June of this year, the Blackstone Group sold speciality hospital company Vanguard Health Systems to Tenet Healthcare, a provider of outpatient centres and healthcare services, for US\$4.1bn. Synergies between US\$100m and US\$200m are anticipated from the deal which will provide Tenet with greater geographical reach and a more diversified product-line.

Top 10 life sciences and healthcare deals, Q4 2012 – Q3 2013

Announced Date	Status	Target Company	Target Sector	Target Country	Bidder Company	Bidder Country	Seller Company	Seller Country	Deal Value US\$m
28/11/2012	C	AbbVie Inc	Pharma	US	Abbott Laboratories (Shareholders)	US	Abbott Laboratories	US	54,376
15/04/2013	P	Life Technologies Corp	Biotechnology	US	Thermo Fisher Scientific Inc	US			15,008
22/05/2013	C	Zoetis Inc (80.2% Stake)	Pharma	US	Pfizer Inc (Shareholders)	US	Pfizer Inc	US	12,375
27/05/2013	P	Bausch & Lomb Incorporated	Medical	US	Valeant Pharmaceuticals International, Inc	Canada	Warburg Pincus LLC	US	8,700
29/07/2013	P	Elan Corporation Plc	Biotechnology	Ireland (Republic)	Perrigo Company	US			8,614
20/05/2013	P	Warner Chilcott Plc	Pharma	Ireland (Republic)	Actavis, Inc	US			8,428
30/07/2013	P	Health Management Associates, Inc	Medical	US	Community Health Systems, Inc	US			7,088
08/10/2012	C	Amil Participacoes SA (90% Stake)	Medical	Brazil	UnitedHealth Group Inc	US			4,955
24/06/2013	P	Vanguard Health Systems	Medical	US	Tenet Healthcare Corporation	US	Blackstone Group LP	US	4,101
04/12/2012	P	Gambro AB	Medical	Sweden	Baxter International Inc	US	Investor AB; EQT Partners AB	Sweden	3,983

C = Complete; P = Pending

LIFE SCIENCES & HEALTHCARE OVERVIEW

Life sciences and healthcare M&A industry snapshots

Pharmaceuticals

Across the globe, major pharmaceuticals firms are responding to a highly pressured business environment by restructuring their businesses in search of more efficient use of capital and a greater focus on core areas. The environment is also becoming increasingly competitive, as Stephen Chelberg explains: "Pharmaceuticals companies are using M&A to replenish their pipelines as drugs are rapidly going off-patent." Last year saw US\$101.1bn worth of deals in the pharmaceuticals space,

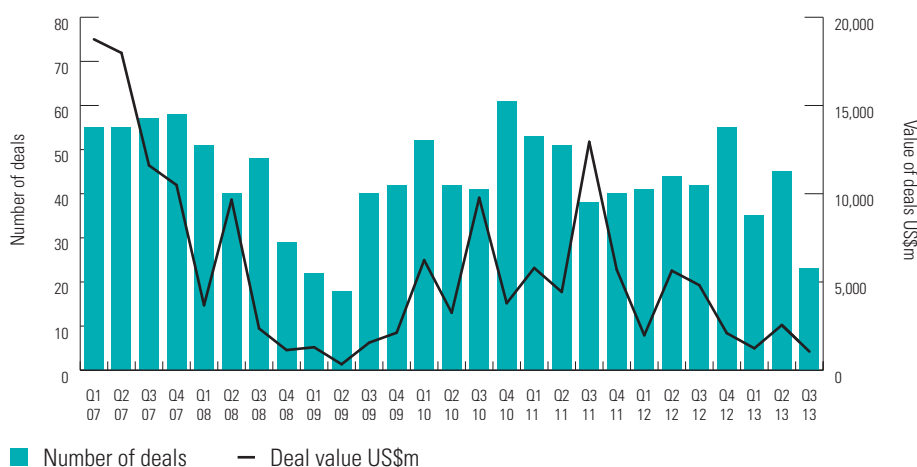
overshadowing other sectors as firms strategically realigned and assets fell into the hands of more suitable owners.

Pfizer is among a number of major pharmaceutical companies making divestments to refocus on core. In May, Pfizer announced the spin-off of 80% of Zoetis, its pharmaceuticals subsidiary focused on animal drugs, and raised US\$12.4bn in the move. The deal follows last year's sale of Pfizer's nutrition business to Nestle for US\$11.9bn. It appears that Pfizer sees little promise for its future in the animal pharmaceuticals or nutrition markets, though in terms of generics the company remains undecided. In response to falling profits, Pfizer's

CEO, Ian Read, has plotted a strategy to separate the company into two core units, with one for branded products and one for generics. This is to enable revitalization of Pfizer's innovation-based core drugs business. The restructuring also paves the way for a potential spin-off of Pfizer's generics business, which currently accounts for 17% of sales, though the company has indicated that it needs three years to evaluate its position with regards to generics.

Pfizer is not the only large pharmaceutical firm on the cusp of a major organizational restructuring. The largest deal over the last year was Abbott Laboratories' US\$54.3bn spin-off of AbbVie, its research-based pharmaceuticals business. The deal enables Abbott to pursue its strategy of focussing on diagnostics, medical devices, nutritionals, and branded generic pharmaceuticals. Another firm to refocus is GSK, which bundled its established drugs into a new unit in April.

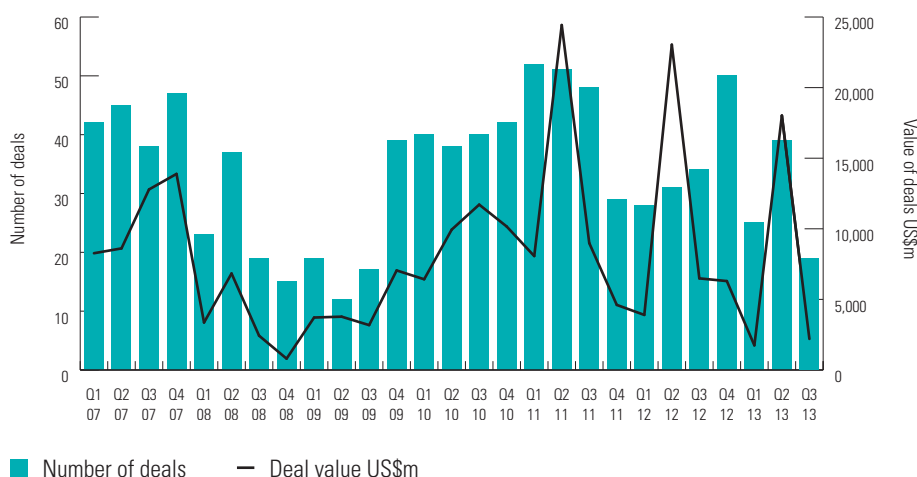
Private equity buyouts



Biotechnology

So far in 2013, there has been a trend toward higher value deals in the biotechnology space, where the premium for innovation is high and markets are awash with eager suitors, both financial and strategic. There has been US\$27.3bn worth of biotech dealmaking so far this year. This value has been generated by just 62 deals, a relatively small proportion of life sciences and healthcare M&A.

Private equity exits



The US\$15bn acquisition of US-based biotech firm Life Technologies by medical device firm Thermo Fisher demonstrates the growing focus on genetic-based diagnostics and treatments, while Life Tech's exposure to emerging markets made it all the more appealing. The deal is one of two biotechnology transactions among the biggest deals of 2012 and 2013 YTD, indicating that buyers are willing to pay high prices for innovative companies. The acquisition of Life Technologies also marks a return of the US\$10bn plus strategic acquisition, a deal category that has seen a lull in recent years as the industry has taken stock of a drastically altered operating environment.

