LBO DEAL OF THE YEAR: Avista, Nordic's Convatec LBO Leaves No Stone Unturned
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The $4.1 billion buyout of Convatec, formerly the wound care and ostomy division of Bristol-Myers Squibb Co., ranks as the largest announced deal of 2008. But it is puny by recent mega-deal standards, at less than one-tenth the size of the largest buyout to date, of Energy Future Holdings Corp.

Still, the buyout took a great deal of time and energy to put together, and in the end it may have been a simple quirk of timing that enabled it to get done. The deal closed in August, only a few weeks before the bankruptcy of Lehman Brothers Holdings Inc. "We were worried right up until we closed the deal," said Convatec Chief Executive David Johnson. "We got a little lucky with the timing. Another eight weeks, and we wouldn't have gotten that."

But if any large deal was going to succeed in the current environment, it was this one.

Buyers Nordic Capital and Avista Capital Partners, both active investors in the health-care sector, informed Bristol-Myers Squibb of their interest in Convatec as early as the summer of 2007, anticipating an eventual spinout of the division. But they weren't "tremendously aggressive" at the outset, given the downward spiral in buyouts that had begun in the second half of 2007. "We just kept in touch and kept an eye on the prices," said David Burgstahler, a partner at Avista.

When Convatec did go on the block, the buyout firms were primed to hit the ground running. Nordic and Avista, which worked together previously on another in vestment, pharmaceuticals maker Nycomed, had an edge for a number of reasons. Avista had acquired another division of Bristol-Myers, Lantheus Medical Imaging, earlier. And Convatec's management had a preference for a private equity owner, predicated on the belief that the company "would flourish more effectively with private equity than by going into the arms of a strategic," Johnson said. In particular, Convatec wanted to do acquisitions, something Johnson believed would be easier under a buyout firm than a large corporation.

To support the hefty $3 billion in debt financing that their bid contemplated, the buyout firms put together a club of nine banks, minimizing the risk should any one of them back out. The deal also included nearly $900 million in mezzanine debt and co-investments from limited partners.

The enthusiasm of Convatec's management for private equity has helped the newly independent company hit the ground running, which should serve as a hedge against ongoing weakness in the economy. Johnson, who says he gave himself a "private equity 101 course" by calling 20 to 30 chief executives as deal talks proceeded, made sure Convatec was paying more attention to margins and costs related to sales and general expenses even before the buyout closed.

Convatec, based in Skillman, N.J., has also already begun bulking up, agreeing shortly after the buyout closed to merge with another Nordic Capital portfolio company, Unomedical, a Birkerod, Denmark-based supplier of single-use medical devices such as catheters and drainage bags. The combination should help the two companies save costs and diversify their sources of income.

Convatec's positioning within the health-care industry should also help it weather the downturn. "While some elective health-care procedures could see slower growth, urinary incontinence and wound care are not discretionary," Burgstahler said.

Four months after the buyout closed, the company feels comfortable, with its leverage under six times Ebitda, or ea rnings before interest, taxes, depreciation and amortization, and enough dry powder to fuel growth. "That's a great way to start 2009," Johnson said.

Convatec

The Company

Skillman, N.J.-based Convatec is a wound care and ostomy products manufacturer founded in 1978 by former parent Bristol-Myers Squibb Co.

The Buyout

Nordic Capital and Avista Capital Partners bought Convatec for $4.1 billion, including some $3 billion of debt. Nordic owns 70% of the business, with Avista owning the rest. The buyout firms put together a syndicate of nine lenders to finance the deal, including J.P. Morgan Chase & Co., Bank of Ireland, Dresdner Kleinwort, UniCredit SpA, General Electric Co., HSH Nordbank AG, Mizuho Corporate Bank, SEB Merchant Banking and Swedbank AB.

The Strategy

Convatec wants to grow by acquisitions. It has already merged with Unomedical, a medical device company backed by Nordic Capital. Including Unomedical, about 70% of Convatec's business is in Asia and Europe. Together, the companies have more than $1.6 billion in annual revenue.

http://www.nordiccapital.com

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