

2018



Australian Medical & Cosmetic M&A Transactions Report

Medical & Cosmetics

Medical covers companies who manufacture health care equipment and supplies or provide health care related services, as well as owners and operators of health care products. It also encompasses those involved in the research, development, production and marketing of pharmaceuticals and biotechnology products. The companies involved in distribution and retail of pharmaceuticals also fall in this sector.

Cosmetics covers companies who manufacture personal care products. It also encompasses distributors and retailers of such products. Manufacturers, distributors and retailers of organic cosmetics also fall in this sector.

Year-on-Year Comparison

2017 has been a robust year for Medical & Cosmetic sector. Both the number of deals and combined estimated value were higher than 2016.

Medical equipment manufacturing businesses accounted for 12 transactions with a combined estimated value of \$779 m.

We tracked 51 publicised mid-market acquisitions in 2017 in comparison with 41 for 2016.

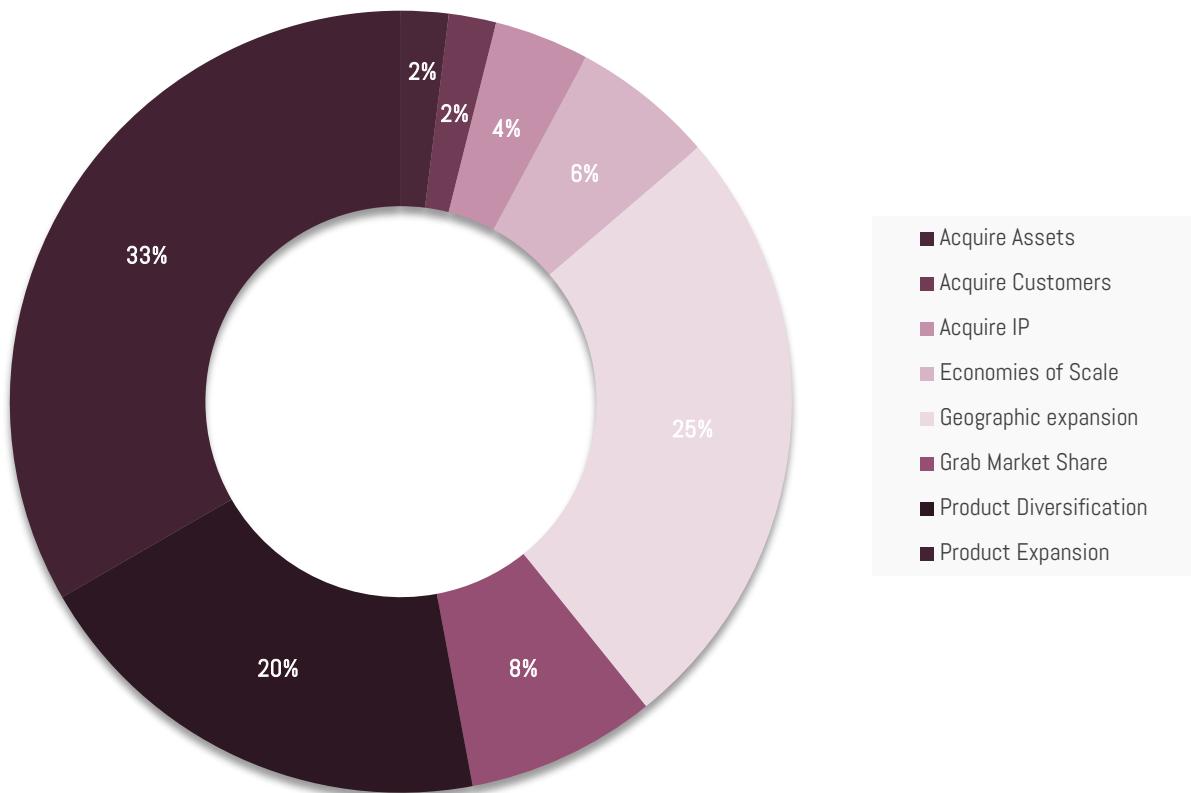
The combined estimated value for 2017 was \$2.61 billion which is 54% higher than \$1.69 billion for 2016.

