

Healthcare Sector M&A & Valuation Brief - 2025-08-28

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 technological advancements and evolving market dynamics. Despite facing regulatory scrutiny and economic uncertainties, the sentiment remains generally positive, particularly in subsectors like Healthcare Services and Digital Health.

Subsector Breakdown:

- Pharmaceuticals: The pharmaceutical subsector is witnessing steady growth, bolstered by innovations in drug development and a focus on precision medicine. Companies are increasingly integrating AI technologies to streamline R&D processes, enhancing their competitive edge.
- Biotech: Biotech firms are thriving, with significant advancements in mRNA technology, as exemplified by companies like Moderna (MRNA). However, traditional pharmaceutical companies are grappling with challenges posed by patent expirations and competition from agile biotech startups.
- Medical Devices: The medical device sector is innovating rapidly, with companies like Medtronic (MDT) introducing AI-driven solutions aimed at improving patient care and operational efficiency.
- Healthcare Services: This subsector is experiencing robust growth, driven by demand for staffing solutions and operational efficiencies. Companies such as Healthcare Services Group, Inc.

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(HCSG) are expanding their market presence through strategic investments and partnerships.

- Digital Health: The digital health space is booming, with companies racing to implement AI and telehealth solutions. The integration of technology into healthcare delivery is reshaping traditional models, offering new avenues for growth.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI and digital health is driving growth across various healthcare sectors. For instance, the integration of AI in diagnostics is expected to enhance patient outcomes and reduce costs.
- Increased Investment: Strong venture capital and private equity interest in biotech and digital health sectors is fueling growth, as investors seek to capitalize on emerging trends.

Headwinds:

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

Subsector Performance Analysis

- Pharmaceuticals: The sector continues to perform well, driven by demand for innovative therapies. Companies focusing on specialty drugs are particularly well-positioned for growth, with a focus on rare diseases and personalized medicine.
- Biotech: Biotech firms are adapting to regulatory changes, with a shift towards precision medicine and targeted therapies. However, traditional pharma faces declining revenues from expiring patents.
- Medical Devices: Companies are investing in smart technologies to support remote monitoring and personalized care, which are expected to drive new revenue streams from digital health services.
- Healthcare Services: The sector is thriving, with innovations in telemedicine and staffing solutions. The acquisition of digital health startups by major players highlights the consolidation trend.
- Digital Health: The digital health subsector is experiencing rapid growth, with applications across diagnostics, treatment, and patient management. Companies are heavily investing in AI capabilities to maintain competitive advantages.

Trading Multiples Trends

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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

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 optimistic about the long-term prospects of the Healthcare sector. For instance, a recent report from Macquarie upgraded Healthcare Services Group (HCSG) from a "neutral" rating to an "outperform" rating, raising the price target from \$15.00 to \$16.00. This reflects confidence in the company's growth trajectory amid increasing demand for healthcare services.

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 is experiencing significant activity, characterized by a blend of live deals, mandated transactions, and active pitches. This analysis provides an overview

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of ongoing transactions, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- AbbVie (ABBV) : AbbVie has entered into a definitive agreement to acquire Gilgamesh Pharmaceuticals for its investigational therapy, Bretisiloin, aimed at treating Major Depressive Disorder. The deal is currently in the due diligence phase, with an expected close in Q4 2025. This acquisition will expand AbbVie's psychiatry pipeline, enhancing its portfolio in mental health treatments.

Mandated Deals:

- Catalyst Pharmaceuticals (CPRX) : Catalyst has secured a mandate to explore strategic partnerships to enhance its pipeline of therapies for rare diseases. The initiative is expected to launch in Q1 2026, focusing on collaborations that can accelerate drug development and market access.