In July, the US\$8.6bn acquisition of Irish-based Elan Corporation by US-based pharmaceutical firm Perrigo was announced. As well as royalties from

Elan's blockbuster Tysabri drug, the deal enables Perrigo to create a more tax-efficient corporate structure. Corporation tax in Ireland is just 12.5% and an extensive network of international tax treaties is a combination that makes the country an ideal launch-pad into Europe and, indeed, the rest of the world.

Healthcare

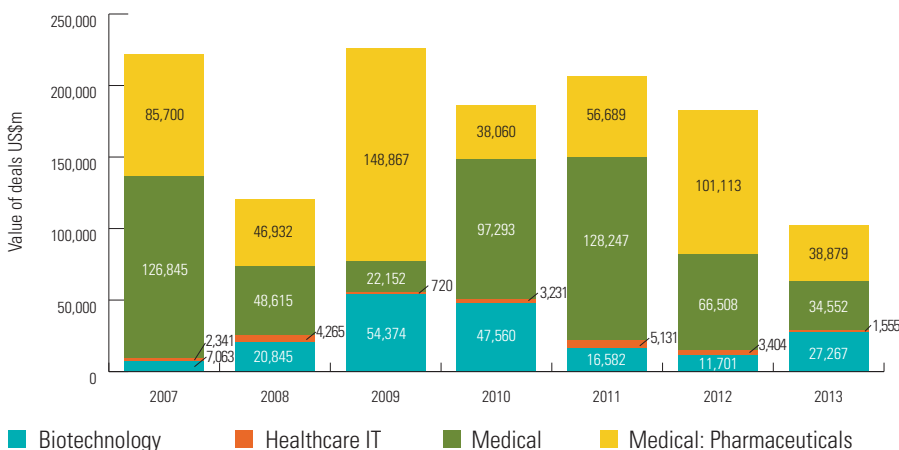
Historically, healthcare has captured the largest proportion of deal volume. 2012 was no exception, with 666 deals compared to 279 announced in the pharmaceuticals industry. This year thus far, the trend continues: in 2013 to date there have been 339 deals announced in the sector compared to 142 in pharmaceuticals. But there are wide fluctuations in terms of which sector commands the lion's share of deal value. Last year it was pharmaceuticals, though so far this year the spread is relatively even. Interestingly, 2013 has seen a number of high value deals in healthcare – half of the 10 largest transactions over the last 12 months took place in the space.

Governments worldwide are reassessing their healthcare programmes, with many nationalized systems increasingly turning to privatizing, with government sales helping to buoy M&A figures in the sub-sector. "Government healthcare reforms and clinical commissioning groups will lead to commercial and M&A activity. Firms that are currently government-owned will be positioned to join the free market," notes William Downs, partner at Squire Sanders.

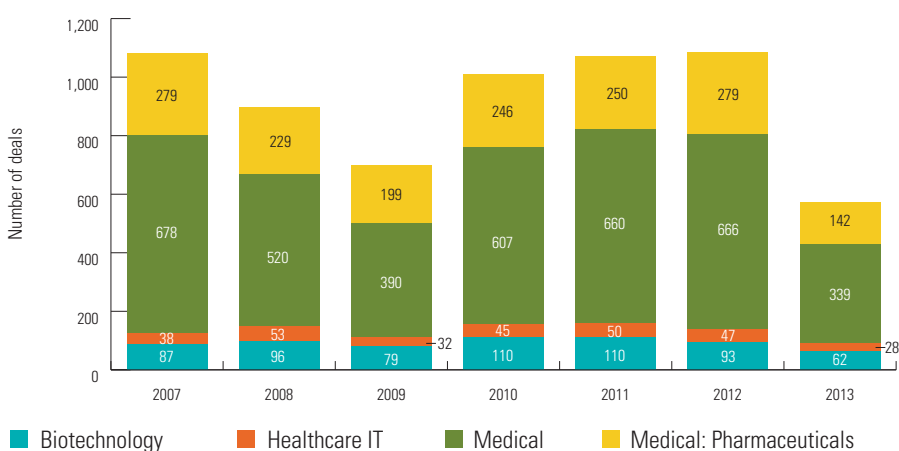
In the US, consolidation in the healthcare sector is being driven partly by the Affordable Care Act, which has changed reimbursement methodologies, forcing providers to find greater efficiencies. "There is currently a difficult operating environment, with hospitals increasingly able to stand on their own. Hospitals are now seeking economies of scale to increase their purchasing power," comments Scott Edelstein, Co-chair Healthcare & Life Sciences industry group at Squire Sanders.

From the beginning of October, state exchanges are expected to open, ready to provide medical insurance to the uninsured from the start of 2014. The confluence of influential factors has brought large-scale M&A. In July, Community Health Systems, the second largest hospital operator in

Subsector M&A value



Subsector M&A volume



the US, agreed to buy hospital company Health Management Associates for approximately US\$7.1bn. The transaction will allow Community Health Systems to expand its place in the healthcare industry and to position the company for the future and the healthcare reform. The deal is still pending, as some of Community Health Systems' investors argue that Health Management Associates has been poorly led strategically and financially.

Healthcare IT

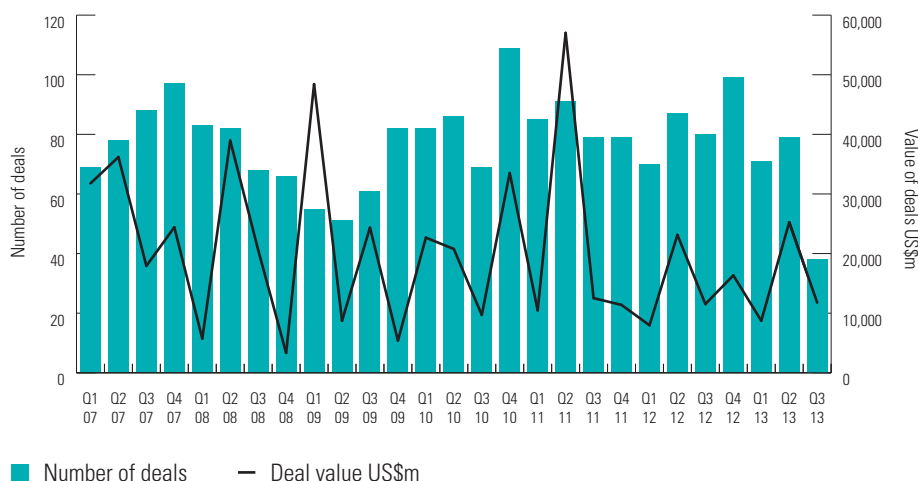
One of the key drivers of dealmaking in the healthcare IT space is the desire to deliver

greater "interoperability" or digital information sharing among healthcare professionals, across different platforms. While North America accounts for the majority of deals, targets in Israel, Australia, UK, Japan and Australia all feature among the largest transactions over the last 12 months.

In the US particularly, healthcare reform has galvanized higher efficiency with technology among healthcare providers. "Tracking quality of care and capturing data across different providers is dependent on electronic health systems," says Edelstein.

LIFE SCIENCES & HEALTHCARE OVERVIEW

Life sciences and healthcare cross border M&A



One notable deal sees US-based Allscripts Healthcare Solutions acquire Israeli data-sharing firm dbMotion for US\$226m. The transaction marks an exit for University of Pittsburgh Medical Center and financial investors Pintango Venture Capital, Gemini Israel Funds and Vertex Venture Capital. The deal will enable Allscripts Healthcare to provide complete care coordination and population health management. A key aspect of the deal is the involvement of University of Pittsburgh Medical Center, as it invested heavily in dbMotion partly in order to find a solution for its own data-sharing challenges, and partly for strategic reasons. Recognising that healthcare providers are facing similar problems, they have been able to realise profits by supporting an innovative technology solution.

This heightened interest in the healthcare IT space has resulted in other high profile transactions. Early this year, US-based physician internet services company Athenahealth acquired Epocrates, a developer of clinical information and decision support tools, for US\$180m. The deal is thought to be driven by a desire by Athenahealth, which processes insurance claims and patient payments, to extend its customer engagement and raise its profile. Epocrates' clinical information app is used by 338,000 physicians in the US, making it a hugely valuable platform for Athenahealth. It is also profitable, charging money from drug companies who can place sponsored links for doctors to see as they look up clinical information.

