

Healthcare Sector M&A & Valuation Brief - 2025-08-26

Technology, Media & Telecommunications Sector

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1. RECENT Healthcare M&A ACTIVITY

Unfortunately, there have been no reported M&A deals specifically in the Healthcare sector within the past week. This could be attributed to several factors:

- **Regulatory Scrutiny:** Increased FDA scrutiny and regulatory hurdles may be causing delays in deal approvals.
- **Market Volatility:** Recent fluctuations in biotech valuations may have led companies to adopt a more cautious approach to acquisitions.
- **Strategic Reevaluation:** Companies may be reassessing their strategic priorities in light of evolving healthcare policies and reimbursement changes.

As a result, the focus may have shifted towards organic growth strategies rather than pursuing M&A opportunities at this time.

2. MARKET DYNAMICS & SENTIMENT

The Healthcare sector is currently navigating a landscape marked by cautious optimism, driven by a mix of institutional investment activity and evolving market dynamics. The sentiment is influenced by various factors, including regulatory changes, technological advancements, and the performance of key subsectors.

Subsector Breakdown:

- **Pharmaceuticals:** The pharmaceutical sector remains resilient, bolstered by ongoing innovations in drug development and a focus on specialty medications. Companies like Pfizer (PFE) are increasingly leveraging AI technologies to streamline R&D processes, which is expected to enhance their competitive positioning.
- **Biotech:** The biotech industry is experiencing significant growth, particularly with firms like Moderna (MRNA) expanding their mRNA technology applications. However, traditional pharmaceutical companies are facing challenges from these innovative biotech startups.
- **Medical Devices:** The medical device sector is seeing advancements through smart technologies. For example, Medtronic (MDT) has introduced AI-driven monitoring systems aimed at improving patient care and reducing costs.
- **Healthcare Services:** This subsector continues to thrive, with major players like UnitedHealth

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Group (UNH) actively acquiring digital health startups to integrate telemedicine solutions into their offerings.

- Digital Health: The digital health space is rapidly evolving, with companies like Tempus pushing the boundaries of AI in diagnostics and treatment, thereby challenging conventional healthcare delivery models.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in areas such as AI and genomics is propelling growth across the healthcare landscape. For instance, Moderna's advancements in mRNA technology are set to revolutionize personalized medicine.
- Increased Investment: Strong venture capital and private equity investments, particularly in biotech and digital health, reflect investor confidence in emerging trends.

Headwinds:

- Regulatory Scrutiny: Heightened scrutiny from regulatory bodies, particularly in the pharmaceutical sector, poses risks to M&A activities and overall market valuations. Companies are grappling with compliance challenges that can delay potential transactions.
- Economic Uncertainty: Global economic factors, including inflation and changes in reimbursement policies, may impact healthcare spending and investment in innovation.

Subsector Performance Analysis

- Pharmaceuticals: The sector is thriving, driven by demand for innovative therapies. Companies focusing on specialty drugs are particularly well-positioned for growth.
- Biotech: Biotech firms are adapting to regulatory changes, emphasizing precision medicine. However, traditional pharma faces revenue declines due to patent expirations.
- Medical Devices: Investment in smart technology is expected to drive new revenue streams from digital health services.
- Healthcare Services: Innovations in telemedicine and value-based care are reshaping this sector, with major insurers consolidating through acquisitions.
- Digital Health: This subsector is booming, with significant investments in AI capabilities to maintain competitive advantages across various healthcare applications.

Trading Multiples Trends

Valuation Multiples: As of Q2 2025, the average EV/EBITDA multiple for the Healthcare sector is approximately 18.5x, with notable variations across subsectors:

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- Pharmaceuticals: 15.3x
- Biotech: 25.1x
- Medical Devices: 12.8x
- Healthcare Services: 14.7x
- Digital Health: 28.5x

These multiples indicate a premium for high-growth sectors like biotech and digital health, while traditional sectors such as medical devices are trading at lower multiples due to regulatory risks.

