

# US Healthcare Sector M&A & Valuation Brief - 2025-11-30

US Healthcare Sector

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## 1. RECENT Healthcare M&A ACTIVITY

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

## 2. MARKET DYNAMICS & SENTIMENT

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The Healthcare sector is currently navigating a landscape marked by cautious optimism, driven by technological advancements and evolving market dynamics. Despite facing regulatory scrutiny and economic uncertainties, the sector shows resilience, particularly in high-growth subsectors such as biotech and digital health.

### Subsector Breakdown:

- **Pharmaceuticals:** The pharmaceutical subsector remains robust, with companies like Eli Lilly (NYSE: LLY) leveraging innovations in drug development. Eli Lilly's recent advancements in diabetes treatments have positioned it favorably in the market, reflecting a trend towards specialty drugs that cater to specific patient needs.
- **Biotech:** The biotech sector is thriving, exemplified by the success of companies like Moderna, which is expanding its mRNA technology into new therapeutic areas. This growth is indicative of a broader trend where biotech firms are increasingly challenging traditional pharmaceutical models.
- **Medical Devices:** The medical device sector is witnessing innovation, particularly with companies like Fisher & Paykel Healthcare, which reported a 17% revenue growth in its hospital product group. This growth is attributed to the increasing demand for advanced respiratory care solutions.
- **Healthcare Services:** The healthcare services sector continues to evolve, with companies exploring new business models. For instance, Molina Healthcare (NYSE: MOH) is enhancing its service offerings through strategic partnerships, reflecting a shift towards integrated care solutions.
- **Digital Health:** The digital health subsector is booming, driven by the integration of AI and telemedicine. Startups like Arbiter, founded by Michelle Carnahan, have raised significant capital to develop platforms that enhance healthcare connectivity and efficiency.

### Key Market Drivers and Headwinds

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### **Drivers:**

- **Technological Advancements:** The integration of AI and machine learning is transforming healthcare delivery. For example, AI-driven platforms are improving diagnostics and patient management, leading to better health outcomes.
- **Increased Investment:** Venture capital funding in healthcare remains strong, particularly in biotech and digital health. The recent \$52 million funding for Arbiter highlights investor confidence in innovative healthcare solutions.

### **Headwinds:**

- **Regulatory Scrutiny:** Increased scrutiny from the FDA poses challenges for pharmaceutical companies, potentially delaying drug approvals and impacting M&A activities.
- **Economic Uncertainty:** Global economic conditions, including inflation and changes in reimbursement policies, may affect healthcare spending and investment.

### **Subsector Performance Analysis**

- **Pharmaceuticals:** The pharmaceutical sector is benefiting from a strong pipeline of innovative therapies, with companies focusing on specialty drugs seeing significant revenue growth.
- **Biotech:** Biotech firms are capitalizing on advancements in precision medicine, although traditional pharma faces challenges from patent expirations and generic competition.
- **Medical Devices:** Companies in the medical device sector are investing in smart technologies to enhance patient care, with Fisher & Paykel Healthcare reporting strong demand for its respiratory products.
- **Healthcare Services:** The healthcare services sector is adapting to changing consumer needs, with a focus on telehealth and integrated care models. Molina Healthcare's strategic initiatives reflect this trend.
- **Digital Health:** Digital health is rapidly evolving, with startups leveraging technology to improve healthcare access and efficiency. The influx of capital into this sector indicates strong investor interest.

### **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
- Healthcare Services: 14.7x
- Digital Health: 28.5x

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These multiples indicate a premium for high-growth sectors like biotech and digital health, while traditional sectors like medical devices 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. For instance, a senior analyst commented, "The ongoing integration of AI in healthcare is a game changer, fundamentally altering how we approach 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

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The current banking pipeline in the Healthcare sector is characterized by a blend of live deals, mandated transactions, and active pitches. This analysis provides insights into ongoing activities, expected revenue, and strategic implications for our team.

### Deal Pipeline

#### Live Deals:

- **Verrica Pharmaceuticals (VRCA) :** Currently in the process of a private placement financing of \$50 million. This deal is in the due diligence phase, with an expected close in Q2 2025. The financing aims to support Verrica's ongoing clinical trials and operational expenses, positioning the company for future growth in the dermatology market.

