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Mergers and Acquisitions Activity Level Increases

In a sign that the market may finally be improving after several years of slow activity, the amount generated by venture-backed mergers and acquisitions increased 75 percent in the early months of 2004 compared to the previous quarter in 2003.

The most recent statistics available, which cover the first quarter of 2004, indicate that 77 venture-backed companies were merged or acquired for a total disclosed value of \$4.03 billion, according to Thomson Venture Economics and the National Venture Capital Association.

The last quarter of 2003 saw 71 targets generate value of \$2.3 billion.

The higher level of activity for the first quarter of 2004 represented the fourth straight quarter-on-quarter improvement in M & A based liquidity after two straight years of depressed activity levels.

The first quarter of 2001 was the last time M & A values surpassed \$4 billion. At that time, 75 companies changed hands with total value of \$8.55 billion.

Thomson and NVCA report that the average deal size for the first quarter was \$90 million, a one-third increase over the previous quarter's \$68 million per deal average.

In an interesting twist on perceptions, the software sector proved to be far from the depressed vertical that many observers have predicted it would continue to be.

The sector shows software targets

dominating all other activity with 23 deals, 14 of which were disclosed and had aggregated value of \$1.4 billion. The average deal size among disclosed transactions was \$97 million.

The Life Sciences sectors, on a combined basis, generated 13 deals with aggregate value of \$894 million. All but one of these transactions was reported in biotechnology and medical devices, two sectors which have less representation among Tennessee healthcare companies than does health services. Only one transaction was reported in the latter sector.

On the funding front, software also led all sectors with 162 companies receiving a total of almost \$1 billion from private equity funds.

Biotechnology remained near the 12-year high achieved in 2003. A total of 71 deals received \$943 million in new funding in biotech. Medical devices were the fifth most active sector, with 51 deals receiving \$324 million in funding. NCVA reported only 10 deals being funded in healthcare services with total funded equity of \$35 million.

The preference of private equity funds for later stage companies continues. Later stage funding was \$1.4 billion in the first quarter of 2004, representing about one-third of all investing, compared to about 22 percent of all investing two years ago.

The average amount invested per company was \$10.6 million in early 2004 across all sectors, continuing to demonstrate the fund industry's growing appetite per deal.

Another encouraging sign for the future is the increasing activity level in the IPO market. Twenty-nine venture-

backed companies raised \$2.1 billion through initial public offerings in the second quarter of 2004, representing the most money raised through IPOs since the third quarter of 2000.

More than 75 companies backed by venture funding are currently in registration with the Securities and Exchange Commission, creating a solid pipeline of strong activity that appears capable of sustaining higher levels of activity through the next several quarters.

Mark Heesen, president of NVCA, said, "A strong IPO market is essential for the long-term health of the venture capital industry. In the past two quarters, we have witnessed increased strength in the IPO market." However, he went on to point out that even higher current levels of activity are below the levels needed to declare the recovery to be complete.

Favorable levels of liquidity among venture investors appears to be another positive sign for the future. A recent study conducted by the Association for Corporate Growth revealed that 75 percent of private equity funds surveyed felt that there is currently an "excess" of private equity funds available for new deals, with 44 percent saying that liquidity levels are "a little higher" than they should be.

Continued improvements in M & A activity levels will add to this liquidity and increase pressure on funds to put their money to work.

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