

Medtronic nears US\$45 billion-plus deal for Covidien
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US medical device maker Medtronic Inc is in advanced talks to buy rival Covidien Plc in a deal valued at US\$45 billion (RM144.8 billion) to US\$50 billion, people familiar with the matter said yesterday.

The deal, which would allow Medtronic to be domiciled in Ireland, where Covidien is based, and thus take advantage of lower tax rates, could come as soon as Monday, one person said, asking not to be named because the matter is not public.

Minneapolis-based Medtronic, the world's largest stand-alone medical device maker, with an array of products ranging from heart defibrillators and stents to insulin pumps and spinal implants, has a market value of about US\$61 billion.

Covidien, a maker of devices used in surgery, is valued at about US\$32 billion.

In a market that has seen an accelerated pace of deal-making, some aimed at redomiciling major US companies overseas, Pfizer Inc recently mounted an abortive takeover bid for British-based AstraZeneca in what would have been a roughly US\$120 billion deal aimed in part at lowering the US drug firm's corporate tax rate.

Medical device makers in recent years have struggled with slowing sales and pricing pressure as governments overseas slash budgets and the United States transforms its healthcare system under the Affordable Care Act.

In addition, hospitals are looking to reduce supply costs in part by consolidating vendors amid sluggish demand for services as patients avoid going to the doctor because of a lack of insurance or rising out-of-pocket costs for care.

"It makes sense on a lot of levels, both strategic and financial," Jefferies analyst Raj Denhoy said of the potential combination. There are a lot of reasons to believe it is going to happen."

Acquiring Covidien, with its focus on minimally invasive surgical procedures, would help expand Medtronic's footprint in the marketplace, as the two companies have very little product overlap, Denhoy said.

The medical device industry is seeing more mergers such as Zimmer Holdings Inc's recently announced US\$13.4 billion takeover of smaller rival orthopaedic device maker Biomet Inc as companies in the sector move to cut costs and become more efficient.

Pfizer's bid for AstraZeneca, which was rejected, was one of a few recently launched major deals that have looked to take advantage of an increasingly popular tax-lowering strategy known as an inversion.

Several smaller transactions have succeeded, drawing the attention of US lawmakers in Congress who are targeting legislation that would make it much more difficult for US companies to do profitable inversions.

A Reuters review showed about 50 such deals had been done in the past 25 years, with half occurring since the 2008-2009 credit crisis abated.

Officials at Medtronic and Covidien declined to comment on the news, which was earlier reported by the Wall Street Journal. – Reuters, June 15, 2014.

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