Value Investors: Buy Canada's Best Pharmaceutical Stock

Description

CRH Medical (TSX:CRH) is a North American company focused on providing physicians throughout the United States with innovative products and services for the treatment of gastrointestinal (GI) diseases. The company distributes the CRH O'Regan System, treatment protocols, operational and marketing expertise as a complete, turnkey package directly to gastroenterology practices, creating meaningful relationships with the gastroenterologists it serves.

A few days back, **WELL Health Technologies** (TSX:WELL) recently announced a deal to acquire CRH for $369.2 million. This is expected to be a wonderful acquisition for WELL Health, which is raising equity from several high-profile investors, including Mr. Li Ka-shing, Hong Kong's most famous business tycoon, to fund the purchase. WELL Health is expected to raise equity at a 25% premium to the volume weighted average price due to significant investor demand.

At the acquisition price, CRH is valued a price-to-earnings ratio of 97.60, price-to-book ratio of 4.83, and market capitalization of $349 million. Debt is very sparingly used at CRH, as evidenced by a debt-to-equity ratio of just 0.96. Prior to the takeover offer, CRH reported depressed performance metrics with an operating margin of (7.95)% and a return on equity of (2.6)%.

The CRH O'Regan System is a single-use, disposable, hemorrhoid banding technology that is safe and highly effective in treating all grades of hemorrhoids. In 2014, CRH acquired Gastroenterology Anesthesia Associates (GAA), a full-service gastroenterology anesthesia company that provides anesthesia services for patients undergoing endoscopic procedures. Performing these procedures under anesthetic provides more comfort for patients. CRH has continued to leverage the capabilities it acquired through GAA to consolidate the highly fragmented gastroenterology anesthesia provider business.

CRH's goal is to establish itself as the premier provider of innovative products and essential services to gastroenterologists. The company has been on a shopping spree over the last five years, buying up anesthesia services providers in the United States. Most recently, CRH acquired 100% of certain assets of Anesthesia Care Associates, an anesthesia services provider in Indiana.

The company's management, medical and support teams have developed specific skills and knowledge in the United States (U.S.) healthcare market. The extent and breadth of CRH's experience delivering healthcare services, developed through years of operating across multiple U.S. states, have provided it with a national scope of knowledge that is not easily acquired or replicated.

CRH's management has acquired the knowledge necessary to gather and process the critical information required to enter prospective markets. The company has developed this knowledge and expertise by acquiring new personnel with the requisite skill sets.

CRH outsources design and manufacturing activities to save on costs. However, the company maintains direct control over customer service activities to ensure that it provides the best service to customers. Through an established system of customer feedback, CRH monitors for signs of quality problems and customer issues. CRH has also established a feedback system to provide early warning of quality problems and to determine whether it has met the customer's requirements.

In summary, CRH could become a market leader in the gastrointestinal business which could result in a significantly higher stock price. Investors could still purchase the stock, as higher acquisition offers than the one made by WELL Health are likely.

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