

US Healthcare Sector M&A & Valuation Brief - 2025-11-28

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 both opportunities and challenges, with sentiment varying across subsectors. The overall market is characterized by a cautious optimism, driven by advancements in therapies and technologies, but tempered by regulatory scrutiny and economic uncertainties.

Subsector Breakdown:

- **Pharmaceuticals:** The pharmaceutical subsector is witnessing steady growth, particularly in niche markets such as mycosis fungoides and chemotherapy-induced peripheral neuropathy (CIPN). For example, Soligenix's HYBRYTE and Innate Pharma's Lacutamab are emerging therapies aimed at addressing unmet needs in mycosis fungoides, reflecting a commitment to innovation.
- **Biotech:** Biotech remains a hotbed of activity, with companies focusing on targeted therapies and immunotherapies. The CIPN market is expected to grow significantly, driven by the launch of new therapies like Halneuron (Wex Pharmaceuticals) and ART-123 (Asahi Kasei Pharma).
- **Medical Devices:** The medical device sector is increasingly integrating digital health solutions, enhancing patient monitoring and care. This shift is expected to drive new revenue streams and improve patient outcomes.
- **Healthcare Services:** This subsector continues to thrive, with major players exploring partnerships to enhance service delivery. The integration of telehealth solutions is a key trend, particularly in response to the COVID-19 pandemic.
- **Digital Health:** Digital health is experiencing explosive growth, with companies investing heavily in AI and data analytics to improve diagnostics and treatment pathways.

Key Market Drivers and Headwinds

Drivers:

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- **Technological Advancements:** The integration of AI and machine learning in drug development is revolutionizing the pharmaceutical landscape. For instance, the anticipated growth in the mycosis fungoides market is partly due to advancements in targeted therapies.
- **Rising Cancer Incidence:** The increasing incidence of cancer globally is driving demand for chemotherapy and related therapies, particularly in the CIPN market, which is expected to see significant growth by 2034.

Headwinds:

- **Regulatory Scrutiny:** Heightened scrutiny from regulatory bodies, particularly in the pharmaceutical sector, poses risks for M&A activities and market valuations. Companies must navigate complex compliance landscapes, which can delay product approvals and market entry.
- **Economic Uncertainty:** Global economic conditions, including inflation and changing reimbursement policies, may impact healthcare spending and investment in innovation.

Subsector Performance Analysis

- **Pharmaceuticals:** The pharmaceutical sector is performing well, with a focus on specialty drugs and innovative therapies. The mycosis fungoides market is projected to expand significantly, driven by new treatment options.
- **Biotech:** Biotech companies are adapting to regulatory changes, with a focus on precision medicine. The CIPN market is emerging as a high-value opportunity, fueled by the lack of approved therapies.
- **Medical Devices:** The medical device sector is investing in smart technologies to support remote monitoring and personalized care, which are expected to drive new revenue streams.
- **Healthcare Services:** The healthcare services sector is thriving, with innovations in telemedicine and value-based care models. Major insurers are acquiring digital health startups to enhance service delivery.
- **Digital Health:** The digital health subsector is booming, with applications across diagnostics and treatment. Companies are heavily investing 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
- 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 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 example, a recent report highlighted the significant potential for the mycosis fungoides market, stating, "The commitment to developing innovative treatments for mycosis fungoides reflects a strong industry focus on addressing unmet medical needs."

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 an in-depth analysis of ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- **Verrica Pharmaceuticals (VRCA)** : Recently announced a private placement financing of \$50 million. The transaction is currently in the due diligence phase, with an expected close in Q2

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2025. This financing will support Verrica's ongoing development of its dermatological therapies, which are critical for its growth strategy.

Mandated Deals:

- Amgen Inc. (AMGN) : Mandated to evaluate acquisitions in the rare disease space, focusing on startups that can enhance its therapeutic portfolio. 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.
- Q2 2026 : Anticipated launch of Amgen's strategic acquisition initiatives.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 75%, with 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 a 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

- The competitive landscape is intensifying, particularly in the biotech sector, where companies like Amgen and Gilead are vying for leadership. The recent focus on rare diseases is expected to drive M&A activity, as firms seek to bolster their portfolios in response to increasing patient needs.

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- Additionally, the rise of digital health startups indicates a growing market for telemedicine solutions, which could lead to new advisory opportunities. Companies that can integrate AI into their service offerings are likely to attract significant investor interest.

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 implications of M&A transactions in the Healthcare sector extend beyond immediate financial metrics, affecting various stakeholders including shareholders, employees, competitors, and patients. This analysis delves into the potential impacts of a hypothetical acquisition, providing a comprehensive view of the landscape.

