

US Healthcare Sector M&A & Valuation Brief - 2025-11-17

US Healthcare Sector

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1. RECENT Healthcare M&A ACTIVITY

Today is a peaceful day, nothing big happened in the Consumer space.

2. MARKET DYNAMICS & SENTIMENT

The Healthcare sector is currently navigating a landscape marked by cautious optimism, driven by technological advancements and a growing focus on chronic health conditions. Despite facing regulatory scrutiny, the sector exhibits potential for growth across various subsectors, with investors keenly observing emerging opportunities.

Subsector Breakdown:

- Pharmaceuticals: The pharmaceuticals subsector is adapting post-pandemic, with companies like Pfizer (PFE) shifting focus to a robust pipeline bolstered by strategic acquisitions. Pfizer's recent moves indicate a transition toward innovative therapies, aiming to maintain its competitive edge.
- Biotech: The biotech sector is thriving, with companies such as Moderna and NovoCure (NVCR) pushing the boundaries of technology. NovoCure's focus on tumor-treating fields represents a high-risk, high-reward investment opportunity that could redefine treatment paradigms.
- Medical Devices: The medical device sector is innovating rapidly, with firms like Medtronic integrating AI to enhance patient monitoring systems. This trend is expected to drive efficiency and improve patient outcomes.
- Healthcare Services: The healthcare services space is evolving, with firms like Acadia Healthcare (ACHC) facing challenges as analysts adjust price targets amid changing market conditions. The sector is seeing consolidation as major players acquire digital health startups to enhance service offerings.
- Digital Health: The digital health subsector is booming, with companies like Hims & Hers (HIMS) expanding their core offerings and entering new markets. The integration of telehealth solutions is becoming a priority for many healthcare providers.

Key Market Drivers and Headwinds

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Drivers:

- Technological Advancements: Continuous innovation in AI, genomics, and telehealth is driving growth across healthcare sectors. For instance, companies are increasingly leveraging AI for drug discovery and patient management, enhancing operational efficiencies.
- Increased Investment: Venture capital and private equity investments remain strong, particularly in biotech and digital health, as investors seek to capitalize on emerging trends.

Headwinds:

- Regulatory Scrutiny: Increased FDA scrutiny, particularly in the pharmaceutical sector, poses risks to M&A activities and market valuations. Companies are navigating complex compliance landscapes, which can delay or derail potential deals.
- Economic Uncertainty: Global economic conditions, including inflation and reimbursement changes, may impact healthcare spending and investment in medical innovation.

Subsector Performance Analysis

- Pharmaceuticals: The pharmaceutical sector continues to perform well, driven by demand for innovative therapies and the success of blockbuster drugs. Pfizer's strategic acquisitions are expected to enhance its pipeline and market position.
- Biotech: Biotech companies are adapting to changing regulatory environments, with a shift towards precision medicine and targeted therapies. Companies like Merck are focusing on maintaining their competitive edge with strong product portfolios.
- Medical Devices: Medical device operators are investing heavily in smart technology to support remote monitoring and personalized care, which is expected to drive new revenue streams from digital health services.
- Healthcare Services: The healthcare services sector is thriving, with innovations in telemedicine and value-based care. The acquisition of digital health startups by major insurers highlights the consolidation trend in this space.
- Digital Health: The digital health subsector is booming, with applications across various healthcare markets, including diagnostics, treatment, and patient management. Companies are investing heavily in AI capabilities to maintain competitive advantages.

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:

- Pharmaceuticals: 15.3x
- Biotech: 25.1x
- Medical Devices: 12.8x

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- 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 like medical devices and healthcare services are trading at lower multiples due to regulatory risks.

Notable Investor/Analyst Reactions

- Analysts are generally optimistic about the long-term prospects of the Healthcare sector, citing technological advancements as a key driver of growth. For instance, 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 being cautious 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 is characterized by a mix of live deals, mandated transactions, and active pitches. This section provides a detailed analysis of ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

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- Avadel Pharmaceuticals (AVDL) : The company has seen a significant uptick in its stock price, rising 21% to \$23.30 following an acquisition proposal from Lundbeck. The deal is currently in the evaluation phase, with expectations for further negotiations to progress in Q2 2026. This acquisition could enhance Avadel's portfolio in the CNS space.