Regional perspectives

The dominance of North America as a life sciences and healthcare M&A target region shows no signs of abating. In 2012 to 2013 YTD the territory captured 44% of global deal volume in these sectors and 67% of aggregate value. This marks little change from the trends in the post-recession period up until 2011.

Western Europe follows a similar story; in spite of the region's endemic fiscal challenges, M&A continues to capture nearly a third of global deal volume and value. Perhaps reflecting these challenges, the largest deals in the period 2012 to 2013 YTD have been cross border transactions involving buyers from North America. In many cases, profitable US companies have pounced on ailing European firms, keen to capitalize on their valuable intellectual property or for other strategic reasons.

Asia-Pacific maintains a small but significant share of life sciences and healthcare M&A, with its share of volume rising from 17% in the years between 2008 and 2011 to 21% from the beginning of 2012 to present day.

While this might not seem substantial, it is worth putting in context. By way of comparison, Latin America makes up a sliver of overall deal activity. Between 2008 and 2011 the region accounted for 3% of global deal volume and 1% of value. These proportions have risen to 4% of volume

and 3% of value in the period from 2012 to 2013 YTD. Although Latin America is clearly still a small M&A market considered on a global scale, put in local perspective the proportional increase in activity is a major one.

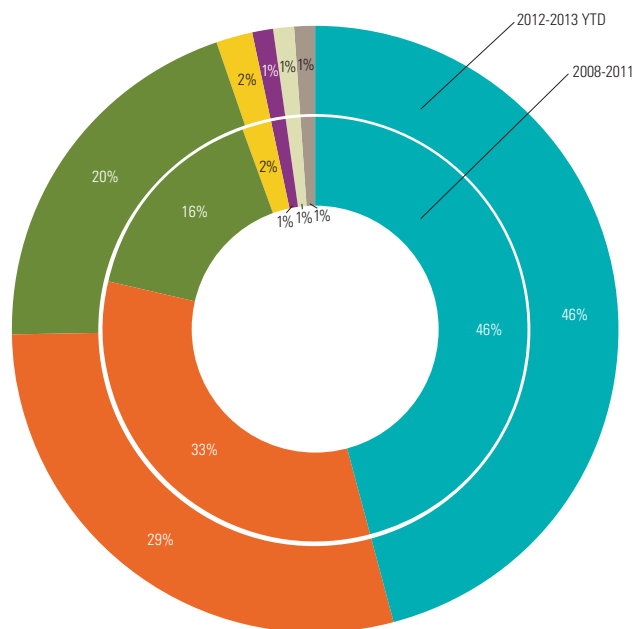
Daniel Roules, a China-based partner at Squire Sanders, indicates areas for future activity in Asia-Pacific's biggest life sciences and healthcare market, China: "Medical devices and pharmaceuticals are currently very fragmented in China. The Chinese government has said that it would like to see consolidation in these spaces. Although this has not happened, it very well may in the future."

Cross-border

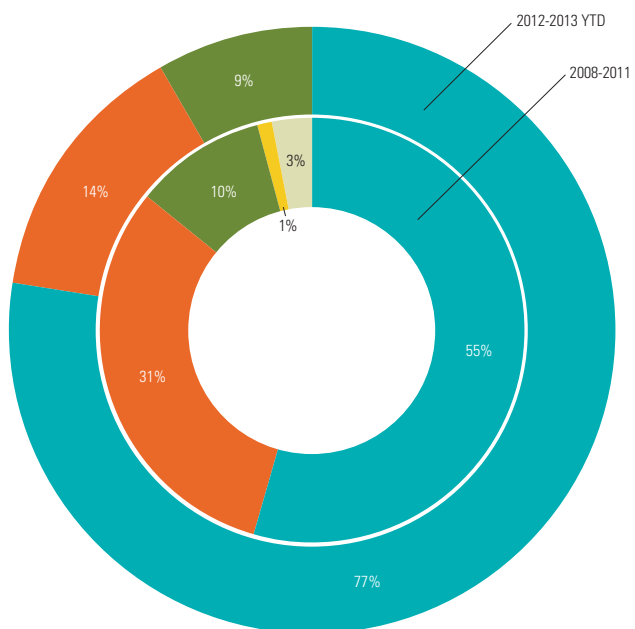
Cross-border dealmaking is one of the healthiest categories of life sciences and healthcare M&A. The last four quarters through June 2013 saw 329 cross-border deals worth an aggregate deal value of US\$62bn take place, marking an increase of 4% in volume and 12% in value compared to the 315 deals announced in the previous four quarters worth US\$55bn.

One of the largest cross-border deals in recent months was United Group, the largest health insurer in the US, completing a US\$5bn acquisition of Amil Participacoes, a Brazilian healthcare giant headquartered in Rio de Janeiro. United Group says that the deal is in line with the company's strategy to acquire growth and value creation opportunities. The deal follows a growing

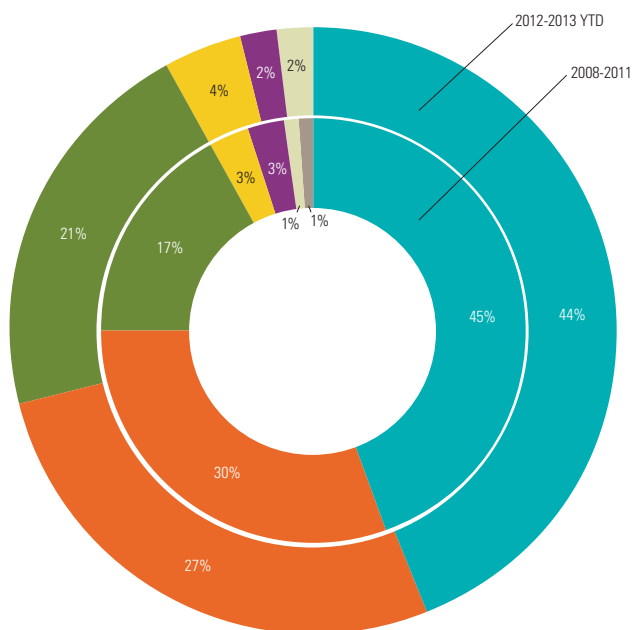
M&A volume split by bidder dominant region



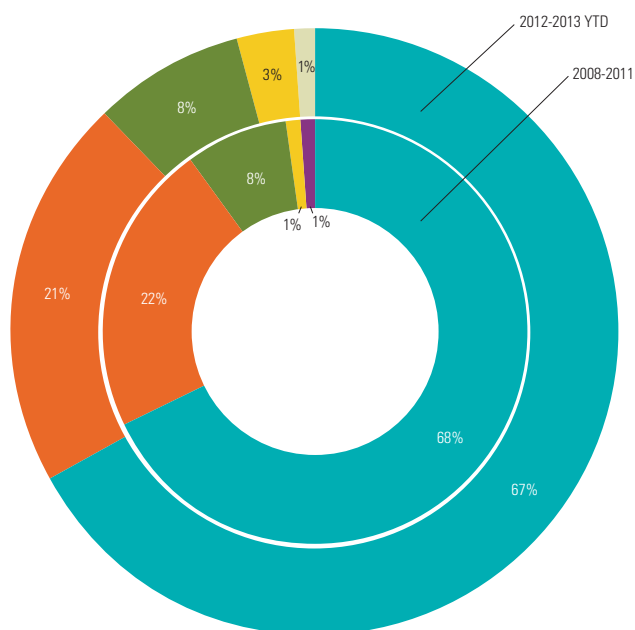
M&A value split by bidder dominant region



M&A volume split by target dominant region



M&A value split by target dominant region



Key for above four charts:

- North America
- Western Europe
- Asia-Pacific
- Latin America
- CEE
- MENA
- Sub-Saharan Africa

trend across the healthcare insurance industry to move into faster growing markets, although some US health insurers have preferred to carry out local dealmaking in order to capitalize on the evolution of the US market.

