

Analysis of Mergers and Acquisitions(M&A) in medical industry

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Abstract

Under the market competitive pressure, mergers and acquisitions are a good way to help the company's survival and growth. It is a decisive economic action. A proper merger and acquisition can help the company increase its profit and market share and also spread the risk. In an active market, mergers and acquisitions are frequent, and the managers must take risks. They need to analyze a lot of figures and review some cases. This paper is going to explain the advantages and disadvantages of mergers and give more information on mergers and acquisitions. I take (Johnson & Johnson's acquisition of Abiomed) in 2022 and others as a starting point to explain and give some suggestions.

Keywords: merge and acquisition, market share, advantages, and disadvantages.

1 Introduction

Mergers and acquisitions (M&A) are business transactions that involve the transfer of ownership, business organization, or operating units of a company to other companies or organizations and their consolidation. As an aspect of strategic management, mergers and acquisitions can make a company larger or smaller and even change the nature of a company's business, industry sector, and competitive position [1]. Contemporarily, more and more companies are trying to expand their scale and take a larger market share through mergers and acquisitions; this method is very cost-efficient in recruiting a high-quality talent workforce and entering a new market. Especially in the internationalized world, cooperation plays a significant role in economics. Moreover, Pharmaceutical and life sciences (PLS) and other health care services (HCS) still expect to remain attractive to investors in the second half of 2023. According to 'PWC the Global Healthcare Industry M&A Passing Away Midterm Review and Outlook 2023', Although regulators' antitrust scrutiny has become more stringent, achieving transformation through blockbuster deals has become more difficult. Big Pharma continues to invest in mid-sized biotech firms to fill gaps in the R&D pipeline, while portfolio valuation and divestment of non-core assets remain top priorities [2]. In addition, many types of mergers exist, such as horizontal, vertical, and conglomerates. Firstly, horizontal mergers mean two or more firms joining together to produce the same production stage of some goods and services. The purpose of horizontal mergers is to take a larger market share, which can be a price maker in a market. Secondly, a vertical merger means two or more firms joining at different stages of the same good and service. This merger has two conditions: one is forward, and the other is backward. Forward merge is for one firm

to take over another firm at a former stage of production, while backward is to take over another firm at a later stage of production. This type of merger can help firms to save costs and gain more profits to some extent. Take a bread production company as an example; one firm is a wheat producer, and another firm is a bakery. Before they integrate, the bakery should buy some raw materials like wheat to produce bread, and there are a lot of costs in the process, for example, the price of delivery and wheat. Also, there is some imperfect information, so some price differences in the quality of the wheat can't be known. This led to a misallocation of resources. A bakery might pay a higher price than other firms. However, suppose these two firms merge, for the bakery. In that case, their cost is only to produce wheat, the price difference will not happen, and the firm doesn't need to be concerned about the quality and sustainability of the raw material supply because it is already involved in their own. Also, they can sell some extra wheat even if they don't sell to competitors, which means they can also increase some profits and enhance the state in the market.

On the other hand, wheat producers don't need to be concerned about sales. Thirdly, the conglomerate integration. This integration means two or more firms join together, making totally different types of goods and services, which aims to spread some risks.

2. Case description

2.1 The acquiring company(Johnson & Johnson)

Johnson & Johnson, established in 1886, is one of the world's most comprehensive and widely ranged healthcare companies, with businesses in three major areas: medical devices, pharmaceuticals, and consumer products. Headquartered in New Brunswick, New Jersey, United

States, it has more than 260 operating companies in 60 countries and regions around the world, with more than 130,000 employees worldwide, and its global investment in research and development (R&D) is considerable

2.2 Acquired company(Abiomed)

ABIOMED is a medical device technology company that operates as a separate business within Johnson & Johnson's Medical Technology division [3]. ABIOMED develops and manufactures temporary external and implantable mechanical circulation support devices. The company is headquartered in Danfoss, Massachusetts, with offices in Woburn, Baltimore, Berlin, Aachen, and Tokyo.