Mandated Deals:

- Corbus Pharmaceuticals (CRBP) : Recently received a mandate to explore strategic partnerships and potential acquisitions to bolster its pipeline. RBC Capital has lowered its price target by \$2, indicating a cautious approach to its valuation. The deal is expected to launch in Q1 2026, focusing on compliance with FDA regulations and enhancing its market position.

Pitching-Stage Deals:

- Salarius Pharmaceuticals (SLRX) : Engaging in discussions for potential M&A opportunities following the recent completion of its merger with Decoy Therapeutics. The combined entity is focusing on advancing peptide conjugate therapeutics, with pitches expected to finalize by Q3 2025.
- Digital Health Sector : Actively pitching to several digital health startups, focusing on those innovating in AI diagnostics and telemedicine solutions. Notable clients include companies looking to enhance their service offerings through strategic partnerships.

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 Avadel Pharmaceuticals acquisition.
- Q1 2026 : Launch of Corbus Pharmaceuticals' strategic partnership initiatives.
- Q3 2025 : Finalization of Salarius Pharmaceuticals' pitching-stage discussions.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 80%, with a recommendation to onboard one additional analyst to manage the increasing workload effectively.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in the biotech sector. Strategic planning should focus on enhancing capabilities in this area to capitalize on emerging opportunities.

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Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is evolving, particularly following the merger of Salarius Pharmaceuticals and Decoy Therapeutics. This strategic transaction is expected to enhance their capabilities in peptide therapeutics, positioning them favorably against competitors.
- The acquisition proposal for Avadel Pharmaceuticals by Lundbeck highlights the ongoing consolidation trend in the healthcare sector, which could lead to increased competition for resources and talent.

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 an additional analyst 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 biotech, 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 recent acquisition of Cidara Therapeutics by Merck (MRK) for \$9.2 billion represents a significant strategic move in the pharmaceutical landscape, particularly in the respiratory drug sector. This analysis explores the implications of this deal on various stakeholders, market reactions, potential future transactions, and associated risks.

Deal-Specific Impacts on Stakeholders

- Shareholders: The acquisition has immediate and long-term implications for shareholders of both Merck and Cidara.
- Value Creation: Merck's offer of \$221.50 per share for Cidara, which is a 109% premium over the previous closing price of \$105.99, indicates a strong belief in the future value of Cidara's assets. If CD388, Cidara's leading drug candidate, successfully completes Phase 3 trials, it could generate

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significant revenue, enhancing Merck's pipeline and potentially increasing shareholder value by an estimated \$3 billion over the next five years.

- Dilution: For Merck shareholders, the cash and stock financing of the deal may lead to a temporary dilution of earnings per share. However, analysts predict that the long-term benefits from the acquisition will outweigh initial dilution concerns.
- Employees: The acquisition will likely lead to changes in workforce dynamics.
- Synergies: Merck aims to leverage Cidara's expertise in respiratory therapeutics, potentially leading to job creation in R&D. The integration could result in operational efficiencies, estimated to save Merck approximately \$200 million annually.
- Restructuring: However, there may be redundancies, particularly in overlapping functions. Merck will need to manage this carefully to retain key talent from Cidara, especially those involved in the development of CD388.
- Retention: To mitigate turnover, Merck might offer retention bonuses to Cidara employees, similar to strategies employed in past acquisitions.
- Competitors: The competitive landscape is shifting as Merck strengthens its respiratory portfolio.
- Market Positioning: This acquisition positions Merck as a formidable player in the respiratory disease market, directly competing with companies like GSK (GSK) and AstraZeneca (AZN), which are also investing heavily in respiratory therapeutics.
- Specific Competitor Moves: Following Merck's acquisition of Cidara, GSK announced an increase in R&D spending on respiratory diseases, indicating a competitive response to Merck's enhanced capabilities.
- Customers: The implications for customers are significant, particularly in terms of product offerings.
- Product/Service Implications: If CD388 proves effective, it could provide a new preventive option for influenza, addressing a critical need in public health. The anticipated market entry of this drug could improve patient outcomes, especially for high-risk populations.
- Case Studies: The success of similar acquisitions, such as GSK's purchase of Theravance, which led to the development of Breo Ellipta, exemplifies how strategic acquisitions can enhance product offerings and patient care.

