Technology, healthcare expected to carry New England in brighter 2012

The M&A outlook is brightening in New England due to robust technology and healthcare sectors, which will continue to attract interest in the region, said several investment bankers.

In addition, an improving national economy, the increased availability of cash and credit, and a growing desire by companies to expand by snapping up other businesses will be the rising tide that will keep the region floating higher, the bankers said.

“Everyone got spooked at the end of summer,” said Joshua Benn, a managing director at Duff & Phelps, referring to Standard & Poor’s downgrading the US credit rating and the sovereign debt crisis in Europe. But now, said Benn, deals are moving once again, nationally and regionally.

Technology remains a hot sector for M&A, particularly in New England, and will continue to drive deals well into 2012. Cloud computing has created a “paradigm shift” in the way people interact with data, and companies that provide cloud-based data security and other related services are going to be very attractive targets in 2012, said Murray Beach, a managing partner at TM Capital.

Healthcare, another major industry in New England, also is likely to see more deal flow in the first half of 2012. Pharmaceutical companies will continue to seek innovative therapies to replace drugs that are going off patent soon, said Beach. Genome-related and biologic products are going to continue to be attractive targets, he added. Other companies expected to be hot targets are those specializing in therapies for infectious diseases, oncology, and rare diseases that are in line for faster approval from the FDA, said an industry analyst. Many biopharmaceutical companies hedged their bets in recent years with partnerships instead of engaging in M&A transactions. Many of those maturing relationships could lead to M&A deals in the near future, said the analyst.

Another driver of M&A activity in the healthcare sector could come from an unlikely source. As federal budget cuts continue at the US Department of Defense, many military contractors now seek to diversify by buying companies that will give them new markets for their services. Healthcare companies have been of particular interest to defense contractors, said Peter Alternative, a partner at investment bank Mirus Capital.

Uncertainty about the adoption of alternative energy technology could also create M&A activity in New England, said an analyst. Industry participants suggest wind and solar power companies, lithium battery makers, and other related industries could see sales or divestitures this year.

Pressure from activist shareholders who are “moving up market” could stimulate deals in 2012, said Joseph Johnson, a partner at Goodwin Procter, who was far more cautious on the M&A outlook, but agreed that technology would help keep deals moving in New England specifically. More companies might see pressure from shareholders to unlock value by divesting or spinning off parts of the companies that could be worth more on their own this year, he added. For example, Massachusetts-based Smith & Wesson in November retained Wedbush Securities to begin divesting its perimeter security division.

Though deal flow is picking up in New England, global and national trends such as uncertainty regarding the European monetary situation, the continuing debate about the debt ceiling, and the upcoming elections could ripple over New England deals as well.

by Adam Smith and Ilene Friedland