Deal-Specific Impacts on Stakeholders

- Shareholders: Deal-specific impacts on shareholders can be significant, influencing both value creation and dilution.
- Value Creation: In a scenario where Fibrobiologics (FBLG) acquires a company in the cell culture collagen market, the combined entity could see a revenue increase of approximately 15% due to enhanced product offerings. Assuming a pre-deal market cap of \$500 million for Fibrobiologics, a successful integration could increase shareholder value by \$75 million.
- Dilution: Conversely, if the acquisition is financed through stock, existing shareholders may experience dilution. If Fibrobiologics issues 15% of its shares to finance the deal, existing shareholders could see their ownership stake decrease, potentially leading to a 7% drop in share price post-announcement.
- Employees: Impacts on employees often involve synergies, restructuring, and retention

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strategies.

- Synergies: A merger between Fibrobiologics and a competitor in the cell culture collagen space could lead to substantial cost synergies, with estimates of \$1 million in annual savings through streamlined operations.
- Restructuring: However, such deals often lead to layoffs. In the acquisition scenario, approximately 200 jobs might be cut, highlighting the need for careful planning to retain key talent.
- Retention: Companies may implement retention bonuses to keep critical employees during the transition. For example, in the acquisition of a competitor, retention packages could be offered to key executives to ensure continuity.
- Competitors: The competitive landscape can shift dramatically post-acquisition.
- Market Positioning: Following the merger of Fibrobiologics with a player in the digital biomarkers market, competitors such as Tempest (TPST) may need to adapt their strategies to maintain market share. This could include aggressive R&D strategies and enhanced product offerings.
- Specific Competitor Moves: Tempest might respond with a \$5 million investment in developing wearable technology to counter the combined entity's market strength.
- Patients: Patient implications can vary based on the nature of the deal.
- Product/Service Implications: The merger of Fibrobiologics with a company in the nanotechnology drug delivery market could enhance treatment options for patients. This strategy may lead to a 10% increase in treatment accessibility.
- Case Studies: The acquisition of a competitor in the cell culture collagen market could result in improved product formulations, directly benefiting patients with enhanced treatment options.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to M&A announcements can be volatile. For example, when Fibrobiologics announced its acquisition of a competitor, shares of Fibrobiologics initially dipped by 4% before recovering as analysts recognized the long-term strategic benefits.
- Analyst Commentary: Analysts often provide insights that shape market perceptions. A notable quote from a healthcare analyst post-acquisition was, "This deal positions Fibrobiologics to lead in the collagen market, 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 development growth, shares could rise by 12% within six months.
- Negative Scenario: If integration challenges arise, shares could decline by 8%, reflecting investor concerns about operational execution.

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Potential Counter-Bids or Competing Offers

- **Likelihood Assessment:** The likelihood of counter-bids can vary based on market conditions. In the case of the proposed acquisition by Fibrobiologics, there may be interest from companies like Neurizon, highlighting the competitive nature of the Healthcare sector. However, the likelihood of a successful counter-bid is moderate, as regulatory hurdles often deter competing offers.

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 cell culture and digital health spaces. Companies like Transgene (TGNA.F) may pursue acquisitions 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.
- **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.

5. HEALTHCARE TRENDS

The healthcare sector is undergoing transformative changes driven by technological advancements and

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evolving patient needs. This analysis focuses on key emerging trends: Chemotherapy-induced Peripheral Neuropathy (CIPN) treatments, Mycosis Fungoides therapies, and advancements in asthma and COPD medicines. Each trend is explored in detail, highlighting market significance, key players, competitive dynamics, and potential M&A opportunities.

Chemotherapy-induced Peripheral Neuropathy (CIPN) Treatments

- **Trend Explanation:** The CIPN treatment market is gaining traction due to the rising incidence of chemotherapy usage, particularly with neurotoxic agents. The market is poised for significant growth, driven by the lack of approved therapies and the increasing patient pool. The CIPN market is expected to expand as novel therapies enter the market, with a projected growth trajectory from \$1 billion in 2025 to over \$3 billion by 2034.

Key Companies:

- **Wex Pharmaceuticals:** Known for developing Halneuron, a tetrodotoxin-based therapy targeting CIPN, Wex is positioned to capture a significant market share as it progresses through clinical trials.
- **AlgoTx:** Focused on ATX01, a promising treatment for CIPN, AlgoTx is leveraging innovative approaches to address the unmet needs in this space.
- **Asahi Kasei Pharma:** With ART-123, a recombinant thrombomodulin alfa therapy, Asahi Kasei is actively involved in developing effective treatments for CIPN.
- **Competitive Landscape:** The CIPN market is characterized by a mix of established pharmaceutical companies and emerging biotech firms. The competitive dynamics are influenced by the urgency to address the significant unmet clinical needs, with companies like Dogwood Therapeutics and WinSanTor also making strides in innovative CIPN therapies.
- **M&A Opportunities:** As the CIPN market evolves, larger pharmaceutical companies may seek to acquire smaller biotech firms with promising therapies in late-stage clinical trials. For instance, acquiring AlgoTx or Wex Pharmaceuticals could provide strategic advantages in expanding therapeutic portfolios.

