

# Cross-Border Deals Enable Animal Healthcare to Spread its Wings



As the humanization of pets continues and pet lifespans grow longer, investment opportunities in animal health abound. While most animal health companies will first look for growth within their own borders, global consolidation and expansion is rising in popularity because companies are struggling to grow revenue close to home and sector trends and attributes are similar across global markets.

## SUBSECTOR CONSOLIDATION TO WATCH

In the diverse world of animal health, four subsectors in particular have been active in exploring cross-border consolidation—pharmaceutical manufacturers, diagnostic and lab organizations, veterinary hospitals and distributors.

Five large pharmaceutical players dominate the animal health manufacturing market—Merck, Elanco, Ceva Animal Health, Zoetis and Boehringer Ingelheim. With antitrust regulations preventing these companies from making additional large acquisitions in the pharmaceutical markets, these players are forced to look outside their core businesses and core geographies to make acquisitions that will move the needle and continue to push growth.

Diagnostic and lab organizations are in similar positions. Mars, Heska Corporation, Zoetis and Idexx Laboratories dominate the diagnostic and lab sector and need to expand their geographic reach and diversify their capabilities to continue their organic growth. For example, in 2020 U.S.-based Zoetis acquired UK-based [Virtual Recall](#) to offer improved service and communication offerings to veterinary practices. The driver was partly diversification but also to expand relationships with the vet and be seen as a service ‘partner,’ rather than someone pushing a product or a drug—driving growth in their core business through the relationship. Additionally, [Heska](#) entered Europe in 2020 with the acquisition of Scil from Covetrus.

For veterinary hospitals, consolidation has occurred at a rapid clip and at some point players will need to look across borders to continue to grow. This is especially true in the UK where significant consolidation has already occurred, leading to searches for targets in Europe with providers like Vet Partners, IVC, Mars and recently Medivet, all spending time and money to grow their European footprint.

Distributors are feeling the margin pressure from the large pharmaceutical manufacturers supplying the product and from the continued consolidation of the veterinary hospitals buying the product. Distributors will have to diversify their current business models if they are to remain competitive.

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## LINCOLN PERSPECTIVE

As corporates look to achieve economies of scale, they need to evaluate geographic restrictions and diversify—in both their geographic location and offerings. For private equity investors, who are likely to create platforms in a singular animal health subsector, geographic diversification is key.

Lincoln International identified the following items to consider for investors interested in cross-border M&A:

- 1 | Do your homework.**  
Before entering a new market, both strategic and private equity investors need to understand the size of the market, competition present in the market as well as the potential growth of the market. Often, a quality incumbent management team helps ensure success when an investor or acquirer enters a new geography because the incumbent team can ensure the buyer understands the market and other cultural nuances of that location as they look to partner for the future. They can also ensure the company is autonomous and reaches scale, enabling future growth and potential acquisitions.
- 2 | Understand payor and regulatory dynamics.**  
Additionally, there needs to be an understanding of the regulatory and payor dynamics. For instance, in the U.S. pet insurance is a small portion of the payor market whereas it is nearly half in the UK. As more money is spent on the care of animals, new restrictions might arise—like in the UK where insurance companies are trying to set up networks and approve which veterinary clinics customers can visit for expensive specialist procedures.
- 3 | Relationships in Asia will become key in the future.**  
To date, the vast majority of cross-border deals have occurred between the U.S. and Europe or between various European countries. However, investment and M&A activity in Asia is accelerating. [Boehringer Ingelheim](#), headquartered in Germany, expanded its Asian reach when they acquired an equity stake in China-based New Ruipeng Group (NRP Group). NRP Group is a fast-growing business that offers veterinary care, e-commerce and many other services to pet owners and the broader animal health market across China. Mars has similarly gone east with their investment in China into [RuiPai Pet](#).

To find success, those interested in pursuing consolidation in the animal health space need to work with advisors that have global reach and not only understand the pet space but also healthcare holistically. Connect with Lincoln International bankers to learn how their global network and industry knowledge can help you today.

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