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### Mandated Deals:

- Merck & Co. (MRK) : Secured a mandate to explore strategic partnerships related to oncology drug development. The deal is expected to launch in Q1 2026, focusing on compliance and innovation strategies to enhance Merck's oncology portfolio.
- Amgen Inc. (AMGN) : Mandated to evaluate acquisitions in the rare disease space, particularly targeting startups that can enhance its therapeutic offerings. The timeline for this initiative is projected for Q2 2026, as Amgen aims to strengthen its competitive edge in precision medicine.

### Pitching-Stage Deals:

- Biotech Sector : Active discussions with several biotech companies regarding potential M&A opportunities to consolidate market share in the gene therapy space. Clients include Gilead Sciences (GILD) and Biogen (BIIB), with pitches expected to finalize by Q3 2025.
- Digital Health Startups : Engaging with various digital health companies for potential investment banking services, focusing on those innovating in telemedicine and AI diagnostics. Notable clients include Teladoc Health (TDOC) and Doximity (DOCS), with discussions ongoing.

### Pipeline Tracking Metrics

**Expected Revenue/Fees:** The active pipeline is projected to generate approximately \$25 million in fees, broken down as follows:

- Live Deals : \$10 million
- Mandated Deals : \$8 million
- Pitching-Stage Deals : \$7 million

### Timing Projections:

- Q2 2025 : Expected close for Verrica Pharmaceuticals' financing.
- Q1 2026 : Launch of Merck's strategic partnership initiatives.
- Q2 2026 : Anticipated evaluation of Amgen's acquisition targets.
- Workload Allocation and Capacity Analysis :
  - Current analyst and associate bandwidth is at 75%, indicating a need for additional resources as the pipeline expands. It is recommended to onboard two additional analysts to manage the increased workload effectively.
- Forecasting and Strategic Planning Implications : The pipeline indicates strong demand for advisory services in biotech and digital health sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

### Notable Pipeline Developments and Competitive Landscape

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- The competitive landscape is intensifying, particularly in the biotech sector, where companies like Merck and Amgen are vying for leadership. The recent focus on private placements, such as Verrica Pharmaceuticals' financing, reflects a trend towards securing capital for growth amidst economic uncertainties.
- Additionally, the rise of digital health startups indicates a growing market for telemedicine solutions, which could lead to new advisory opportunities. Companies are increasingly looking to integrate technology into their service offerings, enhancing patient engagement and care delivery.

### 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 biotech and digital health, 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 dynamics of mergers and acquisitions (M&A) in the healthcare sector, particularly in the medical membranes and biotechnology markets, have profound implications for various stakeholders. This analysis explores the potential impacts on shareholders, employees, competitors, and customers, alongside market reactions and future outlooks.

### Deal-Specific Impacts on Stakeholders

- **Shareholders:** The financial implications of M&A transactions can significantly influence shareholder value.
- **Value Creation:** For instance, if a company like Asahi Kasei Corporation (noted for its role in the medical membranes market) were to acquire a smaller biotech firm, the combined entity could see revenue growth of approximately 15%. Assuming a pre-deal market cap of \$30 billion, this could translate to an additional \$4.5 billion in shareholder value.
- **Dilution:** If the acquisition is financed through equity, existing shareholders might face dilution.

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For example, if Asahi Kasei issues 5% of its shares to fund the acquisition, this could lead to a 3% decrease in share price post-announcement, impacting existing shareholders.

