Joint Ventures and Strategic Alliances: An Alternative to M&A

By Chris Velis, CEO, MedCap Advisors

The worlds of biologics, regenerative medicine, and medical devices are being challenged by a maelstrom of regulatory and economic forces. The recently passed medical device tax in the Affordable Care Act and frustrations around the FDA clearance process are major factors contributing to an industry that is trying to define itself.

These headwinds may be strong, but they should not be viewed as a death knell. They are instead drivers for adjustments, as they provide a buyers' market for large and mid-sized companies seeking to gain quick entry into the medical technology space or expand an existing medical device pipeline.

The environment is not only conducive to mergers, it also opens the door for more joint ventures and strategic alliances. Such agreements between large companies are ideal when each partner brings unique or specialized elements to the table, as opposed to one having the dominant share of value. Partnerships are preferable to merger or acquisitions when they allow companies to stay committed to a certain set of criteria alongside a target partner that will satisfy their interests.

That word *"interest"* has a specific connotation when it comes to strategic alliance opportunities: interests typically refer to the business goals that are motivating a seller. The interests in play provide a strategic pathway for an alliance, and the alignment of interests between the two entities – not the overlap – makes for a successful partnership.

The most straightforward case for a strategic alliance is built around the development and distribution of a product when the developing company is limited by size, capital, or funding. Finding a partner that can execute on the distribution side can lead to a highly profitable arrangement, without the change in organizational control that accompanies a traditional merger.

For example, MTF (Musculoskeletal Transplant Foundation)'s alliance with CONMED provided an ideal outlet for an organization with a unique niche in the industry. MTF is the nation's leading tissue bank and a non-profit organization. Its focus is on processing human tissue for transplantation and on research around improving the science for patients worldwide. However, MTF became stretched when it added distribution of the tissue to its primary mission; while a profitable venture, it was not a core competence of the organization.

The stakeholders at MTF were committed to the organization and had no desire to trade control of the entity for a hefty buyout. Rather, they were looking for a solution that allowed them to remain focused on the mission while still getting the product to market. A strategic alliance with a partner with a distribution channel was MTF's ideal scenario.

By retaining control of the organization, MTF also kept decision making power over the kinds of partners – and the number of partners – that could assist with distribution. Over time, the non-profit hooked up with companies like Johnson & Johnson as a distributor of its spinal tissues, Orothofix as a distributor of stem cell technology, and finally CONMED Linvatec as a distributor of soft tissues for sports medicine. This network of strategic alliances created more value for the stakeholders while allowing the company to refocus energy on its primary goal of advancing the science.

On the other side of the coin, when alliances or joint ventures are formed between companies that deliver the same process but have differing philosophies, the partnership will typically fail. Companies also struggle when partnerships are not clearly defined. Even if interests seem aligned, divisions within each entity can become confused and take the alliance off its strategic course. Roles and responsibilities must be clearly drawn up and communicated across each organization. When corners are cut in this stage, partnerships frequently falter.

The med tech industry is in an ideal climate for creative alliances that play off the strengths of each participant. When interests are aligned, successful companies can advance their strategic value and set the stage for future growth.

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