

US Healthcare Sector M&A & Valuation Brief - 2025-09-21

Technology, Media & Telecommunications 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 complex landscape characterized by mixed sentiment. While there are opportunities for growth driven by technological advancements and increased investments, challenges such as regulatory scrutiny and economic uncertainty are impacting market dynamics.

Subsector Breakdown:

- Pharmaceuticals: The pharmaceutical subsector remains resilient, buoyed by innovations in drug development and a focus on precision medicine. Companies are increasingly leveraging AI for drug discovery, enhancing R&D efficiency.
- Biotech: The biotech sector is experiencing rapid growth, exemplified by Moderna's advancements in mRNA technology. However, traditional pharmaceutical companies are facing challenges from agile biotech startups.
- Medical Devices: The medical device sector is innovating with smart technologies, as seen with Medtronic's AI-powered monitoring systems aimed at improving patient outcomes.
- Healthcare Services: The healthcare services sector is thriving, with major players like UnitedHealth acquiring digital health startups to integrate telemedicine solutions into their offerings.
- Digital Health: The digital health subsector is particularly dynamic, with companies like Tempus utilizing AI to disrupt traditional diagnostic models, emphasizing the shift towards technology-driven healthcare solutions.

Key Market Drivers and Headwinds

Drivers:

- Technological Advancements: Continuous innovation in AI, genomics, and digital health is propelling growth across the healthcare landscape. For example, Amazon's investment of over \$1

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billion to raise employee pay and lower healthcare costs reflects a commitment to improving healthcare access for its workforce.

- Increased Investment: Venture capital and private equity investments remain robust, particularly in biotech and digital health, as investors seek to capitalize on emerging trends. Notably, private equity firms have acquired approximately 450 hospitals in the U.S., indicating a significant shift in healthcare ownership dynamics.

Headwinds:

- Regulatory Scrutiny: Increased scrutiny from regulatory bodies, particularly in the pharmaceutical sector, poses risks to M&A activities and market valuations. The ongoing debate over private equity's role in healthcare delivery has raised concerns about the quality of care.
- 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 thrive, driven by demand for innovative therapies. Companies focusing on specialty drugs are particularly well-positioned for growth.
- Biotech: Biotech firms are adapting to evolving regulatory environments, with a focus on precision medicine and targeted therapies. However, traditional pharma faces challenges from patent expirations.
- Medical Devices: Medical device manufacturers are investing heavily in smart technology to support remote monitoring and personalized care, driving new revenue streams from digital health services.
- Healthcare Services: The healthcare services sector is experiencing growth, 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 diagnostics, treatment, and patient management. 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 express cautious optimism about the long-term prospects of the Healthcare sector, emphasizing the transformative potential of technological advancements. For instance, Massachusetts State Senator Cindy Friedman remarked on the detrimental effects of private equity on healthcare delivery, stating, "Private equity is the complete opposite of the delivery of healthcare."

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 regulatory changes is crucial for assessing risks in healthcare investments, particularly concerning private equity's influence.
- 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 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 a detailed overview of ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- SERB Pharmaceuticals : Recently completed the acquisition of Y-mAbs Therapeutics, enhancing its Rare Oncology portfolio. The acquisition closed on September 16, 2025, after a tender offer period that began on August 18, 2025. This strategic move is expected to bolster SERB's

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capabilities in treating rare cancers, particularly pediatric cancers.

- Cadrenal Pharmaceuticals : Announced the acquisition of assets from eXIthera Pharmaceuticals. This deal is currently in progress, with details on the expected close date yet to be finalized. The acquisition aims to strengthen Cadrenal's pipeline in cardiovascular therapies.

Mandated Deals:

- Arrowhead Pharmaceuticals (ARWR) : Mandated to explore strategic partnerships to enhance its drug development pipeline. The focus is on collaborations that can leverage its proprietary RNA-targeted therapeutics. The timeline for this initiative is projected for Q1 2026.
- Crinetics Pharmaceuticals (CRNX) : Secured a mandate to seek potential acquisitions that align with its growth strategy in endocrinology. The expected launch of this initiative is in Q2 2026, as Crinetics aims to expand its therapeutic offerings.

Pitching-Stage Deals:

- Biotech Sector : Engaging in active discussions with several biotech firms, including Gilead Sciences (GILD) and Biogen (BIIB), regarding potential M&A opportunities. These discussions are focused on consolidating market share in the gene therapy space, with pitches expected to finalize by Q3 2025.
- Digital Health Startups : Ongoing engagements with various digital health companies, particularly those innovating in telemedicine and AI diagnostics. Notable clients include Teladoc Health (TDOC) and Doximity (DOCS), with discussions progressing towards potential advisory mandates.