Future values in medical & cosmetic companies will be based on the degree of innovation and championing of trends.



What is the motivation behind these acquisitions?

Product expansion was the motivation for 33% of the acquisitions. Through these deals the companies hope to increase the portfolio of their products to reach a wider market and therefore was primary applicable to cosmetic products, pharmaceutical companies, etc. Acacia Pharmacy's acquisition of PharmaSave for \$6.9 million is one such transaction.

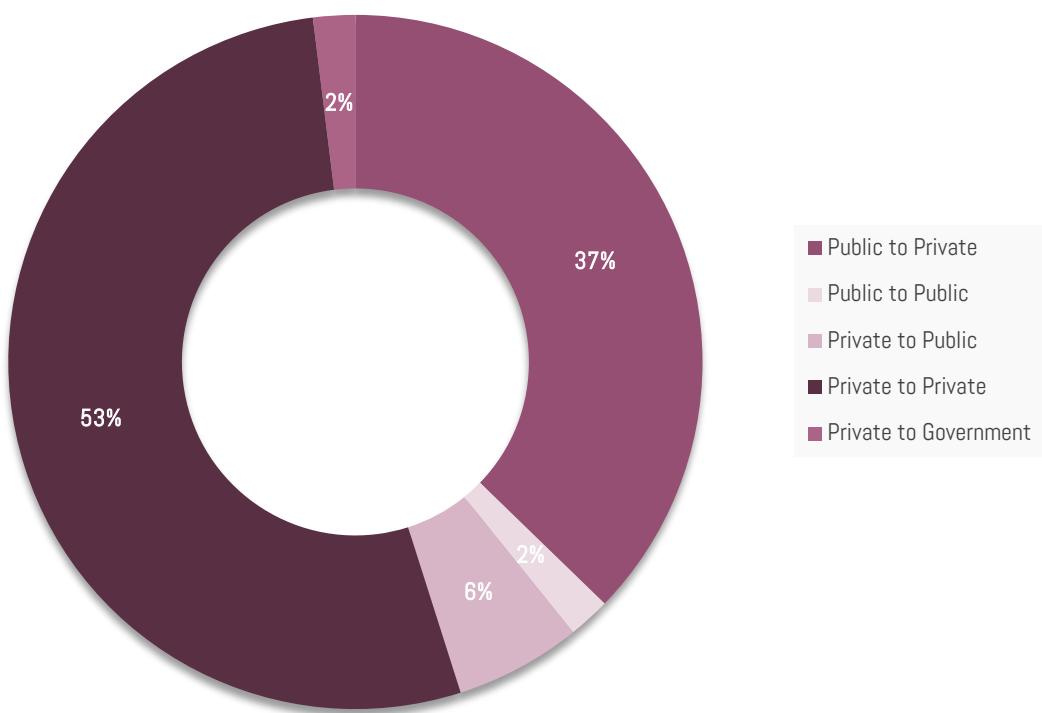


Geographic expansion was the motivation for 25% of the acquisitions. Companies uses these deals to enter a new market as some industries have high barriers to entry. International companies often follow this approach to enter the Australian market. Bain Capital (USA), Diploma Plc (UK) have used this approach to enter the Australian market.

Product Diversification rounded up the top-three with it being the motivation for 20% of the acquisitions. Some of this industries in this sector are at a mature phase therefore, organic growth is no longer an option. Therefore, through acquisitions which diversify their product offerings the companies achieve high growth as the revenues increase and costs are reduced.

What is the buyer profile?

Medical & cosmetic products and services sector was of interest to private buyers as they were responsible for 61% of the acquisitions leaving the remaining for public buyers.



In this report, we tracked 51 publicised transactions with a combined estimated value of \$2.61 billion. We have further divided this sector into groups based on similar business activity.

