# Here Comes Number Twelve: C. R. Bard Joins Becton Dickinson's Relentless String of Acquisitions for $25.7bn

**Becton Dickinson and Company Inc. (NYSE: BDX) – market cap as of 05/05/2017: $39.78bn**
**C. R. Bard Inc. (NYSE: BCR) – market cap as of 05/05/2017: $22.31bn**

### *Introduction*

On April 23, 2017, it was announced that Becton Dickinson had entered into a definitive agreement to acquire C. R. Bard - one of its main competitors - for a total consideration of $25.7bn. Both companies focus on medical supplies and devices manufacturing. The deal marks the 12th chapter in a series of acquisitions started by Becton Dickinson's CEO - Mr. Forlenza - since he took over in 2011. In recent years, Forlenza's shopping spree has come out of necessity, in response to a widespread slowdown in revenue growth, consolidation among healthcare providers, and increased pressure from healthcare customers to hold down treatment costs.

### *About Becton, Dickinson and Company*

Founded in 1897 and headquartered in Franklin Lakes (New Jersey), Becton, Dickinson and Company (BD) is an American medical technology company that manufactures and sells medical devices and instruments used by healthcare professionals and researchers. Nowadays, BD employs around 50,000 people in more than 50 countries. The company is currently divided into two segments: (1) BD Medical and (2) BD Life Sciences.

Becton Dickinson sales during FY2016 amounted to $12.5bn, a 21.6% increase with respect to FY2015, with about 45% of those revenues coming from international markets. The medical division grossed $8.7bn in revenues with a 23.7% operating margin, while the life sciences division earned $3.8bn in revenues at a 20.7% operating margin.

### *About C. R. Bard*

C. R. Bard, Inc. (Bard), headquartered in Murray Hill (New Jersey), is a leading multinational developer, manufacturer, and marketer of medical technologies. Bard sells its products and services worldwide mainly to hospitals and individual healthcare professionals. The company featured four main revenue generators: (1) the vascular division, which brought in 27% of total net sales, (2) oncology, also with 27%, (3) urology with 26%, and (4) surgical specialties, which contributed 17%.

Bard reported revenues for the year ended on December 31, 2016 of $3.71bn, an 8.47% YoY increase with respect to FY2015. The company has reduced the cost of goods sold as a percentage of sales in a very significant way, contributing to a net income growth of 292.47% from $135.4m to $531.4m.

### *Industry overview*

The medical manufacturing industry has featured high levels of deal making in recent years: since the end of 2012, $373bn have, indeed, been spent on mergers and acquisitions and the wave of consolidation has yet to show signs of decline.

Nowadays, the industry's ten largest companies have a combined market share of 46.7%, while other smaller and more specialized firms mainly operate in niche markets.
The main players operate in dozens of countries and sell their products directly to end-users, namely hospitals. However, they mostly rely on the so-called "third-party payers". These entities, like governments or private health insurers, reimburse the expenses related to procedures and materials provided during medical treatments.

If on one side of the value chain medical manufacturing companies must deal with large organization, on the other raw materials can be purchased from a wide range of suppliers thanks to their commodity-like nature (i.e. plastics, glass, metal, textiles, etc.).

In terms of recent trends, the industry has become ever-more complex and challenging because of technology advancements that demand substantial R&D investments over time. Furthermore, new scientific discoveries and a tighter regulatory environment are making the whole medical field harsher to operate in. On top of this, hospitals are pushing for price reductions, thus triggering an increase in competition among the makers of medical devices and supplies.

In response to these changes, firms are working primarily on cost cutting and, in a second instance, they are striving to enlarge their portfolio of products to bolster profit margins. On the other hand, fast-growing emerging markets are being targeted in order to expand the customer base and increase global market share.

### *Deal structure*

The $25.7bn deal will be financed through a combination of cash and stock. Bard's shareholders will receive $222.93 in cash and 0.5077 shares of BD stock for each share of Bard stock they own, equivalent to a value of $317, which implies a 25% premium. BD will contribute $1.7bn of available cash along with $10bn of debt, $4.5bn of newly issued equity and $8bn of BD common stock. BD will assume $1.6bn worth of Bard debt and $1.1bn of its cash. At closing, Bard shareholders will own approximately 15% of the combined entity, whereby Bard will operate as a fully-owned subsidiary of BD. The deal carries a $750m breakup fee that Bard will have to pay in cash in case of termination.

The price implies a 21.4x LTM EBITDA multiple according to S&P Capital IQ.  According to the same source, two similar companies operating in the same sector, Stryker Corporation and Baxter International have multiples of 16.91x and 14.41x respectively. The difference reflects the premium BD was willing to pay to continue its frantic efforts to use consolidation as a way to defend margins from increased concentration among its customers.

BD expects to extend the suspension of its share repurchase program, with the pledge of increasing dividends and reinvest in its business to fuel long-term growth. Besides, the buyer expects the combined company to have a pro forma leverage ratio of approximately 4.7x, which it commits to decrease to below 3.0x within the first three years after closing.

Upon closing of the transaction, Bard's CEO and one Bard director will join BD's board. BD expects to create a new segment within the company called BD Interventional within which Bard's business will report operationally and financially.

### *Deal rationale*

BD expects the deal to be immediately accretive and to generate high single-digit accretion to adjusted EPS in FY2019. Furthermore, the transaction is expected to generate $300m in estimated annual pre-tax cost savings by 2020.

Besides the mere financial rationale, there are two main strategic reasons behind this deal: the first one is related to customer consolidation and the possibility to offer larger discounts, while the second one concerns further expanding the international presence of the two companies. With a larger portfolios, the new company will now be able to provide hospitals with new package deals, resulting in higher discounts and, likely, in higher sales volumes. This is one of the main strategic reasons that drove the majority of acquisitions over the past years in the industry, following a slowdown in revenue growth.

Furthermore, Becton Dickinson's strong international presence will help Bard expand overseas, where it owns 500 registered products. The new combined entity will have a large footprint in emerging markets, including $1bn in annual sales in China, which will help to shape Asia as a solid source of revenues.

The fact that Becton Dickinson has successfully completed several acquisitions in recent years leads to believe that cultural conflicts between the two combined companies will be minimal, thus avoiding the problems of cultural integration which often prevent expected synergies to be fully realized.

One possible drawback of the deal is represented by the backdrop against which it was agreed. Being the 12th in series of acquisitions executed in rapid succession, the additional debt resulting from the deal has the potential to weigh excessively on BD's balance sheet. Furthermore, the need to complete work on previous deals might divert management's effort away from the merger, potentially delaying what should be a swift integration of the two businesses.

### *Market reaction*

The day following the announcement of the deal, BD's shareholders sent the stock plunging 4.4%. The drop reflects fears among investors that the company might be doing too much too quickly when it comes to M&A activity. Nevertheless, the management's commitment to raise funds "very, very quickly", along with upbeat earnings for the second quarter have contributed to pare the losses, with the stock changing hands on Friday at $184.9 (around pre-announcement levels).

Upon official announcement of the deal, Bard's stock jumped 19.5% and has since then slightly increased, indicating shareholder's conviction that no meaningful hurdle stands to spoil the deal's outcome.

### *Advisors*

Becton, Dickinson and Company was advised by Citigroup and Perella Weinberg Partners. Goldman Sachs served as financial advisor to C. R. Bard.