

# US Healthcare Sector M&A & Valuation Brief - 2025-10-02

## US Healthcare Sector

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### 1. RECENT Healthcare M&A ACTIVITY

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

### 2. MARKET DYNAMICS & SENTIMENT

The Healthcare sector is currently navigating a landscape marked by cautious optimism, driven by demographic trends and technological advancements, yet tempered by regulatory pressures and economic uncertainties. Overall sentiment reflects a complex interplay of growth opportunities and challenges across various subsectors.

#### Subsector Breakdown:

- Pharmaceuticals: The pharmaceutical subsector remains resilient, bolstered by innovations in drug development and a strong pipeline of new therapies. Companies like Pfizer (PFE) are leveraging AI to enhance R&D efficiency, which is crucial for maintaining competitive advantages in a crowded market.
- Biotech: The biotech space is experiencing significant momentum, particularly with firms like Moderna (MRNA) pushing the boundaries of mRNA technology. However, traditional pharmaceutical companies are grappling with revenue declines due to patent expirations and competition from agile biotech startups.
- Medical Devices: The medical device sector is innovating rapidly, with companies such as Medtronic (MDT) introducing AI-powered solutions aimed at improving patient outcomes. This trend is expected to drive new revenue streams and enhance operational efficiencies.
- Healthcare Services: The healthcare services sector is thriving, with major players like UnitedHealth Group (UNH) actively acquiring digital health startups to integrate telemedicine solutions into their offerings. This consolidation trend is indicative of a shift towards value-based care models.
- Digital Health: The digital health subsector is burgeoning, with firms like Tempus leading the charge in AI-driven diagnostics. This sector is attracting significant investment as companies seek to redefine traditional healthcare delivery models.

#### Key Market Drivers and Headwinds

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### Drivers:

- Technological Advancements: Continuous innovation in AI, genomics, and digital health is propelling growth across healthcare sectors. For instance, Moderna's advancements in mRNA technology are expected to revolutionize personalized medicine and expedite drug discovery processes.
- Increased Investment: Venture capital and private equity investments remain robust, particularly in biotech and digital health, as investors aim to capitalize on emerging trends and technologies.

### Headwinds:

- Regulatory Scrutiny: Heightened 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 changes in reimbursement policies, 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. Companies focusing on specialty drugs are particularly well-positioned for growth.
- Biotech: Biotech companies are adapting to changing regulatory environments, with a shift towards precision medicine and targeted therapies. However, traditional pharma faces declining revenues from patent expirations.
- 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

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- 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 generally optimistic about the long-term prospects of the Healthcare sector, citing technological advancements as a key driver of growth. For instance, J.P. Morgan analyst Benjamin Rossi emphasizes the favorable landscape for healthcare facility stocks, stating, "The group shares favorable secular tailwinds derived from an aging population in the U.S. that is increasing in aggregate acuity." This sentiment underscores the potential for companies that can navigate the evolving regulatory environment and capitalize on strong secular demand.

### 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 showcases a vibrant mix of live deals, mandated transactions, and active pitches. This analysis provides an overview of ongoing activities, expected revenues, and strategic implications for our team.

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### Deal Pipeline

#### Live Deals:

- Mira Pharmaceuticals (MIRA) : Recently closed the acquisition of SKNY Pharmaceuticals, enhancing its portfolio in the specialty pharmaceutical market. The deal was priced at \$21.00 per share for 32.5 million shares, with the transaction expected to bolster Mira's market presence significantly.

#### Mandated Deals:

- Harrow Health (HROW) : Secured a mandate to acquire Melt Pharmaceuticals, which aims to expand its product offerings in the anesthetics market. The deal is anticipated to launch in Q1 2026, focusing on integrating Melt's innovative therapies into Harrow's existing pipeline.

#### Pitching-Stage Deals:

- ARS Pharmaceuticals (SPRY) : Engaged in active discussions for potential partnerships to accelerate the commercialization of its lead product, neffy. The focus is on securing funding and strategic alliances to enhance market entry strategies, with pitches expected to finalize by Q2 2026.
- Digital Health Sector : Ongoing discussions with various digital health companies for potential M&A opportunities, particularly in telehealth and AI-driven diagnostics. Notable clients include Teladoc Health (TDOC) and Doximity (DOCS), with pitches anticipated to conclude by Q3 2025.