Brazil is attractive because of its growing economy, burgeoning middle class and progressive healthcare policies. Investing in emerging markets is a tricky game for healthcare companies, because often the costs and risks of doing so are more onerous than first anticipated. However, Brazil has a highly mature healthcare system and, crucially, a similar system to the US. The number of Brazilians under private healthcare plans has grown by 50% over the last 10 years to nearly 48 million people, or approximately one quarter of Brazil's population. In addition, the healthcare insurance sector has not seen the level of investment that country authorities hoped for, so United Group's investment will likely be welcomed. As well as access to a growing company in a promising territory, the deal is accompanied by sizeable tax benefits for United Group.

There are two notable risks with the acquisition of Amil Participacoes. The first is interference by regulators, a problem that has plagued other foreign investors in the healthcare, telecoms and utilities sectors in Brazil. But United Group has the experience to be able to build strong relationships with government and understand this risk, having already made moves to enter markets in Australia, the Middle East and the UK. The second key risk relates to Brazil's economy, which has seen slowing growth in recent months as the gloss has worn off a number of promising developing economies. Analysts project growth of approximately 2.3% in 2014, marking a fourth year of lacklustre performance, and threatening Brazil's status as a true "emerging" market. This said, volatility has always been a feature of the country's economy; this fact and the fundamental demographic changes occurring in the Latin American state, support the rationale for United Group's move.

But, overall, cross-border M&A remains a key space to watch in the life sciences and healthcare sector. William Downs comments: "We remain positive about the prospects for global businesses as they look farther afield to extend their reach globally."

Bidder trends

US-based bidders remain the most active region for outbound acquirers, with companies from North America accounting for 40% of global deal volume in the period 2012 to 2013 YTD, an identical proportion to the period from 2008 to 2011.

But resurgent appetite for high value deals, in line with this year's economic recovery, has boosted aggregate deal value. In 2008 through 2011, buyers from the US accounted for 55% of total deal value, whereas in the period 2012 to present day this figure has risen to a massive 77%.

Buyers from Asia-Pacific are quietly becoming more active, accounting for a fifth of global deals in 2012 to 2013 YTD, up from 16% in 2008 to 2011, though the proportion globally that these deals are responsible for has fallen from 10% to 8% across the same time period.

Daniel Roules explains outbound drivers in China: "Companies based in China are looking to take advantage of the strong yuan to acquire technology and brands in foreign markets."

With most Western European countries suffering from a long-running economic crisis, companies in the life sciences and healthcare sectors have become less active in making purchases, though only marginally so. The proportion of global deal volume that Western European companies contribute has fallen by just 4% in 2012 to 2013 YTD compared to 2008 to 2011, while the value proportion has fallen by 17%.

While Asia-Pacific has increased its share of global acquisition volume and Western Europe has become slightly less acquisitive, value trends should be set in context of a couple of blockbuster deals from US companies, with an international footprint, skewing aggregate figures.

M&A SPOTLIGHT: NORTH AMERICA

M&A remained relatively flat between 2011 and 2012 in North America, with the industry facing a plethora of challenges. Deal volume and value has fallen to approximately half the levels seen before 2009, but new industry drivers are helping to increase the appetite for deals.

The first half of 2013 saw 183 deals transacted in the region with a total aggregate deal value of US\$52bn. This marks a significant drop in volume (20%) but a comparable rise in value (18%) compared to the same period in 2012 when 229 deals worth US\$44bn were announced.

While the number of deals has decreased, valuations have performed well this year, with stiff competition for strategic targets. The premium on innovation has scarcely been more pronounced, and this trend looks set to continue. However, many acquirers find that innovative target companies, or those that are an ideal strategic fit, are a rarity.

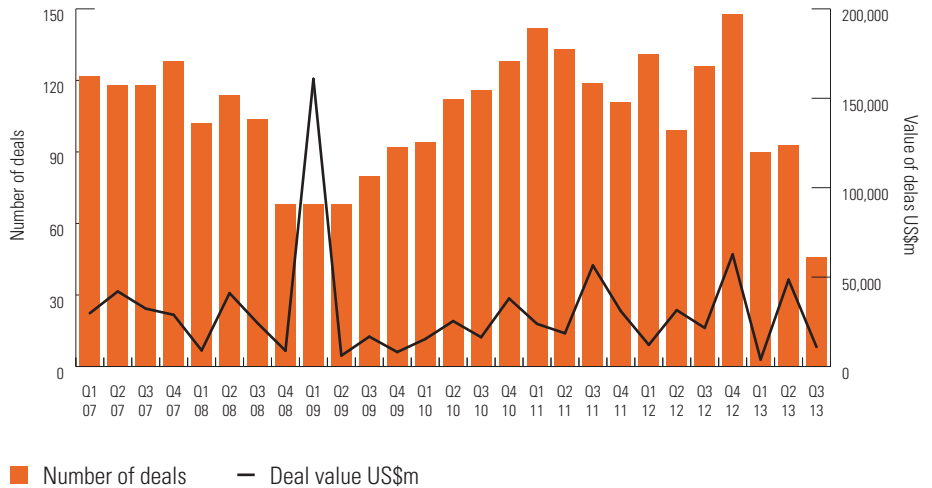
Reticence lingers among big pharma to commit large cash piles to expansionary M&A. Firms have preferred to deploy cash toward share buy backs, rather than enter new product lines or expand their geographic footprints.

Maureen Bennett, Co-chair Healthcare & Life Sciences industry group at Squire Sanders, states: "US pharmaceuticals companies have continued to focus on restructuring business lines, and investing in drugs still undergoing clinical trials or early stage drugs, as well as rights to commercialize drugs in new markets."

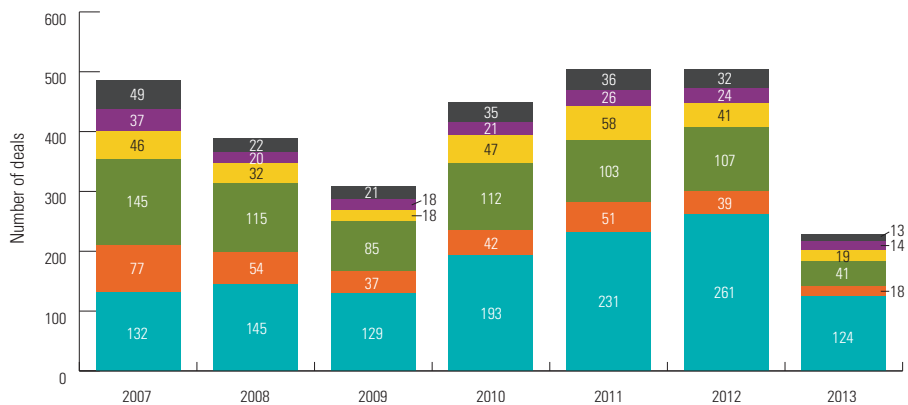
Interestingly, deals with a non-disclosed value have been responsible for the largest increase in activity over recent years. This could signify a range of drivers, such as consolidation among non-listed healthcare providers, or dealmaking between small firms in the biotechnology and healthcare IT spaces, where M&A is a key lever to both catalyse and capitalise on innovation.

The year got off to a slow start in terms of large-cap M&A, with just one transaction announced in Q1 2013 in the US\$500m plus value bracket. This is in spite of expectations of a return of high value dealmaking, with pharmaceuticals firms sitting on enormous cash piles and across the board suffering from a dearth of promising pipeline products.