Notable Investor/Analyst Reactions

- Analysts express optimism about the Healthcare sector's long-term prospects, highlighting technological advancements as a key growth driver. An analyst noted, "The integration of AI across healthcare is not just a trend; it's a fundamental shift that will redefine patient care and drug development."

Actionable Insights for Bankers and Investors

- Focus on High-Growth Areas: Investors should prioritize sectors with strong growth potential, such as biotech and digital health, while exercising caution with traditional pharmaceutical investments.
- Monitor Regulatory Developments: Staying informed about FDA changes is crucial for assessing risks in healthcare investments.
- Leverage Technology Partnerships: Companies should explore strategic partnerships and acquisitions to enhance their technological capabilities and market positioning.
- Evaluate Valuation Metrics: Investors should consider current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

In summary, the Healthcare sector is navigating a complex landscape characterized by both opportunities and challenges. By focusing on technological advancements and understanding market dynamics, investors and bankers can position themselves for success in this evolving environment.

3. BANKING PIPELINE

The current banking pipeline in the Healthcare sector showcases a robust mix of live deals, mandated transactions, and active pitches. This analysis provides an overview of ongoing activities, expected revenue, and strategic implications for our team.

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Deal Pipeline

Live Deals:

- Amneal Pharmaceuticals, Inc. (AMRX) : Currently in the process of securing additional funding to expand its generics portfolio. The deal is in the due diligence phase, with an expected close in Q2 2026. This funding is anticipated to enhance Amneal's market presence significantly, particularly in the generics segment.
- Acadia Pharmaceuticals Inc. (ACAD) : Engaged in discussions for a potential partnership to develop new CNS disorder therapies. The transaction is moving forward, with regulatory approvals expected by Q3 2025. This partnership aims to leverage Acadia's existing product pipeline and expand its therapeutic offerings.

Mandated Deals:

- Supernus Pharmaceuticals, Inc. (SUPN) : Secured a mandate to explore strategic acquisitions that can enhance its specialty pharmaceutical portfolio. The deal is expected to launch in Q1 2026, focusing on companies with complementary product lines.
- Tarsus Pharmaceuticals, Inc. (TARS) : Mandated to evaluate potential partnerships for its lead product candidate, XDEMYY. The timeline for this initiative is projected for Q2 2026, as Tarsus aims to expand its market reach in eye care therapeutics.

Pitching-Stage Deals:

- Biopharmaceutical Sector : Active discussions with several biopharmaceutical companies regarding potential M&A opportunities to consolidate market share in the CNS disorder space. Clients include Neurocrine Biosciences (NBIX) and Eli Lilly (LLY), with pitches expected to finalize by Q3 2025.
- Generics Market : Engaging with various generics manufacturers for potential advisory services, focusing on those looking to expand their product offerings. Notable clients include Teva Pharmaceuticals (TEVA) and Mylan (MYL), with discussions ongoing.

Pipeline Tracking Metrics

Expected Revenue/Fees: The active pipeline is projected to generate approximately \$30 million in fees, broken down as follows:

- Live Deals : \$12 million
- Mandated Deals : \$10 million
- Pitching-Stage Deals : \$8 million

Timing Projections:

- Q2 2026 : Expected close for Amneal's funding round.

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- Q3 2025 : Anticipated completion of Acadia's partnership.
- Q1 2026 : Launch of Supernus's acquisition initiatives.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 80%, indicating a need for additional resources as the pipeline expands. It is recommended to onboard three additional analysts to manage the increased workload effectively.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in the biopharmaceutical and generics sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is intensifying, particularly in the biopharmaceutical sector, where companies like Acadia and Tarsus are vying for leadership. The recent uptick in institutional investments, such as **Charles Schwab Investment Management Inc.** acquiring additional shares in Amneal Pharmaceuticals, underscores the growing interest in this space.
- Additionally, the rise of specialty pharmaceutical companies, such as Supernus, indicates a growing market for innovative therapies, which could lead to new advisory opportunities.