Pitching-Stage Deals:

- Centessa Pharmaceuticals (CNTA) : Active discussions are underway with Centessa Pharmaceuticals regarding potential M&A opportunities to consolidate its position in the biopharmaceutical market. The focus is on enhancing its portfolio through strategic acquisitions, with pitches expected to finalize by Q3 2025.
- Recursion Pharmaceuticals (RXRX) : Engaging with Recursion Pharmaceuticals for potential investment banking services, particularly in the area of AI-driven drug discovery. Discussions are ongoing, with a focus on capital raising and 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:

- Q4 2025 : Expected close for AbbVie's acquisition of Gilgamesh Pharmaceuticals.
- Q1 2026 : Launch of Catalyst Pharmaceuticals' strategic partnership initiatives.
- Workload Allocation and Capacity Analysis :
- Current analyst and associate bandwidth is at 80%, indicating a need for additional resources to

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manage the expanding pipeline. It is recommended to onboard two additional analysts to ensure effective workload management.

- **Forecasting and Strategic Planning Implications :** The pipeline indicates strong demand for advisory services in the biopharmaceutical sector. Strategic planning should prioritize enhancing capabilities in areas such as mental health therapies and rare diseases to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is becoming increasingly dynamic, particularly in the biopharmaceutical sector. The recent acquisition of Gilgamesh Pharmaceuticals by AbbVie highlights the trend of major players seeking to bolster their portfolios through strategic acquisitions, especially in niche therapeutic areas.
- Additionally, the rise of institutional investments in companies like Centessa Pharmaceuticals and Recursion Pharmaceuticals suggests a growing interest in innovative biopharmaceutical solutions. This trend could lead to new advisory opportunities for our team.

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 areas such as mental health therapies and rare diseases, 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 investment activities in the biotechnology sector, particularly regarding Sana Biotechnology, Inc. (SANA) and Vir Biotechnology, Inc. (VIR), have significant implications for various stakeholders. This analysis examines the potential impacts on shareholders, employees, competitors, and customers, along with market reactions and future expectations.

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Deal-Specific Impacts on Stakeholders

- Shareholders: The implications for shareholders can vary significantly based on investment activities and market performance.
- Value Creation: For instance, Brooklyn Investment Group's recent purchase of 25,943 shares of Sana Biotechnology at approximately \$44,000 could indicate confidence in SANA's growth potential. If SANA's stock price increases from its current level of \$3.58 to a target price of \$5.00 as projected by JMP Securities, existing shareholders could see a value increase of roughly 39%.
- Dilution: Conversely, if Sana Biotechnology were to issue new shares to raise capital, existing shareholders might face dilution. For example, if SANA issues 10% more shares, the ownership percentage of existing shareholders could decrease, potentially impacting share price negatively.
- Employees: The impact on employees often revolves around potential synergies, restructuring, and retention strategies.
- Synergies: If Sana Biotechnology successfully integrates new technologies or partnerships, it could lead to operational efficiencies, enhancing employee productivity and morale.
- Restructuring: However, any restructuring following significant investments could lead to layoffs. If SANA were to streamline operations post-investment, it might result in job losses, necessitating careful management of employee relations.
- Retention: To mitigate turnover, SANA could implement retention bonuses for key employees, ensuring that critical talent remains during transitional periods.
- Competitors: The competitive landscape can shift dramatically based on investment activities.
- Market Positioning: The investment in SANA by Brooklyn Investment Group may prompt competitors like Vir Biotechnology to reassess their strategies. For example, Vir's recent stake reduction by Vanguard Group could indicate a lack of confidence, potentially leading to strategic shifts to regain market positioning.
- Specific Competitor Moves: Following the investment in SANA, Vir Biotechnology might need to enhance its R&D efforts or consider strategic partnerships to maintain competitiveness in the evolving biotech landscape.
- Customers: Customer implications can vary based on the nature of the investments.
- Product/Service Implications: If Sana Biotechnology leverages new investments to accelerate product development, customers could benefit from enhanced treatment options. For instance, advancements in gene therapy could lead to innovative solutions for previously untreatable conditions.
- Case Studies: The recent performance of SANA, which has fluctuated between a 12-month low of \$1.26 and a high of \$7.30, illustrates the volatility in customer confidence and market perception, impacting customer trust in product availability.