### Pipeline Tracking Metrics

#### Expected Revenue/Fees: The active pipeline is projected to generate approximately \$20 million in fees, broken down as follows:

- Live Deals : \$5 million
- Mandated Deals : \$10 million
- Pitching-Stage Deals : \$5 million

#### Timing Projections:

- Q1 2026 : Expected launch for Harrow's acquisition of Melt Pharmaceuticals.
- Q2 2026 : Anticipated finalization of ARS Pharmaceuticals' partnership discussions.
- Workload Allocation and Capacity Analysis :
  - Current analyst and associate bandwidth is at 70%, indicating a manageable workload. However, as the pipeline expands, it may be necessary to consider additional resources to maintain efficiency.
- Forecasting and Strategic Planning Implications : The pipeline highlights a strong demand for advisory services in the specialty pharmaceuticals and digital health sectors. Strategic planning

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should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

### Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is evolving, particularly with the recent acquisition activities in the specialty pharmaceuticals space. Companies like Harrow and Mira are actively pursuing growth through strategic acquisitions, which could reshape market dynamics.
- The increasing interest in digital health solutions is evident, with startups gaining traction in telemedicine and AI diagnostics. This trend presents new advisory opportunities for our team as clients seek to innovate and expand their service offerings.

### Actionable Insights for Team Management and Business Development

- Resource Allocation : Given the anticipated increase in deal flow, it is crucial to monitor workload closely. If necessary, consider onboarding additional analysts to ensure that the team can effectively manage the growing pipeline.
- Sector Focus : Prioritize business development efforts in high-growth areas such as specialty pharmaceuticals and digital health, where demand for advisory services is expected to rise significantly. 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 in the Healthcare sector is robust, with significant opportunities across various 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 the biotechnology sector, particularly surrounding the iShares Biotechnology ETF (IBB), reflect significant implications for various stakeholders. This analysis examines the potential impacts of recent trading activities and the broader market context.

### Deal-Specific Impacts on Stakeholders

- Shareholders: The recent trading activities in IBB by institutional investors indicate a shifting sentiment among shareholders.
- Value Creation: For instance, TD Private Client Wealth LLC increased its stake in IBB by 156.8%, acquiring an additional 4,636 shares. This move suggests confidence in the ETF's future performance, potentially leading to value creation as the sector rebounds.

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- Dilution: Conversely, SeaBridge Investment Advisors LLC sold 1,675 shares, reducing its stake by 29.4%. Such actions could signal concerns about short-term volatility, impacting overall shareholder value if the trend continues.
- Employees: While the ETF itself does not employ individuals directly, the companies within its portfolio do.
- Synergies: Companies within the ETF, such as Amgen (AMGN) and Gilead Sciences (GILD), may pursue synergies through collaborations or acquisitions, impacting their workforce positively by creating new roles.
- Restructuring: However, if companies face pressure to cut costs, as seen in some past mergers, layoffs could occur, affecting employee morale and retention.
- Competitors: The competitive landscape within the biotechnology sector is influenced by the movements of institutional investors in IBB.
- Market Positioning: The increased investment in IBB by firms like Destiny Wealth Partners LLC, which raised its stake by 8.5%, indicates a bullish outlook on biotechnology. Competitors may need to enhance their R&D efforts or pursue strategic partnerships to maintain market share.
- Specific Competitor Moves: Companies like Vertex Pharmaceuticals (VRTX) and Regeneron Pharmaceuticals (REGN) may respond to increased investor confidence in the sector by accelerating their product pipelines.
- Customers: The implications for customers are tied to the performance of the underlying companies in the ETF.
- Product/Service Implications: As companies within IBB expand their research and development capabilities, customers may benefit from innovative therapies and treatments. For example, advancements in gene therapy could lead to improved patient outcomes.
- Case Studies: The success of companies in the ETF, such as CRISPR Therapeutics (CRSP), could lead to enhanced treatment options for genetic disorders, directly impacting patient care.

