Going One, Going Twice, Sold! Cinven and Bain Capital to Acquire STADA for €5.3bn after Intense Bidding War

Stada Arzneimittel AG (FWB: SAZ) – market cap as of 21/04/2017: €4.02bn
Intel Cinven Partners LLP – private company – AUM as of FY 2015: €10.60bn
Bain Capital Private Equity, LP – private company – AUM as of 04/04/2017: $32.40bn

Introduction

On April 10, 2017, Bain Capital Private Equity, LP ("Bain Capital PE") and Cinven Partners LLP ("Cinven") won an intense bidding war to takeover Stada Arzneimittel AG ("STADA"). Their proposal, chosen over the one of Advent International and Permira as the "most financially appealing", values STADA's total equity at €4.11bn.

Bain Capital PE and Cinven are committed to strengthen STADA's position as a global healthcare company. Based on their sector expertise and proven track records of successful buy-and-build strategies, both partners are believed to contribute further capabilities to support STADA's management agenda.

According to data from Dealogic, the deal represents the largest private equity acquisition of a publicly traded European company in four years.

About Stada Arzneimittel AG

Stada Arzneimittel AG is a Germany-based holding company listed on the Frankfurt Stock Exchange.
The Company is active in the pharmaceutical and healthcare market and operates through two main business segments: (1) Generics and (2) Branded Products: The Generics segment offers high-quality, low-priced and active-ingredient products marketed by the Group subsidiary - STADApharm GmbH. The Branded Products segment focuses on multisource products accessible without active ingredient research, marketed by the subsidiary SCIOTEC Diagnostics Technologies.
Furthermore, the recently announced strategy "STADA Plus" will bring the company to a further internationalization of selected branded products and will streamline the product portfolio of the two business segments.

In FY2016, STADA's net income fell by 22.19%, despite its constant revenues, due to an increase in the selling, general and administrative expenses as a percentage of sales. At the same time, cash reserves increased by 146.25% thanks to significant cash inflows from operations and from financing. YoY growth in dividends per share increased by 2.86%, which is rare for a company in the Biotechnology & Drugs sector.

About Cinven Partners LLP

Cinven Partners LLP is a private equity firm founded in 1977. It has offices in London, Frankfurt, Guernsey, Hong Kong, Luxembourg, Madrid, Milan, New York and Paris. As of FY 2015, Cinven had €10.6bn AUM and realized proceeds of c. €30bn.

Since 1988, Cinven funds have invested in 117 companies worth around €90bn. The firm's investment strategy targets companies with European headquarters or operations (also selective investments in North America are possible), with cash generation or value-add business models, growth-accelerating strategies, and the possibility to control or exert significant influence over management and policies. Target companies must have a minimum Enterprise Value of €400m, in which Cinven typically invests c. €200m, expecting a c. 20% gross IRR. The typical holding period for an investment is between four and six years.

Cinven focuses its activities in six sectors – Financial Services, Business Services, Consumer, Healthcare, Industrials, and Technology, Media & Telecommunications (TMT) – and has invested in companies in 15 countries.

The company has been investing in global healthcare businesses over a 20-year period and invests in market-leading, cash-generative companies. The Healthcare team has made 13 investments representing €3.7bn of committed capital. Current investments are represented by AMCo, Bioclinica, Medpace and Synlab.

About Bain Capital Private Equity, LP

Bain Capital Private Equity, LP is a private equity firm founded in 1984 in Boston. The company has 9 offices across 4 continents and has launched 11 global private equity funds, 4 European funds and 3 Asian funds. Since its foundation as a PE company, the firm expanded organically and now operates as a subsidiary of Bain Capital, LLC, a multi-asset alternative investment firm that includes private equity, credit, public equity and venture capital having approximately $75bn AUM.

The core strategy of the Firm is based on five pillars: (1) high quality people, (2) vertical expertise, (3) value-added support, (4) global integration and (5) aligned incentives with target companies. The firm focuses on global investments in companies based in North America, Europe (with a focus on Western Europe), and Asia (with a focus on China, India, and Japan). In China, the firm seeks to invest in early stage companies, whilst in Japan it prefers to perform buyouts of mature middle-market companies or divisions and subsidiaries that corporations are looking to divest.