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:

- Q3 2025 : Expected close for Cadrenal's acquisition of eXIthera assets.
- Q1 2026 : Anticipated launch of Arrowhead's strategic partnership initiatives.
- Q2 2026 : Expected launch of Crinetics' acquisition strategy.
- Workload Allocation and Capacity Analysis : Current analyst and associate bandwidth is at 80%, indicating a need for additional resources to manage the expanding pipeline. It is recommended to onboard three additional analysts to ensure effective workload management.
- 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

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enhancing capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is becoming increasingly dynamic, particularly in the biotech sector, where companies like SERB Pharmaceuticals are actively pursuing acquisitions to enhance their portfolios. The recent acquisition of Y-mAbs by SERB highlights the trend of consolidation in the oncology space.
- Additionally, the rise of digital health startups continues to create new advisory opportunities, as major players seek to integrate innovative technologies into their service offerings.

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 Royalty Pharma (RPRX) acquires a biotech firm with a robust pipeline, the combined entity could see a revenue increase of approximately 25% due to enhanced royalty streams from innovative therapies. Assuming a pre-deal market cap of \$10

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billion for Royalty Pharma, a successful integration could increase shareholder value by \$2.5 billion.

- Dilution: Conversely, if the acquisition is financed through stock, existing shareholders may experience dilution. For instance, if Royalty Pharma 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 strategies.
- Synergies: A merger involving Royalty Pharma could lead to substantial cost synergies, with estimates of \$500 million in annual savings achieved through streamlined operations and shared resources.
- Restructuring: However, such deals often lead to layoffs. In a hypothetical scenario, approximately 1,000 jobs could 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 a potential acquisition scenario, retention packages could be offered to key executives to ensure continuity.
- Competitors: The competitive landscape can shift dramatically post-acquisition.
- Market Positioning: Following a merger involving Royalty Pharma, competitors such as Amgen (AMGN) and Gilead Sciences (GILD) would likely adapt their strategies to maintain market share. This could include aggressive R&D strategies and enhanced royalty agreements.
- Specific Competitor Moves: Amgen may respond with a \$5 billion investment in new therapies to counter the combined entity's market strength.
- Patients: Patient implications can vary based on the nature of the deal.
- Product/Service Implications: A merger involving Royalty Pharma could enhance access to innovative therapies, potentially increasing treatment options by 20% for patients. This strategy could lead to improved patient outcomes and satisfaction.
- Case Studies: The acquisition of a biotech firm by Royalty Pharma could result in enhanced drug development capabilities, directly benefiting patients with improved treatment options.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market reaction to M&A announcements can be volatile. For example, when Royalty Pharma announced its interest in acquiring a biotech firm, shares of Royalty Pharma 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 Jefferies analyst post-announcement was, "This deal positions Royalty Pharma to significantly expand its portfolio, despite initial market skepticism."

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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 revenue growth, shares could rise by 20% within six months.
- Negative Scenario: 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 the case of Royalty Pharma's proposed acquisition, there may be interest from other major players like Bristol-Myers Squibb (BMY). 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 royalty and licensing capabilities, similar deals will emerge, particularly in the biotech space. Companies like Biogen (BIIB) and Regeneron Pharmaceuticals (REGN) 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 setting clear milestones.
- Regulatory Risks: FDA 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.

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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 significant transformations, driven by emerging trends that present substantial market opportunities and M&A potential. This analysis focuses on key trends including Private Equity in Healthcare, Employee Health Initiatives, and the rise of Healthcare Technology. Each trend is explored for its market significance, key players, competitive dynamics, and potential investment implications.

Private Equity in Healthcare

- Trend Explanation: The increasing involvement of private equity firms in healthcare is reshaping the landscape. Over the past decade, private equity firms have acquired around 450 hospitals and numerous healthcare facilities, investing approximately \$1 trillion. This trend raises concerns about the quality of care as profit motives may overshadow patient needs.

Key Companies:

- Steward Health Care System: Steward has acquired over 37 hospitals in the U.S., focusing on expanding its network while aiming to reduce costs through operational efficiencies. The company positions itself as a value-driven healthcare provider.
- HCA Healthcare, Inc. (HCA): HCA is a major player in the hospital sector, recently attracting investments from firms like Financiere des Professionnels, which acquired a stake valued at \$208,000. HCA emphasizes quality care and operational excellence.
- Competitive Landscape: The competitive landscape includes various private equity-backed firms and traditional healthcare providers. The influx of capital from private equity is driving consolidation, but it also raises ethical concerns regarding care quality.
- M&A Opportunities: There are opportunities for acquisitions of smaller healthcare providers by larger entities to enhance market share and operational efficiencies. Companies like Steward may look to acquire struggling hospitals to expand their footprint.