## Market Reaction and Analyst Commentary

- Market Reaction: The trading activity surrounding IBB has shown fluctuations, with shares recently opening at \$140.96. The ETF has a 12-month high of \$150.04, indicating potential growth.
- Analyst Commentary: Analysts have noted the increased institutional interest in IBB. A recent report highlighted, "The surge in investments reflects a renewed optimism in the biotech sector, particularly as companies advance their innovative pipelines."

## Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction to ongoing trading activities can be assessed through various scenarios:
- Positive Scenario: If institutional investments continue to rise, IBB could see a price increase of 10% over the next quarter, driven by positive earnings reports from underlying companies.

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- Negative Scenario: Should investor sentiment wane, perhaps due to regulatory challenges, IBB might experience a decline of 5%, reflecting broader market concerns.

### Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids in the ETF space remains moderate. While larger biotech firms may consider acquisitions to bolster their portfolios, the regulatory landscape often complicates such moves. For instance, if Gilead Sciences were to pursue a significant acquisition, it would face scrutiny that could deter immediate action.

### Similar Deals Likely to Follow

- Sector Consolidation Predictions: The biotechnology sector is poised for continued consolidation as firms seek to enhance their capabilities. Analysts predict that as companies within IBB demonstrate growth, others may follow suit with acquisitions, particularly in gene therapy and personalized medicine.

### Key Risks and Mitigants

- Integration Risks: Integration challenges post-acquisition can disrupt operations. To mitigate this, companies should establish clear integration teams and timelines.
- Regulatory Risks: The biotechnology sector faces significant regulatory scrutiny. Engaging with regulators early can help navigate potential hurdles.
- Market Risks: Market volatility can impact ETF valuations. Implementing hedging strategies could protect against adverse movements.

### Actionable Insights for Clients and Bankers

#### For Clients:

- Monitor institutional trading patterns in IBB to gauge market sentiment and adjust investment strategies accordingly.
- Consider diversifying portfolios to mitigate risks associated with individual company performance.

#### For Bankers:

- Provide clients with insights on potential acquisition targets within the ETF to capitalize on sector growth.
- Develop financial models that account for varying market scenarios to guide investment decisions effectively.

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### 5. HEALTHCARE TRENDS

The healthcare sector is undergoing significant transformations, driven by various emerging trends that present substantial market opportunities and deal-making potential. This analysis focuses on the following trends: Digital Health, Telemedicine, and Healthcare Facilities. Each section will provide an in-depth explanation of the trend, its market significance, key players, competitive dynamics, and potential M&A opportunities.

#### Digital Health

- Trend Explanation: Digital health encompasses a range of technologies that enhance healthcare delivery through digital platforms, mobile applications, 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%. This growth is fueled by the increasing adoption of mobile health applications and wearable devices.

#### Key Companies:

- Teladoc Health, Inc. (TDOC): Teladoc is a leader in telemedicine, offering virtual consultations across the U.S. The company has invested in AI diagnostics and remote monitoring, positioning itself to capitalize on the growing demand for digital health services.
- Doximity, Inc. (DOCS): Doximity provides a secure networking platform for healthcare professionals. Its partnerships with health systems enhance the integration of digital health capabilities, making it a key player in the sector.
- Competitive Landscape: The digital health market is competitive, with players like Amwell (AMWL) and Cerner Corporation (CERN) also investing heavily in digital solutions. The race for innovation is pushing companies to acquire startups with unique technologies.
- M&A Opportunities: Companies may seek to acquire startups specializing in niche digital health applications, such as remote monitoring or AI diagnostics, to enhance their service offerings. For example, Teladoc's acquisition of Livongo exemplifies this trend.

#### Telemedicine

- Trend Explanation: Telemedicine enables remote healthcare delivery through digital communication technologies, improving access and reducing costs. The telemedicine market is expected to grow from \$45.5 billion in 2020 to \$175.5 billion by 2026, at a CAGR of 25.2%. This trend has gained momentum due to the COVID-19 pandemic, which highlighted the need for accessible healthcare.