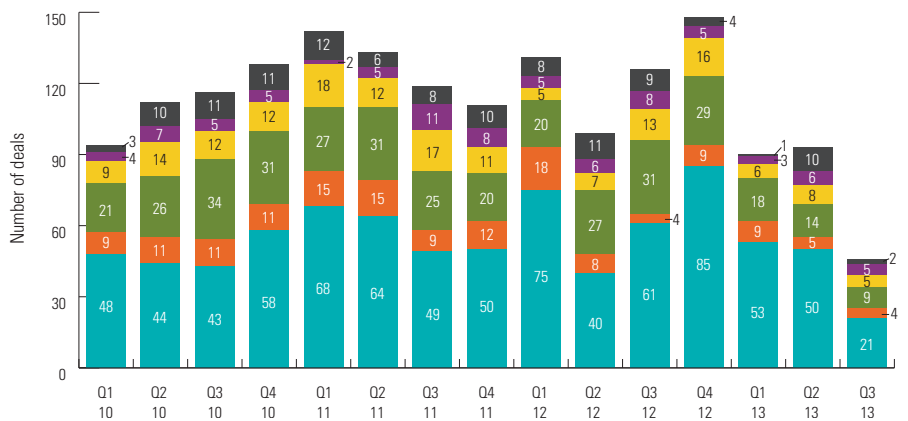
North American life sciences and healthcare M&A trends



North American life sciences and healthcare deal splits by year



North American life sciences and healthcare deal splits by quarter



Key for above two graphs:

- Not disclosed
- <US\$15m
- US\$15m-US\$100m
- US\$101m-US\$250m
- US\$251m-US\$500m
- >US\$500m

Top 10 North American life sciences and healthcare deals, Q4 2012 – Q3 2013

Announced Date	Status	Target Company	Target Sector	Bidder Company	Bidder Country	Seller Company	Seller Country	Deal Value US\$m
28/11/2012	C	AbbVie Inc	Pharma	Abbott Laboratories (Shareholders)	US	Abbott Laboratories	US	54,376
15/04/2013	P	Life Technologies Corp	Biotechnology	Thermo Fisher Scientific Inc	US			15,008
22/05/2013	C	Zoetis Inc (80.2% Stake)	Pharma	Pfizer Inc (Shareholders)	US	Pfizer Inc	US	12,375
27/05/2013	P	Bausch & Lomb Incorporated	Medical	Valeant Pharmaceuticals International, Inc	Canada	Warburg Pincus LLC	US	8,700
30/07/2013	P	Health Management Associates, Inc	Medical	Community Health Systems, Inc	US			7,088
24/06/2013	P	Vanguard Health Systems	Medical	Tenet Healthcare Corporation	US	Blackstone Group LP	US	4,101
25/10/2012	C	PSS World Medical, Inc	Medical	McKesson Corporation	US			1,808
29/04/2013	C	Conceptus, Inc	Medical	Bayer HealthCare LLC	Germany			1,100
28/11/2012	C	Healthpoint, Ltd	Pharma	Smith & Nephew Plc	United Kingdom	DFB Pharmaceuticals, Inc	US	782
23/01/2013	C	MAP Pharmaceuticals, Inc	Pharma	Allergan, Inc	USA			768

C = Complete; P = Pending

The second quarter saw a resurgence of higher value dealmaking, with 10 deals announced above the US\$500m watermark, capturing a total aggregate deal value of US\$45bn. Corporate divestments accounted for the majority of value in the top deals table, in line with the trend to redefine strategy.

Looking at deal size splits for recent years indicates a continued dominance of dealmaking in the SME space. The mid-market has seen healthy activity with the number of deals in the US\$15m to US\$100m range increasing between 2011 and 2012, despite an overarching decline in aggregate deal volume. Some of this M&A has been driven by defensive strategies, such as the US\$635m acquisition of Actient pharmaceuticals, a company that develops testosterone replacement and erectile dysfunction products, by urology medicines firm Auxilium. The deal came to market shortly after Auxilium announced disappointing sales figures for its core product, suggesting the firm is utilising dealmaking to counter competitive pressures in the industry.

Private equity

Financing has improved for M&A with lenders exhibiting greater willingness to support deals. Nevertheless, private equity buyouts

were sluggish in the first half of 2013. In total, H1 2013 saw 31 buyouts worth US\$962m in North America, compared to 39 deals worth US\$1.3bn in the same period a year earlier. Competition from trade buyers could be part of the cause: for example, Thermo Fisher Scientific beat out a private equity consortium when it agreed to purchase Life Technologies for US\$15bn.

TPG Capital's bet on the elderly care market with its US\$454m acquisition of Assisted Living Concepts was of course one of the headline buyouts for the period. The buyout group has also been active as a buy & build investor in the life sciences and healthcare sphere. In January its portfolio company, Immucor, a specialist in diagnostics, purchased the Lifecodes business of diagnostics firm Hologic for US\$95m. The deal gives Immucor, and therefore TPG Capital, exposure to the promising market for transplant diagnostics in medicine, which is worth an estimated US\$400m and is expected to grow. It extends Immucor's offering to organs and stem cells, and is part of its strategy to become a major player in the diagnostics industry.

"Top line trends suggest that the exit environment is more promising than the buyout environment, driven by attractive valuations symptomatic

of competitive pressures across the industry," comments Scott Edelstein, Co-chair Healthcare & Life Sciences industry group at Squire Sanders. In the first half of 2013 there have been 33 exits worth US\$16.1bn, marking a slight fall in volume (3%) but a significant increase in aggregate value (12%) compared to the same period a year earlier when 34 deals were announced worth a total of US\$14.3bn. Apart from the high profile exits by Warburg Pincus and Blackstone Group, a number of other private equity firms realised their investments in the second quarter of 2013. The clamour among strategic investors enabled them to realise relatively quick sales at attractive premiums and avoid the necessity of drawn-out IPO processes. For example, a group of investors: venBio LLC, Topspin Partners, LP, OrbiMed Advisors, LLC, Aisling Capital, and the Column Group, agreed to sell small-molecule oncology drug firm Aragon pharmaceuticals to US pharma major Johnson & Johnson. The deal gives Johnson & Johnson ownership of innovative prostate cancer therapies, with one drug in phase two clinical trials. It is in line with a widespread focus in the pharmaceutical sector to snap up promising drug development firms. Mitigating the risk involved with such investments, this deal involves a US\$350m contingent component, dependent upon certain milestones being reached

(in other words, the products proving lucrative). The transaction is a good example of a venture capital exit from an innovative biotechnology firm that could potentially top US\$1bn.

North American life sciences and healthcare M&A industry snapshots

Pharmaceuticals

The pharmaceutical sector in the US saw 83 transactions announced in 2012, worth a total of US\$79bn. The value was skewed by the announcement of rare blockbuster deals. So far this year there have been 35 deals announced in the space, worth in aggregate US\$18bn, marking a return to more ordinary levels of M&A value.

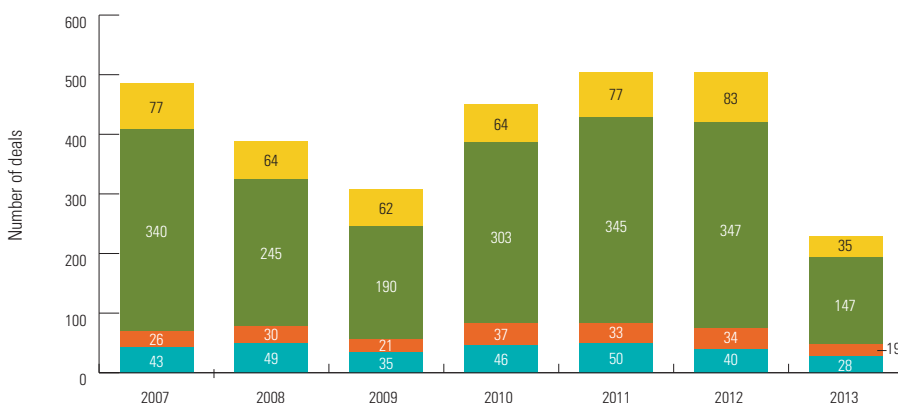
The sector has been dominated by two key trends: firstly, intense scrambling to react to the patent cliff and the general slowing pace of innovation in pharma. This has led to a number of strategic investments in drug developers. Secondly, pharmaceuticals face a completely altered reimbursement landscape in the US, instigated by healthcare reform.