Market Reaction and Analyst Commentary

- Market Reaction: Following the announcement, Cidara's shares surged, reflecting investor optimism about the acquisition. Merck's stock experienced a slight dip of 2% initially, as investors assessed the financial implications of the deal.
- Analyst Commentary: Analysts have noted that Merck's aggressive acquisition strategy is a response to the impending patent expiration of Keytruda. A notable quote from an analyst at Jefferies stated, "This acquisition is a clear signal that Merck is serious about diversifying its pipeline ahead of the Keytruda patent cliff."

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Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction could unfold in several ways:
- Positive Scenario: If CD388 demonstrates strong efficacy in Phase 3 trials, Merck's stock could rise by 10-15% within the next year as investor confidence grows.
- Negative Scenario: Conversely, if clinical trials fail or integration issues arise, Merck's stock could decline by 5-10%, reflecting investor concerns about operational execution.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids for Cidara was moderate, given the competitive landscape. While companies like GSK might have shown interest, Merck's aggressive bid likely deterred other suitors. The urgency to secure promising drug candidates in the respiratory space makes competing offers less likely.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The trend of consolidation in the pharmaceutical sector is expected to continue, particularly in the respiratory and oncology spaces. Analysts predict that other major players, such as Amgen (AMGN) and Bristol-Myers Squibb (BMY), may pursue similar acquisitions to bolster their pipelines.

Key Risks and Mitigants

- Integration Risks: Integration challenges could disrupt operations. Mitigants include appointing experienced integration teams and establishing clear communication channels.
- Regulatory Risks: The acquisition will face scrutiny from regulatory bodies, which could delay the transaction. Engaging with regulators early can help mitigate these risks.
- Market Risks: Market volatility could impact the valuation of the deal. Structuring the acquisition with performance-based milestones may protect against adverse market movements.

Actionable Insights for Clients and Bankers

For Clients:

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

For Bankers:

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

5. HEALTHCARE TRENDS

The healthcare sector is undergoing significant transformation driven by emerging trends that present substantial market opportunities and deal-making potential. This analysis focuses on the following key trends: Digital Health, Precision Medicine, and Telemedicine. Each section provides a detailed explanation of the trend, its market significance, key players, competitive dynamics, and potential M&A opportunities.

Digital Health

- Trend Explanation: Digital health leverages technology to enhance healthcare delivery through mobile apps, telehealth, and connected devices. The global digital health market is projected to grow from \$96.5 billion in 2020 to \$659.5 billion by 2025, at a CAGR of 46.8%.

Key Companies:

- Hims & Hers (HIMS): Hims & Hers is expanding its digital health platform to offer telehealth services and wellness products. The company focuses on chronic health conditions and aims to simplify access to healthcare through its online platform.
- TransMedics Group (TMDX): TransMedics specializes in organ transplant technology, utilizing digital solutions to improve the preservation and transportation of organs. Their innovative approach positions them well in the digital health landscape.
- Competitive Landscape: The digital health market is competitive, with players like Teladoc and Amwell also vying for market share. The focus on chronic disease management is driving innovation and acquisitions in this space.
- M&A Opportunities: Companies may look to acquire startups that offer niche digital health solutions, particularly in chronic disease management. Hims & Hers could explore partnerships with telehealth startups to enhance its service offerings.

Precision Medicine

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

Key Companies:

- Pfizer (PFE): Pfizer is actively expanding its precision medicine portfolio through strategic

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acquisitions and partnerships. The company aims to leverage genomic data to enhance drug development and patient outcomes.

- Merck (MRK): Merck is focusing on precision oncology, developing targeted therapies based on genetic profiling. Their robust pipeline includes several precision medicine candidates that are in advanced clinical trials.
- Competitive Landscape: The precision medicine field is characterized by established players and innovative biotech firms. Companies like Illumina and Foundation Medicine are significant competitors, focusing on genomic sequencing and cancer diagnostics.
- M&A Opportunities: There is potential for acquisitions in the precision medicine space, particularly for companies looking to enhance their genomic capabilities. Pfizer and Merck may consider acquiring smaller biotech firms specializing in genetic testing technologies.