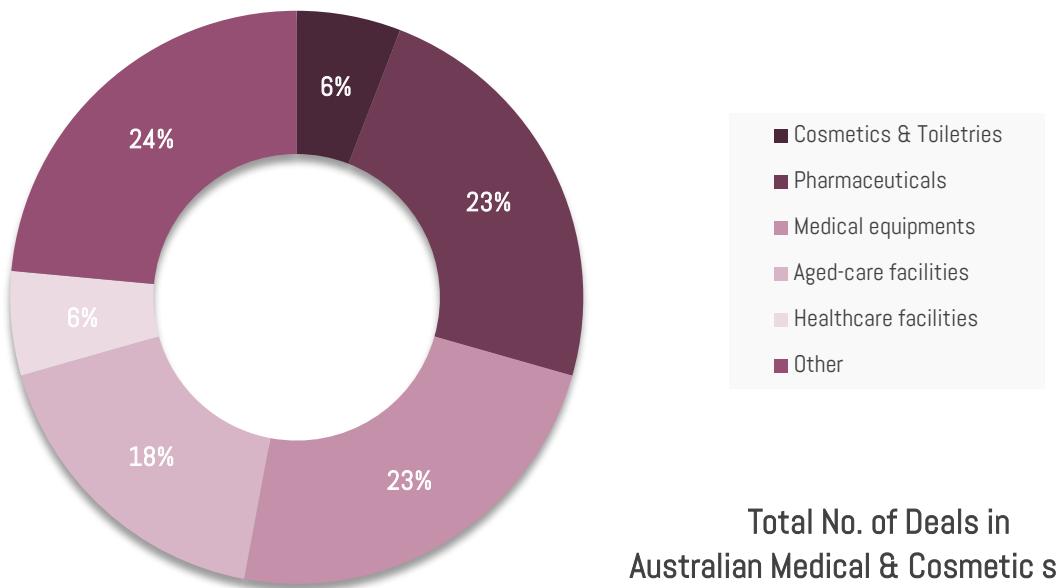
These are the subgroups:

- Cosmetics & Toiletries
- Pharmaceuticals
- Medical equipment's
- Aged-care facilities
- Healthcare facilities
- Other transactions.

Cosmetics & Toiletries

We tracked 3 publicised mid-sized acquisitions in the cosmetics industry. The combined estimated value of the transactions was \$3m.

In a strategic acquisition, Skin Elements, an Australian public company acquired MacArthur Skincare, a private Australian company which is leading manufacturer of natural skincare products. This \$1 million acquisition also transforms Skin Elements into a natural skin care company.



Pharmaceuticals

We tracked 12 publicised mid-sized acquisitions in the pharmaceuticals industry. The combined estimated value of the transactions was \$432.11m.

The largest transaction tracked was the acquisition of HPS, an Australian private company by EBOS, an Australian private company for a total consideration of \$154 million. It is a strategic acquisition as it provides the group a vertically integrated model in market segment that has attractive long-term growth prospects.

Health Care Facilities

We tracked 3 publicised mid-sized acquisitions in the healthcare facilities industry. The combined estimated value of the transactions was \$128 million.

Fullerton Health Australia, an Australian listed company acquired the 43-medical centre, 4 specialist skin clinics and 1 specialist breast diagnostic clinic from Healthscope Limited, an Australian company for \$55 million. These medical centres add to the existing 220 medical centres Fullerton has in the Asia Pacific region.

It was a strategic transaction for both parties involved as Healthscope divested these centres as they weren't a strategic fit for their business whereas for Fullerton it was perfect fit to grow its market share.

Aged-care Facilities

We tracked 9 publicised mid-sized acquisitions in the residential aged-care facilities industry. The combined estimated value of the transactions was \$443.25m.

