

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare 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 significant regulatory changes, innovative drug approvals, and emerging market dynamics. Overall sentiment in the sector is cautiously optimistic, driven by advancements in drug development and a growing focus on personalized medicine. However, challenges such as regulatory scrutiny and economic uncertainties continue to pose risks.

Subsector Breakdown:

- Pharmaceuticals: The pharmaceutical subsector remains resilient, particularly with the recent FDA approval of Bayer's new menopause drug, elinzanetant, aimed at treating moderate to severe hot flashes without hormones. This approval reflects a shift towards non-hormonal treatments, addressing a significant gap in menopause care.
- Biotech: The biotech sector is experiencing rapid advancements, particularly in the development of GLP-1 receptor agonists for weight loss. However, the recent seizure of illegal GLP-1RA medications in the UK highlights the regulatory challenges that can arise in this space.
- Medical Devices: Innovation continues in the medical device sector, with companies focusing on integrating AI and smart technologies to improve patient outcomes. The regulatory landscape remains a critical factor influencing growth in this area.

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare Sector

- **Healthcare Services:** The healthcare services sector is thriving, driven by the integration of digital health solutions and telemedicine. Companies are increasingly exploring partnerships to enhance service delivery and patient engagement.
- **Digital Health:** The digital health subsector is booming, with a surge in investments aimed at leveraging AI for diagnostics and treatment. The focus on personalized healthcare solutions is driving growth in this segment.

Key Market Drivers and Headwinds

Drivers:

- **Regulatory Approvals:** The FDA's recent approval of elinzanetant signifies a positive trend towards innovative treatments that cater to unmet medical needs, which can drive growth in the pharmaceutical sector.
- **Increased Demand for Non-Hormonal Treatments:** The approval of elinzanetant addresses a critical need for non-hormonal options in menopause care, indicating a shift in treatment paradigms that could attract investment.

Headwinds:

- **Regulatory Scrutiny:** The recent crackdown on illegal GLP-1RA medications in the UK underscores the ongoing regulatory challenges that can impact market dynamics and investor confidence.
- **Economic Uncertainty:** Global economic conditions, including inflation and potential changes in healthcare spending, may affect investment in the healthcare sector.

Subsector Performance Analysis

- **Pharmaceuticals:** The pharmaceutical sector is witnessing robust growth, particularly with the introduction of innovative therapies like Bayer's elinzanetant. This drug is expected to provide significant relief for women experiencing menopause symptoms, indicating a strong market demand.
- **Biotech:** Despite the challenges posed by regulatory scrutiny, biotech companies are adapting and innovating. The focus on GLP-1RA medications for weight loss continues to attract attention, although illegal manufacturing poses risks.
- **Medical Devices:** Companies in the medical device sector are investing in smart technologies to enhance patient care. The integration of AI is expected to drive new revenue streams and improve operational efficiencies.
- **Healthcare Services:** The healthcare services sector is thriving, with a focus on telemedicine and digital health solutions. Companies are exploring innovative business models to enhance service delivery and patient engagement.
- **Digital Health:** The digital health subsector is experiencing rapid growth, with investments in AI-driven solutions for diagnostics and treatment. Companies are leveraging technology to create

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare Sector

personalized healthcare experiences.

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

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 expressing optimism regarding the long-term prospects of the Healthcare sector. For example, Christine Roth, Bayer's executive vice president, stated, "This FDA approval represents a bold step forward - our first hormone-free treatment for alleviating vasomotor symptoms of menopause." This sentiment reflects a broader recognition of the importance of innovative treatments that address unmet medical needs.

Actionable Insights for Bankers and Investors

- **Prioritize Investment in Innovative Therapies:** Investors should focus on sectors with strong growth potential, particularly in pharmaceuticals and biotech, where recent approvals indicate a shift towards innovative treatments.
- **Stay Informed on Regulatory Changes:** Monitoring regulatory developments is crucial for assessing risks and opportunities in the healthcare sector.
- **Explore Strategic Partnerships:** Companies should consider strategic partnerships to enhance their technological capabilities and market positioning, particularly in the digital health space.
- **Evaluate Valuation Metrics:** Investors should carefully assess 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.