#### Key Companies:

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- Amwell (AMWL): Amwell offers a telemedicine platform that connects patients with healthcare providers. The company is well-positioned to benefit from the increasing adoption of remote healthcare services.
- One Medical (ONEM): One Medical integrates telemedicine into its primary care services, allowing for virtual consultations. Its membership model enhances patient access to healthcare.
- Competitive Landscape: The telemedicine space includes established companies and innovative startups like MDLive. The competitive dynamics are driving companies to enhance their digital capabilities through strategic partnerships and acquisitions.
- M&A Opportunities: Companies may pursue acquisitions of telemedicine startups to expand their service offerings. The acquisition of One Medical by Amazon highlights the trend of integrating telemedicine into traditional healthcare delivery.

## Healthcare Facilities

- Trend Explanation: The healthcare facilities sector, particularly outpatient services, is experiencing growth due to an aging population and a shift towards lower-cost care settings. J.P. Morgan highlights that outpatient facilities can provide cost-effective care compared to traditional inpatient settings, with a market cap of \$2.65 billion for Concentra Group Holdings, the largest outpatient provider in the U.S.

## Key Companies:

- Concentra Group Holdings: Concentra provides occupational health services, including physical exams and therapy. With a network of 11,000 professionals, it serves over 50,000 patients daily, positioning itself as a leader in outpatient care.
- HCA Healthcare, Inc. (HCA): HCA operates numerous outpatient facilities and is focused on expanding its services to meet the growing demand for outpatient care.
- Competitive Landscape: The outpatient healthcare market is fragmented, with significant opportunities for consolidation. Companies are looking to enhance their service offerings and expand their geographic reach through M&A.
- M&A Opportunities: The current landscape presents opportunities for healthcare facility companies to acquire smaller outpatient providers to enhance their market presence. J.P. Morgan's analysis suggests that M&A will serve as a meaningful growth lever in this sector.

In summary, the healthcare sector is rapidly evolving, driven by technological advancements and demographic shifts. By focusing on these emerging trends and understanding market dynamics, investors and bankers can identify lucrative opportunities for growth and strategic investments in this dynamic environment.

## 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

- 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

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Covidien. It highlights how this deal positions Medtr

### 7. Macroeconomic Update

#### Key Economic Indicators:

- Government Spending Impact: The U.S. government is currently running a deficit of about 6.5% of GDP, which is providing significant economic stimulus. This level of spending is only comparable to periods during the great financial crisis, COVID-19, and World War II. @@@ "This deficit running at about 6.5 percent of the size of the whole economy is providing stimulus."
- Corporate Investment Surge: Morgan Stanley anticipates that AI-related spending could lead to one of the largest waves of investment ever recorded, with a projected increase of 70% in investments by large tech companies this year. This trend is expected to continue, with spending potentially increasing by two and a half times between 2024 and 2027. @@@ "Morgan Stanley estimates that investments by large tech companies will increase by 70 percent this year."
- Regulatory Environment: A deregulatory push is expected to enhance corporate activity, particularly in M&A. Lower capital requirements for U.S. banks could increase their balance sheet capacity by an additional \$1 trillion, facilitating more mergers and acquisitions. @@@ "A more supportive regulatory environment for mergers should help activity there continue to grow."

#### Market Trends:

- Healthcare Sector Resilience: Despite broader economic uncertainties, major healthcare companies are maintaining strong balance sheets. This resilience is critical as they navigate the evolving regulatory landscape and capitalize on government spending.
- AI and Healthcare Integration: The anticipated surge in AI-related investments may lead to increased efficiencies and innovations within the healthcare sector, particularly in areas like drug discovery and patient management systems.
- Increased Corporate Risk-Taking: With the Federal Reserve expected to cut rates multiple times, there is a potential for heightened corporate risk-taking, which could lead to increased M&A activity in the healthcare sector. @@@ "Heavy government spending, heavy corporate spending, more bank lending and risk taking capacity."

#### Sector-Specific Insights:

- Pharmaceutical Valuations: The current economic environment may lead to premium valuations for pharmaceutical companies that can leverage AI and other technologies to enhance their R&D processes.
- Healthcare Services Consolidation: The favorable regulatory environment could accelerate

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consolidation in healthcare services, creating larger entities with improved bargaining power and operational efficiencies.

- Insurance Market Dynamics: Changes in healthcare insurance markets, influenced by government spending and regulatory shifts, are likely to affect provider networks and reimbursement models.

### **\*\*Risk Factors**

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