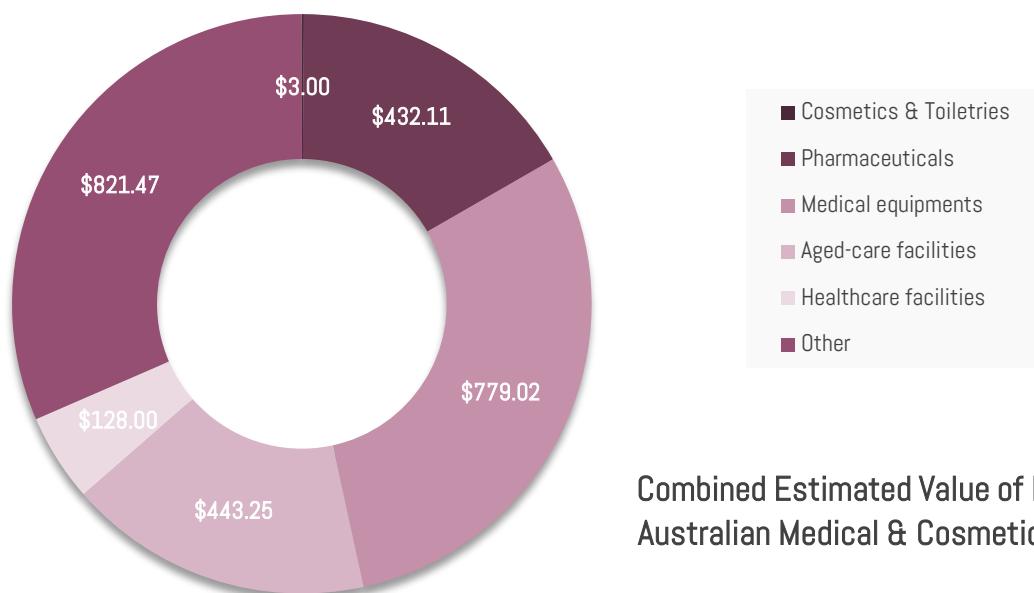
Bain Capital, a USA listed private equity firm acquired Craigcare Group, an Australian private company for \$50 million. This acquisition is in line with Bain Capital's other acquisition in the care industry to grab a larger portion of the Australian, aged-care and education industry.



Medical Equipment

We tracked 12 publicised mid-sized acquisitions in the medical equipment industry. The combined estimated value of the transactions was \$779.02m.

A UK based public company, Diploma Plc acquired Abacus ALS, an Australian private company for \$15.8 million. This acquisition strengthens Diploma's position in the Australian market. Abacus ALS and previously acquired Diagnostic Solutions have been combined to form a bigger and stronger entity, Abacus DX.



Other Transactions

We tracked 12 other publicised mid-sized acquisitions in related to health, medical, and cosmetic industry. The combined estimated value of the transactions was \$821.5m.

Fullerton also acquired Aspen Medical, an Australian private company for an undisclosed consideration. This acquisition adds to their already expansive and diverse portfolio and fits strategically along with their other acquisition.

Deal Conditions

Several transactions had Earn-out clause. As a result of that certain portion of the agreed deal value was deferred for a later period ranging from as little as 3 months and up to 3 years.

In Diploma's \$22.5 million acquisition of Abacus ALS, a deferred consideration of up to \$3.5 million may be payable in 2017 depending on the operating profit out-turn of the business in the year ending 30 June 2017.