3. Case

3.1 Johnson & Johnson's acquisition of Abiomed

The report by Medtech World announced that one of the largest medical device manufacturers, Johnson & Johnson, said it will buy Abinomed for about 16.6 billion to consolidate its cardiovascular device business [4]. The acquisition is Johnson & Johnson's first major acquisition since it announced last year that it was divesting its consumer health business and is one of the largest acquisitions in Johnson & Johnson's history. The transaction is expected to close by the end of the first quarter 2023. The acquisition of Abiomed will expand Johnson & Johnson's presence in the cardiovascular track and increase its overall strength in healthcare, particularly in heart failure and rehabilitation. It is noticeable that Abimoed had acquired a technology called Impellea; the Impella heart pump is the smallest in the world, used to help maintain blood flow during high-risk protected percutaneous coronary interventions (PCI). [5] Then there's the company that once went from being on the verge of bankruptcy to being named the fourth-fastest-growing company of the 2010s era and finally becoming a \$100 billion market cap machinery giant. It is noticeable that Abimoed had acquired a technology called Impellea; the Impella heart pump is the world's smallest heart pump used to help maintain blood flow during high-risk protected percutaneous coronary interventions (PCI) [5].

3.2 Analysis of the purpose of acquisition

Before the merger of the two firms, Abiomed was the original developer of the artificial heart and had a great deal of success, with the company being named the fourth best stock of the 2010s by Barron's, leading the way in the field of the heart. Johnson & Johnson is a very good company with a wide range of businesses involving many domains, such as medical devices, pharmaceuticals, and consumer products. The cooperation between the two companies is of great strategic importance. It can

also bring great economic benefits, not only in terms of expansion of the medical regions covered but also in terms of specialization. Consumers also can benefit from the M&A of Johnson & Johnson and Abiomed. Combining the two companies could undoubtedly significantly contribute to people's health. Ashley McEvoy, Corporate Vice President, said the two companies have an excellent opportunity to work together to bring life-saving opportunities to patients worldwide. Micheal R. Minogue, Chairman and Chief Executive Officer of Abiomed, said both companies share a patient-centered philosophy, noting that both companies see the Impella heart pump platform as very promising, predicting that it will be used for several years to help patients worldwide. High value creation.

3.3 Advantages of acquiring and acquired firm

3.3.1 Advantages of Johnson & Johnson

Johnson & Johnson itself is very strong and is the largest and most diversified medical products company in the world; there are several advantages to acquiring Abiomed as a new division; the first point is that Johnson & Johnson can enter into new areas in a less costly way, for example, this is the cardiovascular market, mergers can bring in the talent that was originally within the company of Abiomed, but also they can share the technology. However, If Johnson & Johnson wanted to enter the cardiovascular market by themselves, they would need to do research and development, which is very time-consuming and requires a lot of money, and the risk is very high, assuming that the research is not as good as what other companies have researched, this is a useless behavior, in conclusion, a direct merger and acquisition can save more time and money, increase market share and thus enter the market more efficiently.

3.3.2 Advantage of Abiomed

On the other hand, the Abiomed company did not make it to the top even though it already had a very successful background. Their company has several advanced technologies, such as Impella, and by being merged with such a powerful company like Johnson & Johnson, Abiomed will have a very big boost, for example, product promotion and research and development. Their R&D costs will become lower because Johnson & Johnson is large and has a high market capitalization, so it will be easy to get financing and loans. The interest rate can be negotiated lower so that the costs will come down, the instruments in Johnson & Johnson will be more abundant and varied, and many needs can be met, and the R&D speed will be more efficient. Johnson & Johnson has many

customers, which can enhance the visibility of Abiomed, and the product technology can be promoted.