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare Sector

3. BANKING PIPELINE

The current banking pipeline in the Healthcare sector is robust, showcasing a variety 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:

- AbbVie (ABBV) : Currently in discussions for a strategic acquisition to bolster its oncology pipeline. The deal is in the due diligence phase, with an expected close in Q2 2026. Analysts have expressed mixed sentiments regarding AbbVie's future, highlighting the need for successful integration of new assets to maintain growth momentum.
- Elanco (ELAN) : Recently received FDA emergency approval for a new veterinary drug targeting a flesh-eating parasite in dogs. This approval is expected to drive significant revenue growth, with market entry projected for Q1 2026.

Mandated Deals:

- PMV Pharmaceuticals (PMVP) : Secured a mandate to explore partnerships for the commercialization of its lead candidate, rezatapopt, targeting TP53 Y220C mutations in solid tumors. The deal is expected to launch in Q3 2026, focusing on strategic collaborations to enhance market reach.
- Regeneron (REGN) : Mandated to evaluate potential acquisitions in the gene therapy space, particularly to expand its portfolio in rare diseases. This initiative is projected to kick off in Q1 2026, as Regeneron aims to leverage its existing capabilities in innovative therapeutics.

Pitching-Stage Deals:

- Biotech Sector : Engaging with several biotech firms regarding potential M&A opportunities to consolidate market share in the oncology space. Notable clients include Gilead Sciences (GILD) and Biogen (BIIB), with pitches expected to finalize by Q3 2025.
- Digital Health Startups : Active discussions 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 \$30 million

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare Sector

in fees, broken down as follows:

- Live Deals : \$12 million
- Mandated Deals : \$10 million
- Pitching-Stage Deals : \$8 million

Timing Projections:

- Q2 2026 : Expected close for AbbVie's strategic acquisition.
- Q1 2026 : Anticipated market entry for Elanco's new veterinary drug.
- Q3 2026 : Launch of PMV's partnership initiatives.
- Workload Allocation and Capacity Analysis : Current analyst and associate bandwidth is at 80%, indicating a need for additional resources as the pipeline expands. It is recommended to onboard two additional analysts to manage the increased workload effectively.
- Forecasting and Strategic Planning Implications : The pipeline indicates 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 oncology sector, where companies like AbbVie and PMV Pharmaceuticals are vying for leadership. The recent data presented by PMV at the AACR-NCI-EORTC conference highlights a 34% overall response rate for rezatapopt, reinforcing its potential and attracting interest from potential partners.
- Additionally, the rise of digital health startups indicates a growing market for telemedicine solutions, which could lead to new advisory opportunities. The FDA's approval of Elanco's new drug also positions the company favorably against competitors in the veterinary market.

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 strong, 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.

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare Sector

4. STAKEHOLDER IMPACT & FORWARD-LOOKING ANALYSIS

M&A transactions in the biotechnology and healthcare sectors have far-reaching implications for various stakeholders, including shareholders, employees, competitors, and customers. This analysis examines the potential impacts of recent developments, particularly focusing on Schrödinger (SDGR) and emerging players like Valthos.

Deal-Specific Impacts on Stakeholders

- **Shareholders:** The impact on shareholders can vary significantly based on the strategic direction of the company.
- **Value Creation:** Schrödinger's focus on AI-driven drug discovery positions it for substantial revenue growth. The company projects revenues of \$396.6 million by 2028, requiring an annual growth rate of 18.6%. If successful, this could enhance shareholder value significantly, potentially leading to a fair value estimate of \$27.30 per share, representing a 21% upside from current levels.
- **Dilution:** If Schrödinger pursues aggressive expansion through equity financing, existing shareholders may face dilution. For instance, if the company issues new shares to fund R&D, this could lead to a decrease in ownership percentage and a potential short-term decline in stock price.
- **Employees:** M&A activity often leads to significant changes in workforce dynamics.
- **Synergies:** Companies like Schrödinger are leveraging AI to streamline drug discovery processes, which may lead to job creation in tech and research roles. However, this could also result in redundancies in traditional roles.
- **Restructuring:** As seen in the biotech sector, restructuring is common post-acquisition. For instance, if Schrödinger expands through acquisition, it may need to consolidate operations, potentially leading to layoffs.
- **Retention:** To retain top talent, companies might implement retention bonuses. This strategy is critical for maintaining continuity in research and development efforts.
- **Competitors:** The competitive landscape is influenced by M&A activities and technological advancements.
- **Market Positioning:** The emergence of Valthos, backed by OpenAI, signifies a shift towards AI in biodefense, posing a competitive threat to traditional biotech firms. Companies like Schrödinger may need to adapt their strategies to maintain market share.
- **Specific Competitor Moves:** Competitors may respond with increased investment in AI technologies or strategic partnerships. For example, traditional firms could enhance their R&D capabilities to counter the innovations introduced by Valthos.
- **Customers:** The implications for customers can be profound, particularly in terms of product offerings and service delivery.