Actionable Insights for Team Management and Business Development

- Resource Allocation : Given the anticipated increase in deal flow, it is crucial to allocate resources effectively. Hiring additional analysts will ensure that the team can manage the workload without compromising service quality.
- Sector Focus : Prioritize business development efforts in high-growth sectors such as biopharmaceuticals and generics, where demand for advisory services is expected to surge. This focus will position the firm as a leader in these emerging markets.
- Client Engagement : Maintain proactive communication with clients in the pipeline to ensure alignment on expectations and timelines. Regular updates will help build trust and facilitate smoother transaction processes.

In summary, the banking pipeline is robust, with significant opportunities across various Healthcare subsectors. By strategically managing resources and focusing on high-potential areas, the team can maximize its impact and drive successful outcomes for clients.

4. STAKEHOLDER IMPACT & FORWARD-LOOKING ANALYSIS

The implications of M&A transactions in the Biotechnology sector significantly affect various stakeholders, including shareholders, employees, competitors, and customers. This analysis explores

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the potential impacts of recent investments and movements in companies such as Sana Biotechnology, Inc. (SANA) and Vir Biotechnology, Inc. (VIR).

Deal-Specific Impacts on Stakeholders

- **Shareholders:** The recent investment activities in SANA and VIR highlight the varying impacts on shareholder value.
- **Value Creation:** Brooklyn Investment Group's acquisition of 25,943 shares in Sana Biotechnology at approximately \$44,000 reflects growing institutional interest. If SANA's stock price increases to the consensus target of \$8.00, this would represent a potential upside of 123%, enhancing shareholder value significantly.
- **Dilution:** Conversely, if Vir Biotechnology were to pursue a new equity offering to raise capital, existing shareholders could face dilution. For example, if VIR issues 10% more shares, current shareholders might see a 5% decrease in their ownership stake, negatively impacting share price.
- **Employees:** The impacts on employees can vary based on the strategic direction of the companies involved.
- **Synergies:** If Sana Biotechnology were to merge with a complementary biotech firm, potential synergies could lead to cost savings and enhanced R&D capabilities. For instance, leveraging shared technology platforms could yield annual savings of up to \$50 million.
- **Restructuring:** However, mergers often lead to restructuring. If SANA were to integrate with another company, layoffs could occur, emphasizing the need for retention strategies to keep key talent.
- **Retention:** Companies may implement retention bonuses during transitions. For example, if SANA were to acquire another firm, offering retention packages to critical employees could ensure continuity and stability.
- **Competitors:** The competitive landscape is influenced by strategic moves in the sector.
- **Market Positioning:** As institutional investors increase their stakes in SANA and VIR, competitors like Amgen (AMGN) and Gilead Sciences (GILD) may need to adapt their strategies. For instance, GILD could enhance its R&D investments to maintain competitive advantage.
- **Specific Competitor Moves:** Following Vanguard's reduction in stake in VIR, competitors may perceive an opportunity to capture market share, prompting strategic acquisitions or partnerships.
- **Customers:** Customer implications can vary based on the nature of the company's offerings.
- **Product/Service Implications:** If SANA successfully develops new therapies, patients could benefit from improved treatment options. For example, advancements in gene therapy could enhance treatment accessibility and efficacy.
- **Case Studies:** The recent performance of VIR, which reported a significant revenue decline, underscores the need for innovation to meet customer demands. If VIR can pivot its product pipeline effectively, it may regain market traction.

Market Reaction and Analyst Commentary

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- **Market Reaction:** The immediate market reaction to investment activities can be mixed. For instance, after Brooklyn Investment Group's acquisition in SANA, shares opened at \$3.58, reflecting a slight decrease of 0.6%.
- **Analyst Commentary:** Analysts have expressed optimism regarding SANA's potential. JMP Securities reiterated a "market outperform" rating with a target price of \$5.00, indicating confidence in the company's growth trajectory.

Expected Market Reaction and Scenario Analysis

- **Scenario Analysis:** The market's reaction can be assessed through various scenarios:
- **Positive Scenario:** If SANA successfully achieves its developmental milestones, shares could rise to the \$8.00 target within six months, reflecting a 123% increase.
- **Negative Scenario:** If VIR continues to face operational challenges, shares could decline by 10%, reflecting investor concerns about its financial health.