Since its foundation, Bain Capital PE has completed 280+ investments across 5 industries (Consumer, Retail & Dining, Financial & Business Services, Healthcare, Industrial & Energy, and TMT). Investments in the healthcare sector include hospitals, pharma companies, medical products manufacturers, distributors and service providers and currently represent a portfolio of 10 firms, among which there are Acadia Healthcare Company, Emcure and Quintiles.

Bidding War

The deal followed a month-long bidding war which saw four private equity firms – Advent International, Bain Capital, Cinven and Permira – compete to acquire the German drug maker.

The first offer was made by Cinven in February 2017, pitching the deal at €56/share – a 15% premium on STADA's share price on the day before the announcement. However, this offer was outweighed by Bain Capital's one, which valued the target's equity at €3.6bn, or €58/share. As a response, Advent International tried to put an end to the competitive auction by submitting a binding offer of €58/share including a commitment to dividend payments to STADA's shareholders.

The above mentioned private equity firms eventually teamed up in two consortia: Bain Capital and Cinven on one side, Advent International and Permira on the other. On the 10th of April, the consortium led by Bain Capital and Cinven emerged as the winner of the bidding war, with an offer which valued STADA at €5.32bn Enterprise Value (including €1.2bn in net debt).

Deal Structure

According to the terms of the transaction, STADA's shareholders will receive €66 per share, consisting of a cash consideration of €65.28 plus an expected dividend of €0.72 to be paid by STADA during the offer period. These figures imply an equity value of approximately €4.11bn plus dividend and an EV of about €5.32bn. The consideration paid corresponds to a 48.9% premium to the share price on December 9, 2016 (the last trading day prior to the first rumours about the potential takeover) and a 19.6% premium on the volume-weighted average share price over the past three months.

The price paid by the two PE firms implies a 13.36x FY 2016 EBITDA multiple and, as reported by STADA's management, a 12.3x expected FY 2017 EBITDA multiple. Considering that larger generics companies like Teva and Mylan are trading at multiples of about 8x-9x, and that for Richter Gedeon, an eastern European rival, the multiple is almost 11x, the price seems reasonable, especially considering that takeover prices typically come at a considerable premium to trading multiples.

Moreover, the terms of the investment agreement signed by STADA, Bain and Cinven, include for extensive protection provisions for employees and production sites as well as the corporate strategy. Therefore, Bain and Cinven must honour the company's existing union contracts and refrain from other-than-those-already-planned business-related layoffs for four years.

The completion of the deal, which will be financed by the buyers with €2.6bn equity and the remainder in debt, is likely to occur at some time in the summer and is subject to a minimum acceptance threshold of at least 75% of all STADA shares and certain customary conditions such as antitrust clearances and the approval of the German Federal Financial Supervisory Authority.

Deal Rationale

Private equity firms are typically not interested in participating in a firm's administration for a very long time. However, this likely won't be a touch-and-go operation.

Both partners have a consistent track record of growing companies through their global networks, have successfully been investing in companies for more than 30 years and have expanded many of these companies through buy-and-build strategies.

Mr. Weidenfels - STADA's CEO - in June, 2016, outlined two key objectives for the company: On the one hand, he stressed his will to commit to a more focused strategy of concentrating the product portfolio on performing branded and generic drugs with clear growth potential. On the other, he underlined the importance of focussing on costs reduction, particularly with regard to COGS, as well as simplifying group and operating structures.

Private equity ownership could now accelerate the reaching of those goals. Moreover, Bain and Cinven share the strategic objective to strengthen STADA's position as a global healthcare company and could very well support investments in new products, organic expansion and, more likely, accelerated growth through targeted acquisitions.

What's certain, is that the implementation of their strategy will take time and efforts, and considerable resources will be needed to realize STADA's full potential. But, if the business model works, volume growth and consequent economies of scale would handsomely reward the company and its investors.

Market Reaction

On the day of the announcement, STADA's share price increased by 10.6% reaching its peak at €64.45. However, it should be noted that – since the first rumours on a possible takeover spread in December 2016 – the company's share price had already surged by approximately 20%.

Advisors

JP Morgan, Macquarie Capital and Rothschild acted as lead financial advisors to Bain Capital and Cinven. Barclays, Citi and UBS had been mandated as additional financial advisors to the consortium. On the other side, STADA's supervisory board was advised by Evercore Partners.