3.4 Case Analysis

3.4.1 Johnson & Johnson

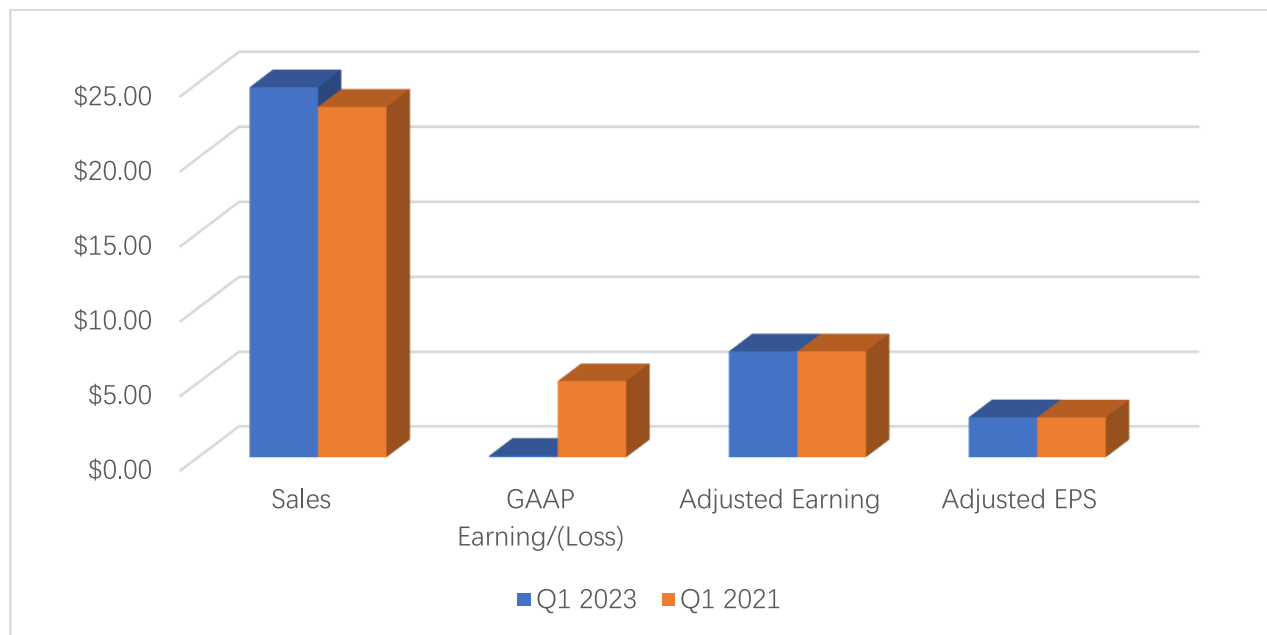


Figure 1. 1st Quarter 2023 Financial Highlights.

Table 1. Earning transcript (The year 2022 to 2023)[6].

Dollars in billions Regional sales results	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
The U.S.	\$11.4	\$12.2	\$12.5	\$12.5	\$12.5	\$13.4
Europe	6.0	6.1	5.5	5.8	6.3	5.9
Western Hemisphere(ex U.S)	1.5	1.5	1.6	1.5	1.6	1.7
Asia-pacific, Africa	4.5	4.2	4.3	3.8	4.3	4.5
International	12.0	11.8	11.3	11.2	12.2	12.1
Worldwide(WW)	\$23.4	\$24.0	\$23.8	\$23.7	\$24.7	\$25.5

As Table 1 illustrates, In the U.S., the values for the first quarter of 2023 and the fourth quarter of 2022 are equal. Still, in Europe, the Western Hemisphere, and Asia, the data for the first quarter of 2023 are somewhat higher than those for the fourth quarter of 2022, like in Europe the figure for the first quarter of 2023 is \$6.3 billion. In contrast, in the fourth quarter of 2022, it is only \$5.8 billion, with a difference of \$0.5 billion. In the Western Hemisphere, the first quarter of 2023 has \$0.1 billion difference, which is at \$1.6 billion. And finally, Asia is at \$4.3 billion, which is \$0.5 billion more than the \$3.8 billion in 2022Q4. Within the year, Johnson & Johnson had a good growth trend and a very steady increase in earnings;

looking at the U.S. first, in 2022Q1, the stage was at \$11.4, followed by an increase in Q2 to \$12.2 billion, and finally, Q3 and Q4 and then Q1 in 2023 were at \$12.5 billion. Finally, 2023 Q2 amazingly went to \$13.4 billion. In contrast, the international trend is the complete opposite, with the data showing a downward trend throughout 2022, dropping from \$12 billion in Q1 to 11.8 billion in Q2 to \$11.3 billion in Q3 and finally to just \$11.2 billion in Q4. In any case, it rose again in 2023, returning to 12.2 in Q1 Q23 and then remaining level in Q2. From the data in the table, it can be seen that the Johnson & Johnson merger brought a lot of benefits, especially internationally.