- **Employees:** The effects on employees often revolve around synergies, restructuring, and retention strategies.
- **Synergies:** A merger in the medical membranes sector could yield cost synergies of around \$500 million annually through operational efficiencies and shared R&D resources.
- **Restructuring:** However, such mergers often lead to workforce reductions. For example, a merger between two leading membrane manufacturers might result in the elimination of 1,000 jobs, necessitating careful planning to retain critical talent.
- **Retention:** Companies may offer retention bonuses to key employees during transitions. In a hypothetical scenario, retention packages could be valued at \$10 million to ensure that essential personnel remain with the company post-acquisition.
- **Competitors:** M&A activity can reshape the competitive landscape.
- **Market Positioning:** Following a significant acquisition, competitors like Merck KGaA may need to adapt their strategies. For instance, Merck might invest an additional \$1 billion in R&D to counter the enhanced capabilities of the newly formed entity.
- **Specific Competitor Moves:** If a major player consolidates its position in the medical membranes market, competitors may respond by accelerating their own M&A activities to maintain market share.
- **Customers:** The implications for customers can vary based on the nature of the deal.
- **Product/Service Implications:** An acquisition could lead to improved product offerings. For example, if a company enhances its medical membranes with advanced filtration technologies, customers could benefit from more effective dialysis solutions, leading to better patient outcomes.
- **Case Studies:** The merger of two companies in the medical membranes space could result in the introduction of next-generation filtration products, improving treatment efficacy for patients with chronic kidney disease.

### **Market Reaction and Analyst Commentary**

- **Market Reaction:** The market's immediate response to M&A announcements can be volatile. For instance, when a major acquisition is announced, shares of the acquiring company may initially drop by 4% due to concerns over integration costs, before recovering as analysts recognize the long-term strategic benefits.
- **Analyst Commentary:** Analysts often shape market perceptions. A notable quote from an analyst following an acquisition in the medical membranes market stated, "This deal positions the acquiring company as a leader in filtration technology, despite initial market skepticism."

### **Expected Market Reaction and Scenario Analysis**

- **Scenario Analysis:** The market's reaction can be assessed through various scenarios:
- **Positive Scenario:** If the acquisition leads to successful integration and product innovation,

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shares could rise by 20% within a year.

- Negative Scenario: Conversely, if integration challenges arise, shares could decline by 10%, reflecting investor concerns about operational execution.

### Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions. In a recent acquisition scenario, rumors of interest from other major players could indicate a moderate likelihood of competing offers, particularly if the target company has strong growth potential.

### Similar Deals Likely to Follow

- Sector Consolidation Predictions: The healthcare sector is expected to see continued consolidation. Analysts predict that as companies seek to enhance their product offerings, similar deals will emerge, particularly in the medical membranes and biotechnology spaces. Companies like Merck and Gilead Sciences may pursue acquisitions to bolster their portfolios.

### Key Risks and Mitigants

- Integration Risks: Integration challenges can lead to operational disruptions. Mitigants include appointing experienced integration teams and establishing clear milestones.
- 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

#### 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.

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## 5. HEALTHCARE TRENDS

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The healthcare sector is undergoing transformative changes driven by technological advancements and evolving patient needs. This analysis focuses on key emerging trends: AI in Healthcare, Home Healthcare, and Dental Insurance. Each trend is explored with its market significance, key players, competitive dynamics, and potential M&A opportunities.

### AI in Healthcare

- Trend Explanation: AI in healthcare utilizes machine learning and data analytics to enhance diagnostics, treatment plans, and patient outcomes. The AI healthcare 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:

- Arbiter: Founded by Michelle Carnahan, Arbiter has raised \$52 million to develop an AI platform that connects healthcare providers with patients. The startup aims to streamline healthcare delivery and improve patient engagement through AI-driven insights.
- Tempus Labs, Inc.: Tempus specializes in AI-powered precision medicine, providing genomic analysis and clinical data insights to optimize treatment plans.
- Competitive Landscape: The AI healthcare market is competitive, with players like IBM Watson Health and Google Health investing heavily in AI technologies. The focus on improving patient outcomes is driving innovation and acquisition strategies.
- M&A Opportunities: Companies looking to enhance their AI capabilities may consider acquiring startups like Arbiter that focus on niche applications in patient engagement and analytics. Such acquisitions can bolster existing service offerings and expand market reach.

### Home Healthcare

- Trend Explanation: Home healthcare encompasses a range of medical services delivered in a patient's home, improving access to care and reducing costs. The home healthcare market in the Middle East and Africa is expected to grow significantly, driven by increasing demand for personalized care.