Market Reaction and Analyst Commentary

- Market Reaction: The market's response to investment activities can be volatile. For example,

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after Brooklyn Investment Group's acquisition of SANA shares, the stock price experienced a slight decrease of 0.6%, reflecting cautious investor sentiment.

- Analyst Commentary: Analysts have provided a range of insights on SANA. Morgan Stanley's initiation of coverage with an "overweight" rating and a \$12.00 target price suggests a positive outlook, despite current market fluctuations.

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If SANA successfully capitalizes on its investments and achieves product development milestones, shares could rise by 20% within six months.
- Negative Scenario: If operational challenges arise or market conditions worsen, shares could decline by 15%, reflecting investor concerns about execution risks.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids in the biotech sector can vary. Given the recent investment in SANA, there may be increased interest from other institutional investors. However, the competitive landscape suggests that significant counter-bids are moderate, as many firms are focusing on internal development rather than acquisitions.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The biotechnology sector is expected to see continued consolidation, particularly as firms seek to enhance their R&D capabilities. Analysts predict that companies like Amgen (AMGN) and Gilead Sciences (GILD) may pursue similar investments to bolster their therapeutic portfolios.

Key Risks and Mitigants

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

Actionable Insights for Clients and Bankers

For Clients:

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- 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 investments on shareholder value.

5. HEALTHCARE TRENDS

The healthcare sector is undergoing transformative changes driven by technological advancements and evolving patient needs. This analysis highlights key emerging trends: Digital Health, Precision Medicine, Gene Therapy, Telemedicine, and AI in Healthcare. Each trend is explored for 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, telemedicine, and data management solutions. The 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:

- **SCWorx Corp. (WORX):** SCWorx specializes in SaaS data management for healthcare, focusing on optimizing procurement and spend management for hospitals. Its recent partnership with a leading healthcare supply chain partner enhances its service offerings, positioning SCWorx as a critical player in data management solutions.
- **Competitive Landscape:** The digital health space is competitive, with players like Teladoc (TDOC) and Doximity (DOCS) also investing in innovative solutions. The demand for integrated digital health services is driving acquisitions of startups with unique technologies.
- **M&A Opportunities:** Companies may seek to acquire startups that provide niche digital health solutions, particularly in data analytics and remote patient monitoring. SCWorx's collaboration exemplifies the trend of enhancing service offerings through strategic partnerships.

Precision Medicine

- **Trend Explanation:** Precision medicine tailors treatments based on individual genetic and environmental 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%.

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Key Companies:

- Telix Pharmaceuticals Limited (TLX): Telix focuses on precision medicine in oncology, developing targeted therapies and diagnostics. Its participation in major healthcare conferences highlights its commitment to advancing precision medicine solutions.
- Competitive Landscape: The precision medicine market includes established firms like Illumina (ILMN) and emerging players focusing on genomic testing and personalized therapies. The competitive environment encourages collaborations and acquisitions to enhance capabilities.
- M&A Opportunities: Companies may pursue acquisitions of precision medicine firms to bolster their R&D and diagnostic capabilities. Telix's strategic positioning suggests potential partnerships or acquisitions to expand its product offerings.

Gene Therapy

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

Key Companies:

- Notable Players: Companies like Spark Therapeutics and Bluebird Bio are leading gene therapy innovations. Their focus on developing advanced therapies positions them well in this rapidly growing market.
- Competitive Landscape: The gene therapy sector is competitive, with major players like Novartis (NVS) and Gilead Sciences (GILD) investing heavily in gene editing technologies. The race for innovation drives M&A activity as companies seek to acquire cutting-edge capabilities.
- M&A Opportunities: Firms may look to acquire gene therapy startups specializing in CRISPR technology or viral vector development to enhance their therapeutic pipelines.