3.4.2 Summary

In conclusion, the merger and acquisition did not have a significant impact on the financial performance in 2022; before the merger and acquisition, the four quarterly Earnings were unstable, sometimes up, sometimes down, but after the merger and acquisition, in the first quarter of 2023, except for the U.S. data is unchanged, at 12.5 billion, there is a significant increase, and then in the second quarter, looking at the second quarter, some of them have a small decline, and most of them remain the same growth. And within expectations, the transaction will boost corporate earnings for Medtech and Johnson & Johnson. Still, given the impact of financing and other issues, EPS will be diluted to neutral in the first year and is expected to grow to approximately \$0.05 in 2024 and continue to increase after that (see Figure 1).

4. Review and Suggestion

Despite the success of the merger between Johnson & Johnson and Abiomed, I believe that companies should insist on independent innovation and research and development so as to highlight their capabilities; while

mergers and acquisitions are one of the fastest ways to increase market share, it can also make the market dysfunctional, the barriers to entry for other small companies will be higher. There will be fewer options for consumers, and the result may be that a monopoly will eventually be formed. With a lack of competition in the industry, the dominant company will not have the incentive to do research and development. Even control the supply and price to gain more profits.

5. Possible Risk & Drawback

In this case, it is hard to find significant risks. But even if the firm has rich experience, they still make the wrong choice. According to Forbes, 'Most studies figured out that acquisitions fail to create value for stakeholders between 70-90% of the time'. These wrong decisions will lead to losses [7]. Therefore, it is a considerable problem. There are many risks during acquisition, using an example of one of the most common risks, the overvaluation trap. This leads firms to overpay for acquisition. In addition, it is worth mentioning that some factors should be a concern(see Figure 2).

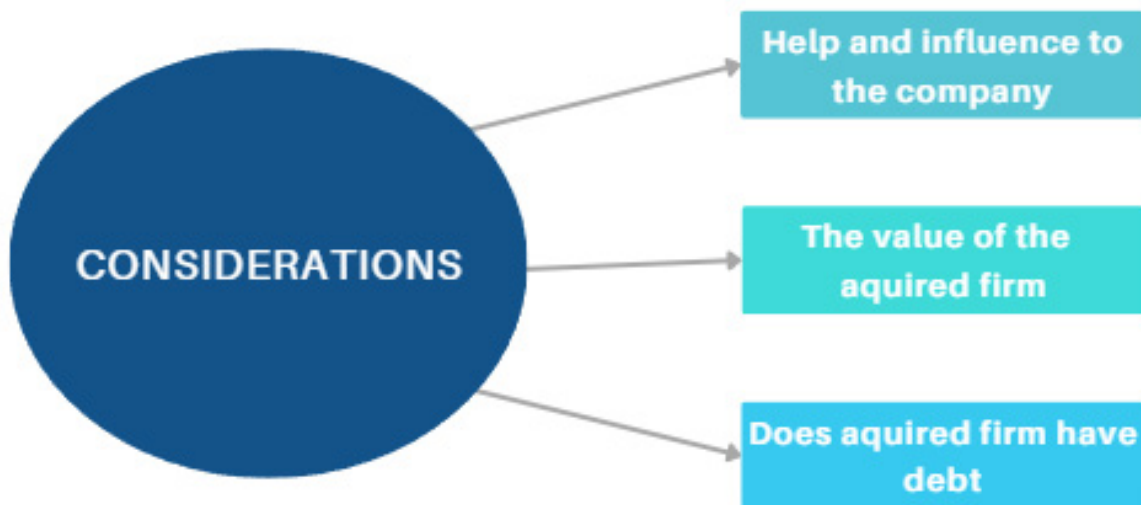


Figure 2. The problem of Corporate merger.

On the other hand, from the market perspective, if two highly similar firms merge, the inevitable outcome is that some employees will lose their jobs since the wage cost is higher. This leads to problems with unemployment. This situation usually occurs in duplication. Culture clashes could also be a serious problem. A company usually has a unique culture developing since its incipency. Employees and managers from both firms and their activities may

not integrate as well as expected. Employees might not like this action either, which may breed hostility and anxiety[8].

6. Conclusion

In conclusion, the acquisition of Johnson & Johnson and Abiomed can create a lot of opportunities, as well as some risks. This paper gives information about this case and

explains the details. The figure from Table 3.4.1 shows that after the acquisition, the earnings in most regions had a modest increase. The analysis supports the success of the acquisition of Johnson & Johnson and Abiome. The paper gives data support and lets people know more about mergers and acquisitions.

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