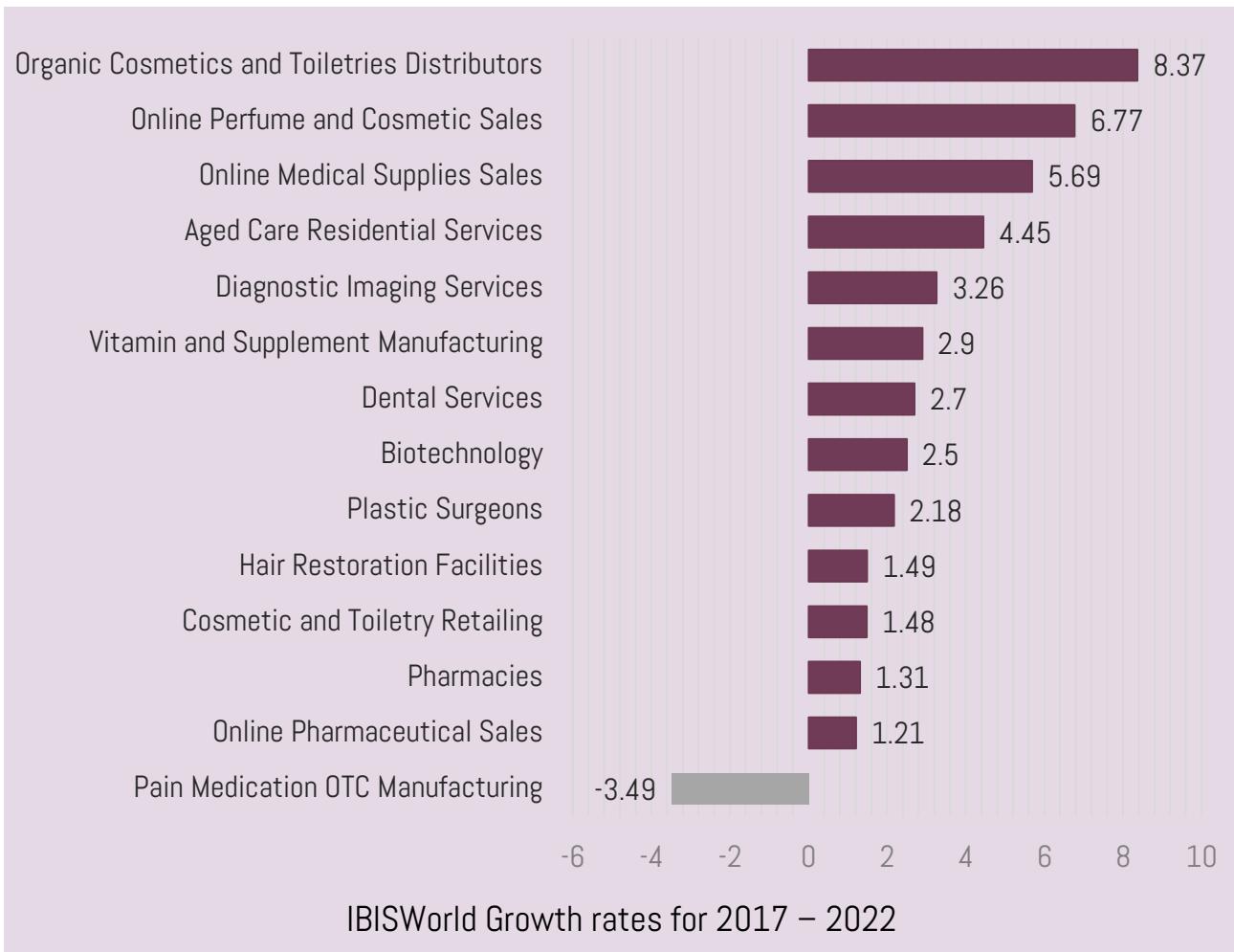
PE's v Trade Sales

Private equity firms generally invest in high growth companies in comparison to a trade sale where the emphasis is on synergies of both the business. In Medical & Cosmetic sector in 2017, 46 transactions were trade sales whereas 5 were acquired by private

equity. TPG and Bain Capital both USA based private equity firms acquired one company each. The other three were by Australian private equity where Quadrant acquired two and Allegro acquire one.

Industry Growth trends

Total combined revenue for medical & cosmetic businesses in the next 5-years will increase from \$388.25 billion in 2017 to \$450.30 billion in 2022. The compounded annual growth rate (CAGR) will be 3.01%.



Top 3 fastest growing industries are Organic Cosmetics and Toiletries Distribution (8.14%), Online Perfume and Cosmetic Sales (6.72%) and Online Medical Supplies Sales (5.88%).

Bottom 3 slowest growing industries are Pharmacies (1.27%), Online Pharmaceutical Sales (1.46%), Hair Restoration Facilities (1.53%).

Pain Medication OTC Manufacturing is forecasted to have a negative CAGR for -7.12% as the revenue is predicted to fall from \$745 million for 2017 to \$515 million for 2022.

Outlook for 2018 and beyond.....