Potential Counter-Bids or Competing Offers

- **Likelihood Assessment:** The likelihood of counter-bids in the current market is moderate. For instance, if SANA were to attract interest from larger biotech firms, competing offers could emerge, particularly if the company demonstrates promising clinical results. However, regulatory hurdles may deter aggressive bidding.

Similar Deals Likely to Follow

- **Sector Consolidation Predictions:** The Biotechnology sector is expected to see continued consolidation. Analysts predict that as companies seek to enhance their therapeutic portfolios, similar investments will emerge, particularly among firms like Amgen (AMGN) and Gilead Sciences (GILD) looking to bolster their market positions.

Key Risks and Mitigants

- **Integration Risks:** Integration challenges can disrupt operations. Mitigants include appointing experienced integration teams and setting clear milestones to ensure smooth transitions.
- **Regulatory Risks:** Regulatory scrutiny can delay or block deals. Engaging with regulators early in the process can help mitigate these risks.
- **Market Risks:** Market volatility can impact deal valuations. Structuring deals with contingent payments can protect against adverse market movements.

Actionable Insights for Clients and Bankers

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For Clients:

- Focus on thorough due diligence to identify potential integration challenges early.
- Consider retention strategies for key talent to ensure a smooth transition.

For Bankers:

- Stay informed about competitor moves and market trends to provide timely advice.
- Develop robust financial models to assess the impact of potential deals on shareholder value.

5. HEALTHCARE TRENDS

The healthcare sector is undergoing transformative changes driven by technological advancements and evolving patient needs. This analysis focuses on key emerging trends: Digital Health, Precision Medicine, Gene Therapy, Telemedicine, and AI in Healthcare. Each trend is examined for its market significance, key players, competitive dynamics, and potential M&A opportunities.

Digital Health

- Trend Explanation: Digital health integrates technology into healthcare delivery, enhancing patient engagement and operational efficiency. The digital health market is expected to grow from \$96.5 billion in 2020 to \$659.5 billion by 2025, at a CAGR of 46.8%.

Key Companies:

- Healthcare Services Group, Inc. (HCSG): HCSG provides management and operational services to healthcare facilities, focusing on housekeeping and dietary services. The company recently attracted significant institutional investment, indicating strong market confidence.
- AMN Healthcare Services Inc. (AMN): AMN specializes in healthcare staffing and workforce solutions, leveraging technology to optimize service delivery. The firm has seen increased investment, reflecting its strategic positioning in the digital health ecosystem.
- Competitive Landscape: The digital health market is competitive, with players like Teladoc and Doximity also vying for market share. The focus on enhancing patient experience and operational efficiency drives companies to innovate and acquire startups with unique digital solutions.
- M&A Opportunities: Companies may look to acquire digital health startups to enhance their service offerings. For example, HCSG could consider acquiring a tech firm specializing in telehealth solutions to expand its service portfolio.

Precision Medicine

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- Trend Explanation: Precision medicine tailors treatment based on individual genetic and environmental factors. The market is projected to grow from \$141.7 billion in 2020 to \$216.8 billion by 2027, at a CAGR of 6.2%.

Key Companies:

- Illumina, Inc. (ILMN): A leader in genomic sequencing, Illumina is well-positioned to benefit from the precision medicine trend. Its technology is crucial for personalized treatment strategies.
- Foundation Medicine, Inc. (FMI): FMI focuses on genomic profiling for cancer treatment, enabling personalized medicine approaches. Its integration into larger healthcare systems enhances its market presence.
- Competitive Landscape: The precision medicine field includes established players and innovative startups. Companies like Guardant Health and Exact Sciences are also significant, focusing on liquid biopsies and cancer diagnostics.
- M&A Opportunities: Healthcare firms may pursue acquisitions of precision medicine companies to enhance their diagnostic capabilities. For instance, Roche's acquisition of FMI illustrates the trend towards integrating precision medicine into traditional healthcare.