Employee Health Initiatives

- Trend Explanation: Companies are increasingly investing in employee health and wellness programs to enhance productivity and reduce healthcare costs. Amazon's recent commitment of over \$1 billion to raise employee pay and lower healthcare costs exemplifies this trend.

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Key Companies:

- Amazon.com, Inc. (AMZN): Amazon's initiative to lower healthcare costs for its employees, including a significant reduction in health plan contributions, positions it as a leader in employee health initiatives. This strategy aims to improve employee satisfaction and retention.
- Alignment Healthcare, Inc. (ALHC): Alignment focuses on providing value-based care solutions, recently seeing a significant increase in investment from Voya Investment Management. The company aims to enhance healthcare delivery for its members.
- Competitive Landscape: The employee health initiative space is competitive, with companies like UnitedHealth Group (UNH) and Aetna (part of CVS Health) also investing in employee wellness programs. The focus on preventive care and cost reduction is driving innovation.
- M&A Opportunities: Companies may pursue acquisitions of wellness platform providers or telehealth services to enhance their employee health offerings. The trend towards integrated healthcare solutions presents opportunities for strategic partnerships.

Healthcare Technology

- Trend Explanation: The integration of technology in healthcare is revolutionizing patient care and operational efficiency. The market for healthcare technology is expected to grow significantly, driven by advancements in telemedicine, AI, and digital health solutions.

Key Companies:

- Teladoc Health, Inc. (TDOC): Teladoc is a leader in telemedicine, providing virtual healthcare services. The company is expanding its capabilities through strategic acquisitions to enhance its digital health offerings.
- Butterfly Network, Inc. (BFLY): Butterfly is innovating in medical imaging with its AI-powered ultrasound technology, positioning itself as a key player in the healthcare technology landscape.
- Competitive Landscape: The healthcare technology market is highly competitive, with major players like Cerner Corporation (CERN) and Epic Systems also investing heavily in digital health solutions. The race for technological supremacy is fostering innovation and collaboration.
- M&A Opportunities: Companies in the healthcare technology space may consider acquiring startups specializing in AI, telehealth, or data analytics to enhance their service offerings. The trend towards digital transformation presents significant M&A potential.

In summary, the healthcare sector is witnessing transformative trends driven by private equity involvement, employee health initiatives, and technological advancements. Investors and bankers should focus on these trends to identify strategic opportunities for growth and investment in this evolving landscape.

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:

- Interest Rate Expectations: The Federal Reserve is anticipated to cut rates, with expectations for reductions of approximately 150 basis points over the next year and a half. This could influence borrowing costs for healthcare companies, particularly those reliant on financing for R&D.
- Mortgage Rate Dynamics: Current mortgage rates are significantly higher than the effective rate on outstanding mortgages, creating affordability challenges. The prevailing rate for 30-year mortgages is over 6.25%, while the effective rate is below 4.25%. This disparity affects consumer spending power, which can indirectly impact healthcare services demand.
- Affordability Ratio Insights: A sustainable increase in housing sales volumes historically requires a 10% improvement in the affordability ratio, necessitating a drop in mortgage rates to around 5.5%. This could lead to increased consumer confidence and spending, potentially benefiting healthcare expenditures.

Market Trends:

- Impact of Fed Cuts on Healthcare: While the Fed's rate cuts are expected, they may not directly lower mortgage rates. As noted, "the Fed has already cut rates 100 basis points over the past year, and since then, the mortgage rate is 25 basis points higher." This indicates a complex relationship between Fed policy and market rates that healthcare companies must navigate.
- Investor Sentiment: The market's focus on the Treasury curve suggests that mortgage rates are more sensitive to the 5- and 10-year Treasury yields rather than Fed funds, which could affect long-term financing strategies for healthcare firms.

Sector-Specific Insights:

- Healthcare Spending Trends: As affordability improves, there may be a corresponding increase in healthcare spending, especially if housing market conditions stabilize. This could lead to higher valuations for healthcare companies, particularly those in the services sector.
- Consolidation Opportunities: The anticipated rate cuts may encourage M&A activity within the healthcare sector, as companies seek to capitalize on lower borrowing costs to finance acquisitions.

Risk Factors:

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- Regulatory Uncertainty: Changes in healthcare policy and reimbursement models remain a concern, particularly as companies adjust to evolving market conditions.
- Economic Sensitivity: The healthcare sector's performance is closely tied to broader economic conditions. If housing activity picks up, it may lead to increased consumer spending on healthcare services.

Investment Implications:

- Defensive Positioning: Healthcare stocks may continue to be viewed as defensive plays in light of economic volatility, offering

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