Biotechnology

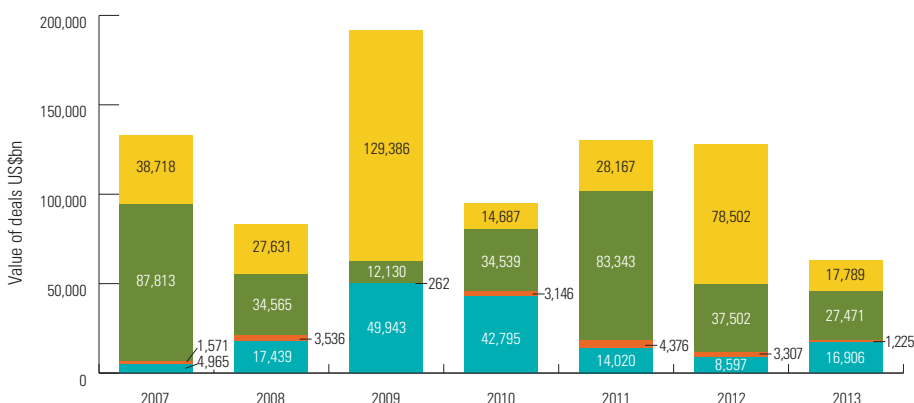
The biotech sphere has seen inflated aggregate deal value this year, reaching US\$16.9bn with the lion's share due to the US\$15bn purchase of Life Technologies by Thermo Fisher. Biotechnology has long been attracting interest from pharmaceuticals buyers as a source for innovative products. In particular, the field of genetic sequencing presents attractive opportunities, with personalized medicine billed as one of the major trends in the industry for the next decade. As a result, strategic acquirers are vying with financial investors over the most promising companies operating in the field. The failed US\$6.8bn bid for Illumina by Roche last year evidences the high premiums placed on assets in personalized medicine – Illumina demanded a higher price from Roche, causing the deal to collapse.

Transformative deals valued at more than US\$10bn have been rare. The most attractive targets are innovative firms, which are more

North American subsector M&A volume



North American subsector M&A value



Key for above two graphs:

- Biotechnology
- Healthcare IT
- Medical
- Medical: Pharmaceuticals

often smaller players. The second largest biotech deal in the year-to-date is the US\$557m purchase of a 72% stake in California-based VistaGen Therapeutics, by Nevada headquartered Bergamo Acquisition Corp.

Healthcare

The healthcare space has seen a healthy flow of transactions recently, a number of which have taken place at the higher end of the deal value spectrum. For instance, Valeant Pharmaceuticals acquired eye-health firm Bausch & Lomb for US\$8.7bn. The transaction will strengthen Valeant's ophthalmology portfolio, which is tipped to be a busy space in the long-term

thanks to ageing populations across a number of key markets.

The medical devices space has seen a number of deals driven by firms seeking to diversify product portfolios. In June, Boston Scientific Corporation agreed to acquire Bard Electrophysiology, a provider of devices for the diagnosis and treatment of cardiac arrhythmias, for US\$275m.

Consolidation has also continued among healthcare institutions and hospital management services providers. A number of these deals point towards a strong appetite for providers of care to the growing elderly population. Occupancy

M&A SPOTLIGHT: NORTH AMERICA

rates of retirement properties hit a high in 2012, reaching averages approaching 90%, which has positively impacted the profitability and hence the attractiveness of operators. This year, TPG Capital invested US\$454m in Assisted Living Concepts, Brookdale Senior Living invested in 12 additional retirement villages for US\$162m, while later in April, Leisureworld Senior Care Corporation agreed to buy 10 properties from Speciality Care in South Ontario, for a total of US\$260m. These firms are likely to be attractive targets themselves for financial investors, such as real estate investment trusts, that are seeking to capitalise on the building opportunity in the elderly care market.

Healthcare IT

Scott Edelstein states: "Healthcare IT is a small but exciting segment for M&A, fuelled by innovative firms solving major challenges for providers of electronic medical records and other critical healthcare infrastructure applications."

One of the largest deals in the space recently was Managed Health Care Associates' US\$1bn acquisition of Roper Industries. Roper has seen revenues growing strongly in recent periods, with this deal expanding its exposure in software and analytics services to pharmacies, assisted living facilities and other healthcare providers. Managed Health Care Associates' products allow customers to manage reimbursements and improve operating efficiency. Against

the backdrop of unfolding reforms in the US market, the value of these benefits cannot be underestimated, which is perhaps a major driver for the deal from Roper's perspective.

In recent years, the sector has attracted technology firms from outside of the healthcare space, as they seek to apply their expertise to a potentially lucrative area. For example, in January, Lexmark, whose core business areas are printing, imaging products and related software solutions, acquired Acuo technologies, a medical image archive firm, for US\$45m. The size of this deal belies its significance, as it is one in a string of deals carried out by Lexmark, which is seeking to expand its presence in healthcare.

Inbound M&A

The first half of 2013 saw 26 inbound life sciences and healthcare deals with North American targets, worth an aggregate value of US\$3.4bn. This marks a decline of 21% in volume and 68% in value compared to the same period a year previously when 33 transactions were announced worth a total of US\$10.4bn.

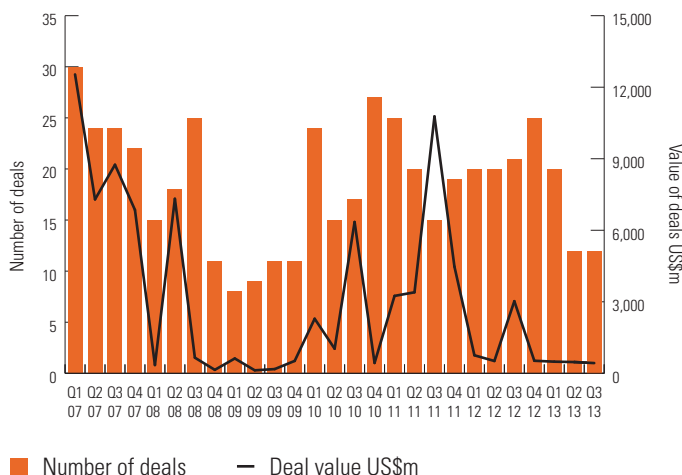
The first quarter of 2013 saw muted M&A in both volume and value terms, with just eight transactions announced and total disclosed deal value of US\$387m. It should be noted that this total deal value is considerably impacted by the

fact that only three of the announced transactions listed deal value. The second quarter saw a strong rebound in activity and more than twice as many deals announced. However, looking at the year to date as a whole reveals generally lukewarm demand for US life sciences and healthcare targets from foreign acquirers.

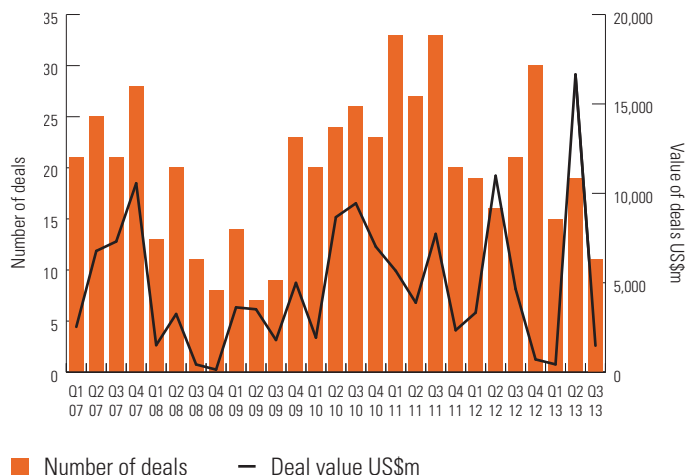
From the beginning of 2012 to present, the UK has been the largest inbound acquirer into the US. Companies from the UK undertook 26 inbound acquisitions to the US carrying an aggregate value of US\$6.9bn. These have been split relatively evenly between pharmaceuticals, medical and biotechnology. The largest transaction was GlaxoSmithKline's US\$2.9bn takeover of Human Genome Sciences last May. Human Genome Sciences is a US-based biopharmaceutical company engaged in discovery, development, manufacturing and commercialization of innovative drugs for patients with unmet medical needs. The deal perfectly encapsulates the overarching trend in the pharmaceuticals industry: major players are becoming more innovative by acquiring smaller companies developing promising pipeline therapies.