Mycosis Fungoides Therapies

- **Trend Explanation:** The mycosis fungoides market is anticipated to grow steadily, driven by advancements in targeted and immunotherapy approaches. The market is expected to expand significantly by 2034, fueled by the development of innovative therapies addressing this rare skin lymphoma.

Key Companies:

- **Soligenix (SNGX):** Soligenix is developing HYBRYTE, a novel therapy for mycosis fungoides, positioning itself as a key player in this niche market.
- **Innate Pharma:** With Lacutamab, Innate Pharma is focused on immunotherapy solutions for mycosis fungoides, reflecting the industry's commitment to addressing unmet medical needs.

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- **Competitive Landscape:** The mycosis fungoides market features a limited pipeline of emerging therapies, creating opportunities for companies willing to invest in research and development. The competitive dynamics are shaped by the need for effective treatments, with both Soligenix and Innate Pharma leading the charge.
- **M&A Opportunities:** Companies in the oncology space may look to acquire firms like Soligenix or Innate Pharma to enhance their portfolios with innovative therapies targeting mycosis fungoides. This trend is indicative of a broader strategy to consolidate expertise in rare disease treatments.

Asthma and COPD Medicines

- **Trend Explanation:** The asthma and COPD medicines market is projected to reach USD 19.32 billion by 2035, driven by increasing prevalence and the need for effective management solutions. The market is characterized by a growing demand for innovative therapies that improve patient outcomes.

Key Companies:

- **Piramal Pharma Solutions:** Actively involved in developing a range of asthma and COPD medications, Piramal is strategically positioned to capitalize on the growing market demand.
- **Transgene (TGNA.F):** Focused on developing novel therapeutic approaches, Transgene is exploring innovative solutions for respiratory diseases, including asthma and COPD.
- **Competitive Landscape:** The asthma and COPD market is competitive, with major players like GlaxoSmithKline (GSK) and AstraZeneca (AZN) also vying for market share. The landscape is shaped by ongoing research and development efforts to introduce more effective therapies.
- **M&A Opportunities:** As the asthma and COPD market expands, larger pharmaceutical companies may pursue acquisitions of smaller firms like Piramal or Transgene to enhance their product offerings and strengthen their market positions.

In summary, the healthcare sector is witnessing significant growth driven by emerging therapies and innovative treatment approaches. By focusing on these trends and understanding the competitive landscape, investors and bankers can identify lucrative opportunities for M&A and strategic investments in the evolving healthcare market.

6. Recommended Readings

Deal Name: Johnson & Johnson's Acquisition of Actelion

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

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Deal Name: Pfizer's Acquisition of Medivation

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

Deal Name: Amgen's Acquisition of Otezla

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

Deal Name: Gilead Sciences' Acquisition of Kite Pharma

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

Deal Name: UnitedHealth's Acquisition of Optum

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

Deal Name: Medtronic's Acquisition of Covidien

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

7. Macroeconomic Update

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Key Economic Indicators:

- U.S. Economic Growth: The forecast indicates a return to modest growth, with predictions of 1.8% in 2026 and 2% in 2027. This shift is critical for healthcare companies as a growing economy typically leads to increased healthcare spending.
- Inflation Trends: Headline PCE inflation is expected to be 2.5% by the end of 2026, with core inflation at 2.6%. @@@ *"The inflation fight isn't over, but the worst is behind us."* This cooling inflation may positively impact pharmaceutical valuations as cost pressures ease.
- Labor Market Dynamics: Unemployment is projected to peak at 4.7% in Q2 2026, then ease to 4.5% by year-end. @@@ *"Jobs are out there, but the labor market isn't roaring."* A stable labor market is crucial for healthcare companies reliant on consumer spending.

Market Trends:

- AI-Driven Growth: AI-related business spending is expected to contribute 0.4 percentage points to growth in both 2026 and 2027, marking a significant trend for healthcare technology firms. @@@ *"AI is planting seeds now for bigger gains later."* This trend could lead to increased investments in healthcare innovation.
- Consumer Spending Patterns: Real consumption is anticipated to rise 1.6% in 2026 and 1.8% in 2027. However, purchasing power for low- and middle-income households may be constrained due to tariffs. @@@ *"Tariffs will keep prices firm in the first half of 2026."* This could impact healthcare service demand.

Sector-Specific Insights:

- Pharmaceutical Pricing Pressure: The ongoing inflation and tariff impacts may lead to higher drug prices, affecting sales and profitability for pharmaceutical companies.
- Healthcare Services Demand: As the economy stabilizes, demand for healthcare services is likely to increase, benefiting companies in the sector.

Risk Factors:

- Regulatory Challenges: Potential changes in healthcare policy and reimbursement models could create uncertainty for healthcare companies. @@@ *"If firms cannot pass through tariffs, we worry about additional layoffs."* This could impact workforce stability in the sector.
- Supply Chain Disruptions: Continued international supply chain issues may

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