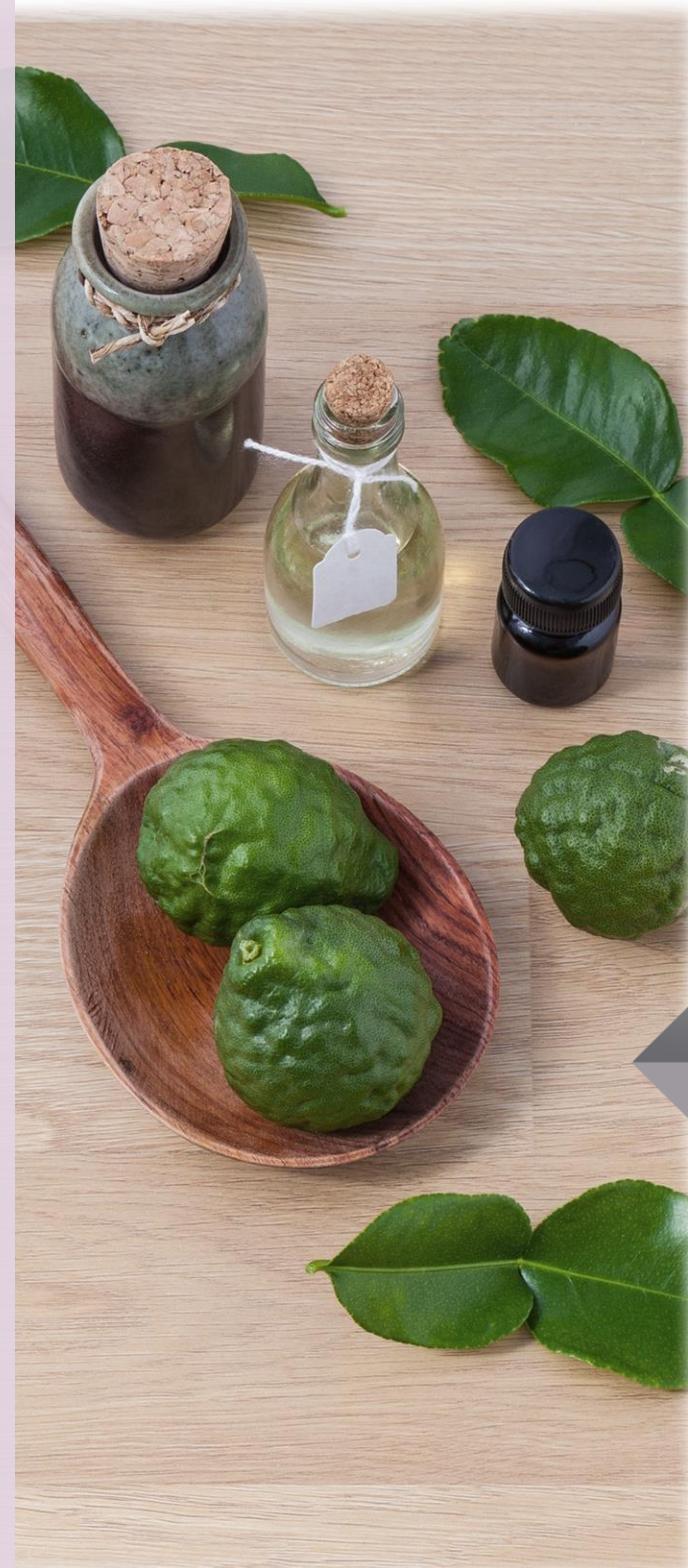
Australian mergers and acquisitions space is going to see continuous activity and point towards a busy deal-making year as per banker and lawyers.

Herbert Smith Freehills further predict healthcare to be one of the hot sectors in terms of number of transactions. This will be partly driven from the revived interest from China and USA who will benefit from a markedly lower corporate tax rate.

Other factor such as high growth businesses might attract private equity. In particular, businesses in Organic cosmetics business, Sunscreen business and Ages-care business are sure to attract more buyers due to the high growth rates predicted for these industries for the next 5 years.

Private equity has shown tremendous interest in medical & cosmetic sector with continuous investment. The interest from both international and local private equity business.

Bain Capital, a listed US firm has invested in 6 care businesses in the last 2 years alone. Quadrant Equity, an Australian listed firm has been quite prolific with their investment in medical businesses. This trend will continue in 2017 as there are some high-growth business which will attract private equity.



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Mark Ostryn is the founder and CEO of Strategic Transactions. Mark's focus is to transact the sale or acquisition of a business at the optimal value and terms for the owner. This involves detailed market search, financial decision support and project management throughout the transaction.

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