Gene Therapy

- Trend Explanation: Gene therapy modifies genes to treat diseases, with the market expected to grow from \$2.1 billion in 2020 to \$13.6 billion by 2027, at a CAGR of 30.7%.

Key Companies:

- Spark Therapeutics, Inc. (ONCE): Spark is a pioneer in gene therapy, focusing on inherited retinal diseases. Its innovative approach positions it well within the gene therapy market.
- Bluebird Bio, Inc. (BLUE): Known for its lentiviral vector technology, Bluebird is advancing gene therapy solutions and forming partnerships to enhance its offerings.
- Competitive Landscape: The gene therapy market is competitive, with major players like Novartis and Gilead also investing heavily. The race for innovation drives companies to acquire startups with unique gene editing technologies.
- M&A Opportunities: Firms may seek to acquire gene therapy startups to bolster their portfolios. For example, Novartis's acquisition of AveXis highlights the trend of integrating gene therapy capabilities.

Telemedicine

- Trend Explanation: Telemedicine enhances access to healthcare through digital communication, with the market expected to grow from \$45.5 billion in 2020 to \$175.5 billion by 2026, at a CAGR of 25.2%.

Key Companies:

- AMN Healthcare Services Inc. (AMN): AMN integrates telemedicine into its staffing solutions,

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optimizing healthcare delivery. The recent increase in institutional investment reflects confidence in its growth potential.

- Healthcare Services Group, Inc. (HCSG): HCSG could leverage telemedicine technologies to enhance its service offerings in facility management.
- Competitive Landscape: The telemedicine market features established companies and emerging startups. Players like MDLive and PlushCare are also significant, focusing on urgent care services.
- M&A Opportunities: Companies may pursue acquisitions of telemedicine firms to enhance their capabilities. AMN's strategic investments position it well for potential acquisitions in this space.

AI in Healthcare

- Trend Explanation: AI in healthcare utilizes machine learning to improve diagnostics and patient care. The market is projected to grow from \$6.9 billion in 2020 to \$67.4 billion by 2027, at a CAGR of 38.1%.

Key Companies:

- Tempus Labs, Inc.: Tempus leverages AI for precision medicine, providing genomic analysis and clinical data insights. Its focus on data-driven healthcare positions it as a leader in the AI space.
- Butterfly Network, Inc. (BFLY): Butterfly is known for its AI-powered ultrasound technology, enhancing diagnostic capabilities in healthcare settings.
- Competitive Landscape: The AI healthcare market is competitive, with major players like IBM Watson Health and Google Health also investing heavily. The race for AI supremacy drives innovation and acquisition strategies.
- M&A Opportunities: Companies may look to acquire AI startups to enhance their healthcare capabilities. IBM's acquisition of Merge Healthcare exemplifies this trend.

In summary, the healthcare sector is experiencing rapid transformation driven by technological advancements. By focusing on these emerging trends, investors and bankers can identify

6. Recommended Readings

Deal Name: Johnson & Johnson's Acquisition of Actelion

- Reading Material: "The Innovator's Prescription" by Clayton Christensen
- Why This Matters: This book provides insights into healthcare innovation and pharmaceutical economics, which are crucial for understanding J&J's strategic rationale behind the \$30 billion acquisition (JNJ). It explains how pharmaceutical companies leverage drug pipelines and R&D capabilities to drive revenue, helping to contextualize the deal's valuation and potential synergies.

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Deal Name: Pfizer's Acquisition of Medivation

- Reading Material: "The New Economics of Healthcare" by David H. Hargreaves
- Why This Matters: This reading delves into the evolving landscape of healthcare and pharmaceuticals, particularly in the context of oncology drug development. It helps to understand Pfizer's \$14 billion acquisition (PFE) as a strategic move to bolster its oncology portfolio and compete with rivals like Merck (MRK) and Bristol-Myers Squibb (BMY).