Telemedicine

- Trend Explanation: Telemedicine facilitates remote healthcare delivery, projected 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 provides healthcare workforce solutions, integrating telemedicine into its service offerings. The company's diverse staffing solutions position it well to capitalize on the growing demand for telehealth services.
- Competitive Landscape: The telemedicine market features established players like Amwell (AMWL) and emerging startups focusing on specialized telehealth services. The competitive landscape encourages innovation and strategic partnerships.
- M&A Opportunities: Companies may consider acquiring telemedicine platforms to strengthen their service offerings. AMN's integration of telemedicine demonstrates the trend of expanding capabilities through strategic acquisitions.

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AI in Healthcare

- Trend Explanation: AI in healthcare enhances diagnostics and patient care, with a market 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 utilizes AI for precision medicine, focusing on genomic data analysis. Its strategic investments in AI technology position it as a leader in the healthcare AI space.
- Competitive Landscape: The AI healthcare market is competitive, with major players like IBM Watson Health and Google Health investing in AI technologies. The race for AI supremacy is driving innovation and acquisitions.
- M&A Opportunities: Companies may seek to acquire AI startups specializing in medical imaging or predictive analytics to enhance their technological capabilities. Tempus's focus on AI integration suggests potential partnerships or acquisitions to expand its offerings.

In conclusion, the healthcare sector is poised for significant growth driven by these emerging trends. Investors and bankers should focus on identifying strategic opportunities within these trends to capitalize on market dynamics and enhance their portfolios.

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.

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

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- **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

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. This trend indicates a strong demand for corporate debt, which could impact healthcare companies' borrowing costs and valuations.
- **Investor Sentiment:** The tight credit spreads reflect strong investor demand and favorable borrowing conditions for corporations, including those in the healthcare sector. Companies may leverage this environment to finance acquisitions or R&D investments.
- **Recession Risks:** Historical data suggests that credit spreads widen significantly during U.S.

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recessions. If economic growth weakens, healthcare companies may face increased borrowing costs, impacting their financial flexibility and M&A strategies.

Market Trends:

- **Healthcare Financing:** With low credit spreads, healthcare companies may find it attractive to issue debt for expansion or acquisitions, particularly in the biotech and pharmaceutical sectors, where innovation is critical.
- **M&A Activity:** The favorable borrowing environment could lead to increased M&A activity in the healthcare sector, as companies seek to consolidate and enhance their competitive positioning through strategic acquisitions.
- **Regulatory Considerations:** The ongoing fiscal trajectory for governments, particularly in the U.S., may influence healthcare companies' strategic decisions, especially regarding investments in innovation and compliance with regulatory changes.

Sector-Specific Insights:

- **Biotech Investment:** The low credit spreads may encourage investment in biotech firms, which often rely on external financing for clinical trials and product development. Companies with promising pipelines may see heightened interest from investors.
- **Healthcare Services Growth:** Consolidation in healthcare services is likely to continue as companies take advantage of favorable borrowing conditions to acquire smaller firms and expand their service offerings.
- **Insurance Market Dynamics:** Changes in healthcare insurance markets, influenced by fiscal policies, may affect reimbursement models and impact healthcare service providers' profitability.

Risk Factors:

- **Economic Downturns:** A potential economic slowdown could lead to wider credit spreads, increasing borrowing costs for healthcare companies and potentially stalling growth initiatives.
- **Regulatory Changes:** Uncertainty surrounding healthcare policies and reimbursement models may create challenges for companies, particularly those reliant on government funding or insurance reimbursements.
- **Supply Chain Vulnerabilities:** Ongoing global supply chain disruptions could impact pharmaceutical manufacturing and distribution, affecting product availability and company revenues.

Investment Implications:

- **Defensive Positioning:** Healthcare stocks

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