The most acquisitive UK company in the North American market in the period 2012 to present day has been GE Healthcare, which has purchased four targets in the healthcare and biotechnology spheres. All private transactions, none of the deal values have been announced.

North American private equity buyouts



North American private equity exits



Closely trailing GE Healthcare is Astra Zeneca, which has spent just over US\$2bn on strategic assets in the pharmaceuticals space. One of the most prominent deals was the US\$1.2bn acquisition of California-based Area Biosciences, a biotechnology company involved in developing small-molecule therapeutics, in April 2012.

The proportion of these transactions that were private equity exits is striking, and highlights that the long-held strategy among financial investors of taking calculated risks on innovative, growing drug development firms, before exiting to a major global player, is alive and well. Indeed, stock market volatility in 2012 may have helped tilt preferences in favor of strategic exits rather than IPOs. As stock market performance in the US continues to improve, more private equity groups may consider listing, though trade sales are currently the most attractive route.

After UK acquirers, Japanese companies were the most acquisitive in the US market, and carried out 11 transactions worth a total of US\$4.2bn. In terms of the highest aggregate deal value, German companies are dominant, with six deals and a total disclosed value of US\$8.2bn. The largest deal by a German buyer was the US\$4.2bn acquisition of Lincare Holdings. The deal unites two firms with a shared corporate history, and is Linde's largest acquisition since 2006.

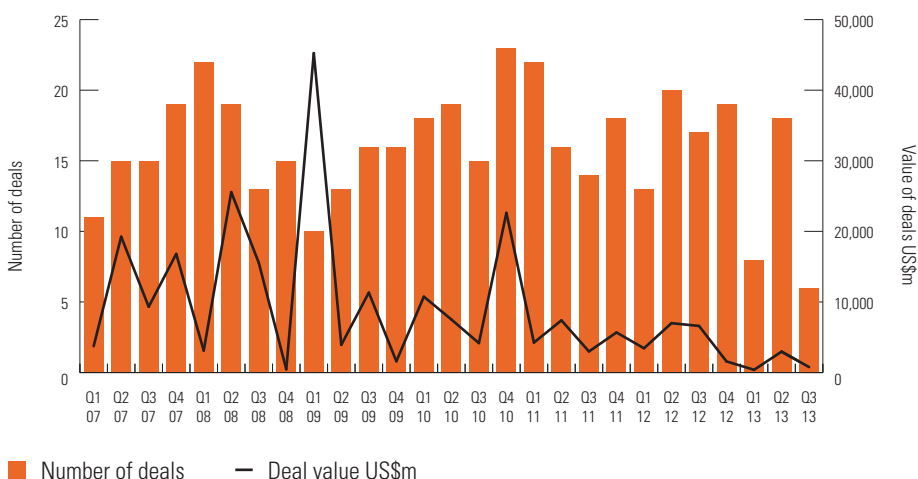
Outbound M&A

North American firms are the most acquisitive outbound buyers globally. Although the domestic life sciences and healthcare industries are battling with a number of parallel industry changes including "the patent cliff", US healthcare reform, global reimbursement pressure and even underperformance in once-promising emerging markets, appetite for overseas M&A is still fierce.

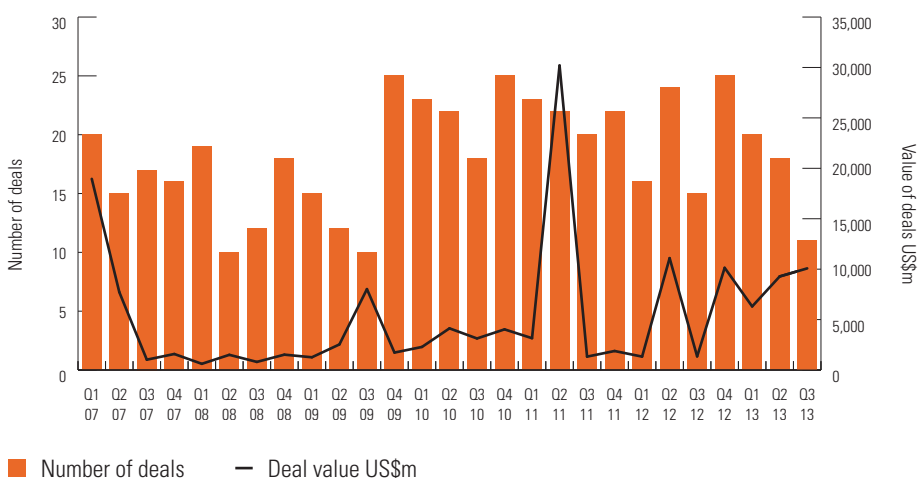
In the first half of this year there have been 38 deals announced with a total aggregate value of US\$16bn, marking a 5% dip in volume and a 25% increase in value compared to the same period in 2012, when there were 40 deals worth a total of approximately US\$12bn.

The attractiveness of Irish life sciences and healthcare targets to US investors is clearly

North American life sciences and healthcare inbound M&A trends



North American life sciences and healthcare outbound M&A trends



evidenced in the data, with US companies spending US\$20bn on three major deals in the territory so far in 2013. Two of these transactions involved Irish biotechnology firm Elan corporation: first, selling its 50% stake in its multiple sclerosis drug, Tysabri, to its partner Biogen, and a few months later, being purchased by US OTC pharmaceutical company Perrigo, for US\$3.2bn.

The other major deal was the US\$8.4bn purchase of Irish company Warner Chilcott by US firm Actavis. Warner Chilcott is a branded pharmaceuticals firm specialising in women's healthcare, gastroenterology, urology,

and dermatology. Prior to the acquisition meanwhile, Actavis' core focus was generics (three quarters of 2012 revenue), hence the deal not only significantly expands Actavis' size, creating a firm with US\$11bn in revenue and the third largest specialty pharmaceutical firm in the US, it also enables Actavis to significantly diversify its footprint.

Mirroring the inbound M&A trend, outbound US acquirers are most active in the UK, and undertook 25 deals in the last year and a half with a total disclosed deal volume of US\$2.6bn, though value was undisclosed for almost half of all deals.