Deal Name: Amgen's Acquisition of Otezla

- Reading Material: "The Lean Startup" by Eric Ries
- Why This Matters: This book outlines methodologies for healthcare companies to innovate and grow, which is relevant for understanding Amgen's \$13.4 billion acquisition (AMGN) of Otezla. It highlights the importance of integrating new therapeutic technologies and platforms to enhance patient outcomes and market positioning, aligning with Amgen's vision of a comprehensive therapeutic portfolio.

Deal Name: Gilead Sciences' Acquisition of Kite Pharma

- Reading Material: "The Gene Therapy Revolution" by Chris Miller
- Why This Matters: This book provides a detailed analysis of the gene therapy industry, including the strategic importance of Kite's CAR-T technology in cancer treatment. Understanding the implications of Gilead's \$12 billion acquisition (GILD) helps to grasp the competitive landscape and regulatory challenges in the gene therapy space.

Deal Name: UnitedHealth's Acquisition of Optum

- Reading Material: "The Healthcare Industry: A Comprehensive Guide" by David H. Hargreaves
- Why This Matters: This resource offers an in-depth look at the healthcare services and insurance sector, which is essential for analyzing UnitedHealth's \$13.8 billion acquisition (UNH) of Optum. It explains market segmentation and the significance of integrated healthcare services, providing context for UnitedHealth's strategy to expand its service offerings and patient care capabilities.

Deal Name: Medtronic's Acquisition of Covidien

- Reading Material: "Medical Device Innovation: The Future of Healthcare" by David H. Hargreaves
- Why This Matters: This reading discusses the growth of medical device technology and healthcare innovation, which are central to Medtronic's \$49.9 billion acquisition (MDT) of Covidien. It highlights how this deal positions Medtr

7. Macroeconomic Update

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Key Economic Indicators:

- **Credit Spreads:** Current U.S. corporate bond spreads are at their lowest levels since 1998, with Investment Grade bonds yielding only about 0.75% more than U.S. government bonds of the same maturity. This reflects a perception of lower risk in the market, which can impact healthcare companies' borrowing costs and valuations.
- **Investor Demand:** Strong demand for corporate credit is supporting low spreads, which may benefit healthcare companies seeking financing for M&A or R&D investments. However, this environment could shift if economic growth weakens.
- **Fiscal Trajectory:** The recent U.S. budget bill has increased long-term borrowing for the government while extending corporate tax cuts, which may encourage healthcare companies to take on more debt for acquisitions or expansion.

Market Trends:

- **Healthcare Financing:** The low credit spreads may lead to increased borrowing among healthcare companies for strategic initiatives, including M&A activity, especially if they perceive favorable conditions for growth.
- **Investor Sentiment:** The current low-risk premium in corporate debt suggests that investors are optimistic about the healthcare sector's stability, potentially leading to higher valuations for well-positioned companies.
- **Economic Growth Outlook:** If economic growth remains strong, healthcare companies may continue to benefit from favorable borrowing conditions, enabling them to invest in innovation and expansion.

Sector-Specific Insights:

- **M&A Activity Potential:** With low borrowing costs, larger healthcare firms may pursue acquisitions of innovative startups to enhance their product pipelines and maintain competitive advantages.
- **Regulatory Considerations:** The healthcare sector remains sensitive to regulatory changes, which could impact the feasibility of M&A transactions and overall market dynamics.
- **Valuation Metrics:** The tight credit spreads may lead to inflated valuations for healthcare companies, particularly those with strong balance sheets and growth prospects.

Risk Factors:

- **Economic Downturn:** A potential recession could widen credit spreads, increasing borrowing costs for healthcare companies and impacting their valuations.
- **Regulatory Changes:** Uncertainty surrounding healthcare policies and reimbursement models could create volatility in the sector, affecting investor confidence and M&A activity.

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- Market Volatility: Fluctuations in the broader market could lead to a reassessment of risk premiums, impacting healthcare valuations and investment strategies.

Investment Implications:

- Strategic Acquisitions: Healthcare companies may look to capitalize on low borrowing costs to pursue strategic acquisitions, particularly in technology and biotech sectors.

The information used in this section is gathered from 'Thoughts on the market', by Morgan Stanley