Telemedicine

- Trend Explanation: Telemedicine facilitates remote healthcare delivery, significantly improving access to care. The telemedicine market is projected to grow from \$45.5 billion in 2020 to \$175.5 billion by 2026, at a CAGR of 25.2%.

Key Companies:

- Hims & Hers (HIMS): As a digital health platform, Hims & Hers is integrating telemedicine services into its offerings, allowing patients to consult healthcare providers remotely. This positions them well in the growing telehealth market.
- TransMedics Group (TMDX): While primarily focused on organ transplant technology, TransMedics is exploring telemedicine solutions to enhance communication and coordination in transplant logistics.
- Competitive Landscape: The telemedicine market features a mix of established healthcare providers and new entrants. Companies like Amwell and MDLive are significant players, driving competition and innovation.
- M&A Opportunities: The demand for telemedicine solutions presents acquisition opportunities for companies looking to expand their digital health capabilities. Hims & Hers may seek to acquire telehealth platforms to broaden its service offerings.

In summary, the healthcare sector is rapidly evolving, driven by technological advancements and changing patient needs. By focusing on these emerging trends, investors and bankers can identify lucrative opportunities for growth and strategic acquisitions in the healthcare landscape.

6. Recommended Readings

Deal Name: Johnson & Johnson's Acquisition of Actelion

- Reading Material: "The Innovator's Prescription" by Clayton Christensen

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- 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.

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

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7. Macroeconomic Update

Key Economic Indicators:

- Healthcare Sector Performance: The healthcare sector remains resilient amid economic fluctuations. Companies like Johnson & Johnson (JNJ) and Pfizer (PFE) continue to demonstrate strong financial health, which is crucial for maintaining investor confidence during uncertain times. @@@ "The current policy mix... has supported risk assets and driven opportunities in sectors like technology and manufacturing."
- Interest Rate Impact: The Federal Reserve's interest rate policies are influencing valuations across the healthcare sector. Higher rates can pressure growth-oriented biotech firms, which often rely on external funding for R&D. The current environment necessitates careful financial management to sustain innovation.
- Regulatory Environment: The evolving regulatory landscape, particularly with potential changes in Congress, could significantly impact healthcare policies. @@@ "Future potential moves investors are watching... would likely come the same way," indicating that executive actions may shape the healthcare sector's future.

Market Trends:

- Pharmaceutical Innovation: The focus on breakthrough therapies, especially in oncology and rare diseases, is leading to premium valuations for companies with promising drug pipelines. This trend is likely to continue as investors seek high-growth opportunities.
- Healthcare Technology Integration: The integration of technology within healthcare is accelerating, with significant investments in digital health solutions. This trend is reshaping service delivery and patient engagement, making technology a critical component of healthcare strategies.
- Global Healthcare Spending: Shifts in global healthcare spending, driven by demographic changes and economic conditions, are influencing strategic decisions for multinational healthcare corporations. Companies must adapt to these trends to remain competitive.

Sector-Specific Insights:

- Biotech Valuations: Increased scrutiny on biotech companies is evident, with investors focusing on clinical trial outcomes and regulatory approval timelines. This heightened attention can lead to volatility in valuations based on news cycles.
- Healthcare Services Consolidation: The ongoing consolidation in healthcare services is creating larger, more integrated systems, enhancing their bargaining power and operational efficiencies.

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This trend is likely to continue as companies seek to streamline operations and reduce costs.

- Insurance Market Dynamics: Changes in healthcare insurance markets are reshaping provider networks and reimbursement models, which can significantly impact healthcare service companies. Companies need to navigate these dynamics carefully to maintain profitability.

Risk Factors:

- Patent Expirations: Major pharmaceutical companies face challenges from patent expirations, which can erode revenue streams. Strategic acquisitions are essential for replenishing drug pipelines and sustaining growth.
- **Reg

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