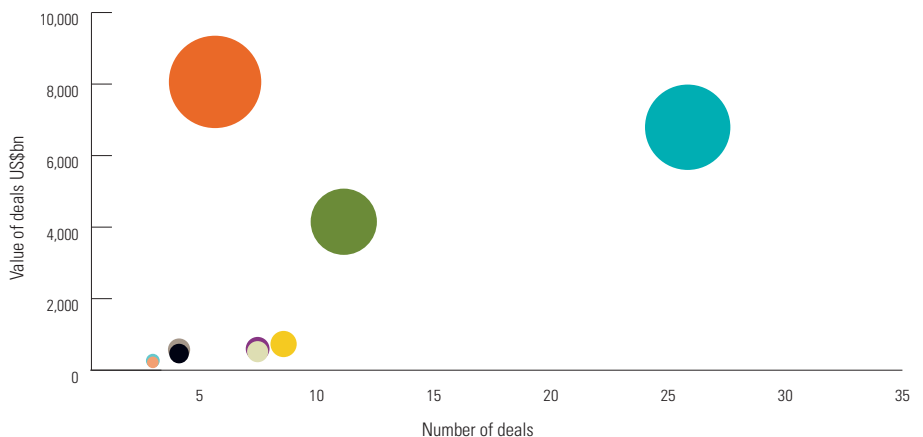
M&A SPOTLIGHT: NORTH AMERICA

The three largest deals in the period were all private equity buyouts or exits. In the first deal, US private equity firm One Equity Partners, which is backed by J.P. Morgan, sold UK-based Systagenix, a developer of wound-healing solutions, to US medical technology company Kinetic Concepts for US\$485m. The deal is largely driven by Kinetic Concepts' desire to diversify its portfolio of wound-healing products. The second largest outbound deal to the UK was Bain Capital's US\$360m purchase of an 80% stake in Plasma Resources, from the UK Department of Health. Plasma Resources UK creates treatments for immune deficiencies, neurological diseases and haemophilia, supplying a third of the NHS's blood plasma.

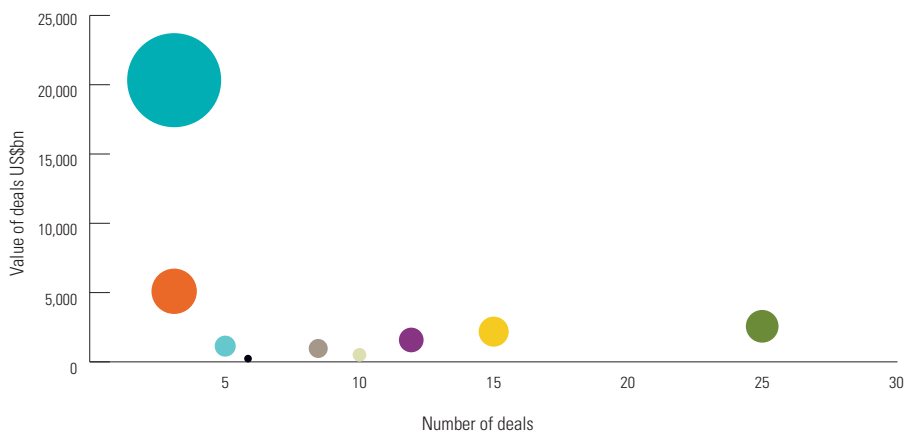
India and Brazil's position on the list of top 10 outbound target regions is unsurprising, given the strategic importance of these markets for life sciences and healthcare companies over the next 10 years due to key demographic shifts. The acquisition of Brazilian company Amil Participacoes by US healthcare giant UnitedHealth Group is driven by a desire to capitalize on demographic trends in Brazil, where the middle class is expected to grow over the next decade, spending more on health insurance. In a much smaller deal this summer, two US private equity groups, Aberdare Ventures and Valiant Capital partners, moved to purchase a 45% stake in EPharma for a consideration of US\$75m.

This September saw the Indian government finally approve the US\$1.6bn acquisition of Indian vaccine and specialty drug maker Agila Specialties by US pharmaceutical company Mylan. The transaction is one among a number of investments by foreign firms in the last few years in the high-quality generic production industry in India. The deal was stalled for some time while Indian regulators considered the impact of the transaction on access to and affordability of drugs. Its successful approval could attract others to the market; though foreign acquirers are not as active in India as they would be were the regulatory regime more relaxed.

Top 10 inbound bidder countries, 2012-2013 YTD



Top 10 outbound target countries by volume, 2013-2013 YTD



AS GLOBAL AS A CROSS-BORDER TRANSACTION

AS LOCAL AS THE OPPORTUNITIES IT CREATES

Squire Sanders has the experience, the reach and the expertise to help clients complete successful M&A transactions, locally and across jurisdictions.

SQUIRE 
SANDERS



ABOUT SQUIRE SANDERS

Squire Sanders is one of the world's leading corporate legal practices, with over 1,300 lawyers in 39 offices located in 19 countries.

We have more than 350 transactional lawyers globally, who provide expert multijurisdictional and local M&A legal advisory services. Our lawyers work through more than 20 specialized industry groups from consumer and retail, energy and natural resources to life sciences, healthcare, chemicals and communications.

Our transactional lawyers are resident in our offices around the world, providing on-the ground resources for all of our clients across the Americas, Asia-Pacific, Europe and the Middle East, and in all of the world's major political, financial and regulatory hubs. With a deep-rooted knowledge of the many complexities involved in any corporate deal, such as regulatory laws and flaws, financing structures, environmental concerns, tax matters and more, we are able to assemble optimal and fully integrated teams dedicated to attaining your goals.

Dan Berick

Americas Chair – Global Corporate Practice
+1 216 479 8374
daniel.berick@squiresanders.com

Stephen Chelberg

Asia Pacific Chair – Global Corporate Practice
+81 3 5774 1800
stephen.chelberg@squiresanders.com

Scott Edelstein

Co-chair Life Sciences Industry Group
+1 202 626 6602
scott.edelstein@squiresanders.com

Jane Haxby

EMEA Chair – Global Corporate Practice
+44 161 830 5144
jane.haxby@squiresandes.com

Maureen Bennett

Co-chair Life Sciences Industry Group
+1 857 453 5627
maureen.bennett@squiresanders.com

David Grauer

Practice Group Leader, Healthcare
+1 614 873 1833
david.grauer@squiresanders.com



North America		Latin America	Europe & Middle East		Asia Pacific
Cincinnati	Northern Virginia	Bogota+	Beirut+	Leeds	Beijing
Cleveland	Palo Alto	Buenos Aires+	Berlin	London	Hong Kong
Columbus	Phoenix	Caracas+	Birmingham	Madrid	Perth
Houston	San Francisco	La Paz+	Bratislava	Manchester	Seoul
Los Angeles	Tampa	Lima+	Brussels	Moscow	Shanghai
Miami	Washington DC	Panamá+	Bucharest+	Paris	Singapore
New York	West Palm Beach	Santiago+	Budapest	Prague	Sydney
		Santo Domingo	Frankfurt	Riyadh	Tokyo
			Kyiv	Warsaw	

+ Independent Network Firms



MERGERMARKET

Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind. Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.



Remark, the events and publications arm of The Mergermarket Group, offers a range of publishing, research and events services that enable clients to enhance their own profile, and to develop new business opportunities with their target audience.

To find out more please visit www.mergermarketgroup.com/events-publications/

For more information please contact: Karina Ross, Head of Sales, Remark EMEA, The Mergermarket Group
Tel: +44 (0)20 7010 6324 Email: Karina.Ross@mergermarket.com

Part of The Mergermarket Group

www.mergermarketgroup.com

**80 Strand
London
WC2R 0RL
United Kingdom**

t: +44 20 7059 6100
f: +44 20 7059 6101
sales@mergermarket.com

**11 West 19th Street
2nd fl.
New York, NY 10011
USA**

t: +1 212 686 5606
f: +1 212 686 2664
sales.us@mergermarket.com

**Suite 2001
Grand Millennium Plaza
181 Queen's Road, Central
Hong Kong**

t: +852 2158 9700
f: +852 2158 9701
sales.asia@mergermarket.com

Disclaimer

This publication contains general information and is not intended to be comprehensive nor to provide financial, investment, legal, tax or other professional advice or services. This publication is not a substitute for such professional advice or services, and it should not be acted on or relied upon or used as a basis for any investment or other decision or action that may affect you or your business. Before taking any such decision, you should consult a suitably qualified professional adviser. Whilst reasonable effort has been made to ensure the accuracy of the information contained in this publication, this cannot be guaranteed and neither Mergermarket nor any of its subsidiaries or any affiliate thereof or other related entity shall have any liability to any person or entity which relies on the information contained in this publication, including incidental or consequential damages arising from errors or omissions. Any such reliance is solely at the user's risk.