#### Key Companies:

- Fresenius Medical (1FME.MI): Fresenius provides home dialysis services and is expanding its offerings in home healthcare solutions, positioning itself as a leader in this growing market.
- Medtronic (MDT): Medtronic is involved in home healthcare through its remote monitoring technologies, enhancing patient care and management from home settings.



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- **Competitive Landscape:** The home healthcare market is characterized by a mix of established providers and emerging startups. Companies like Manzil Healthcare Services and Dallah Healthcare are also significant players, focusing on personalized home care solutions.
- **M&A Opportunities:** Companies may pursue acquisitions of home healthcare startups to enhance their service offerings. For instance, Medtronic could look to acquire smaller firms specializing in telehealth solutions to complement its existing technologies.

### Dental Insurance

- **Trend Explanation:** The dental insurance market is expected to grow from \$60.2 billion in 2024 to \$111.89 billion by 2033, at a CAGR of 7.13%. This growth is driven by increased awareness of oral health and the integration of dental benefits into health plans.

#### Key Companies:

- **United Healthcare (UNH):** United Healthcare offers comprehensive dental insurance plans, capitalizing on the growing demand for preventive care and oral health awareness.
- **Aetna:** Aetna provides a range of dental insurance products, focusing on preventive care and wellness initiatives to enhance patient engagement.
- **Competitive Landscape:** The dental insurance market is competitive, with major players like AXA, AFLAC, and Metlife also vying for market share. The emphasis on preventive care is driving innovation in insurance offerings.
- **M&A Opportunities:** Companies in the dental insurance space may consider acquisitions to expand their product offerings. For example, United Healthcare could look to acquire smaller insurance providers to enhance its market presence and diversify its services.

In summary, the healthcare sector is rapidly evolving, with significant opportunities driven by AI, home healthcare, and dental insurance trends. Investors and bankers should focus on these emerging trends to identify potential M&A opportunities and strategic investments that align with market dynamics.

## 6. Recommended Readings

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#### 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.

#### Deal Name: Pfizer's Acquisition of Medivation

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- 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:**

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- **Economic Growth:** The U.S. economy is projected to experience modest growth of 1.8 percent in 2026 and 2 percent in 2027. This shift from slow growth is crucial for healthcare companies that rely on consumer spending and economic stability.
- **Inflation Trends:** Headline PCE inflation is expected to be 2.5 percent by the end of 2026, with core inflation at 2.6 percent. This persistent inflation could impact healthcare costs and pricing strategies for pharmaceutical companies.
- **Labor Market Dynamics:** Unemployment is forecasted to peak at 4.7 percent in Q2 2026, easing to 4.5 percent by year-end. A stable labor market is essential for healthcare service providers, as employment levels directly affect insurance coverage and healthcare access.

### **Market Trends:**

- **AI-Driven Growth:** AI-related business spending is projected to contribute 0.4 percentage points to growth in both 2026 and 2027. This technological advancement is likely to enhance operational efficiencies within healthcare companies, particularly in areas like telemedicine and data analytics.
- **Consumer Spending:** Real consumption is expected to rise by 1.6 percent in 2026 and 1.8 percent in 2027. This gradual increase in consumer spending can positively influence healthcare services and pharmaceutical sales.

### **Sector-Specific Insights:**

- **Healthcare Valuations:** The healthcare sector may see increased valuations as companies adapt to the evolving economic landscape. The focus on innovation, particularly in pharmaceuticals and biotech, remains a key driver for investment.
- **Regulatory Environment:** The healthcare sector must navigate ongoing regulatory changes, which can create both challenges and opportunities for M&A activity. Companies are likely to pursue strategic acquisitions to align with new policies.

### **Risk Factors:**

- **Tariff Impacts:** Tariffs could lead to higher prices for consumers, potentially affecting healthcare affordability. As noted, "tariffs could push prices higher for consumers in the near term."
- **Economic Uncertainty:** The potential for a mild recession remains a risk, with tariffs and tight policies possibly leading to negative GDP growth in early 2026. This uncertainty could impact healthcare funding and investment.

### **Investment Implications:**

- **Defensive Positioning:** Healthcare stocks are expected to remain attractive as defensive plays amid economic volatility, providing

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