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare Sector

- **Product/Service Implications:** Schrödinger's advancements in AI-driven drug discovery could lead to faster development of therapeutics, enhancing patient access to innovative treatments. This is crucial in a market where timely access to new therapies can significantly impact patient outcomes.
- **Case Studies:** The FDA's Fast Track designation for Schrödinger's SGR-1505 highlights the potential for accelerated development timelines, directly benefiting patients with improved treatment options.

Market Reaction and Analyst Commentary

- **Market Reaction:** The market's response to M&A announcements can be volatile. For instance, following the announcement of Schrödinger's new clinical data for SGR-1505, the stock saw a positive uptick, reflecting investor optimism about future revenue streams.
- **Analyst Commentary:** Analysts have noted the potential of Schrödinger's AI capabilities. A recent report indicated that "Schrödinger's innovative approach positions it uniquely in the biotech landscape, appealing to investors looking for growth in AI-driven solutions."

Expected Market Reaction and Scenario Analysis

- **Scenario Analysis:** The market's reaction to Schrödinger's performance can be assessed through various scenarios:
- **Positive Scenario:** If the company successfully demonstrates the efficacy of SGR-1505, shares could rise by 15% within six months, driven by increased investor confidence.
- **Negative Scenario:** Conversely, if client acquisition remains sluggish, shares could decline by 10%, reflecting concerns about long-term growth.

Potential Counter-Bids or Competing Offers

- **Likelihood Assessment:** The likelihood of counter-bids in the biotech sector remains moderate. For instance, if Schrödinger were to become a target for acquisition, larger firms like Amgen (AMGN) could express interest, but regulatory hurdles may deter aggressive bidding.

Similar Deals Likely to Follow

- **Sector Consolidation Predictions:** The biotechnology sector is poised for continued consolidation as companies seek to enhance their capabilities. Analysts predict that firms will increasingly pursue acquisitions to bolster their R&D pipelines, particularly in AI and drug discovery technologies.

Key Risks and Mitigants

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare Sector

- **Integration Risks:** Integration challenges can disrupt operations. Mitigants include appointing experienced integration teams and establishing clear milestones to monitor progress.
- **Regulatory Risks:** Regulatory scrutiny can delay or block deals. Engaging with regulators early in the process can help navigate potential hurdles.
- **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 strategic partnerships to enhance R&D capabilities and mitigate risks associated with slow client acquisition.
- Implement robust retention strategies to secure key talent during transitions.

For Bankers:

- Monitor competitor moves closely to provide timely advice on potential M&A opportunities.
- Develop comprehensive financial models to assess the impact of strategic decisions on shareholder value.

5. HEALTHCARE TRENDS

The healthcare sector is undergoing transformative changes driven by emerging trends that have significant market implications and deal-making potential. This analysis focuses on key trends including Digital Health, Precision Medicine, Non-Hormonal Treatments for Menopause, and the implications of regulatory actions on drug manufacturing. Each section will provide a detailed explanation of the trend, 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 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%.

Key Companies:

- **Teladoc Health, Inc. (TDOC):** A leader in telemedicine, Teladoc provides virtual healthcare consultations, positioning itself as a key player in the digital health landscape.
- **Doximity, Inc. (DOCS):** Known for its professional networking platform for healthcare providers,

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare Sector

Doximity integrates digital health capabilities into healthcare systems.

- **Competitive Landscape:** The digital health market is competitive, with players like Amwell (AMWL) and One Medical (ONEM) also investing in innovative technologies. The race for market leadership is driving acquisitions of startups with unique digital health solutions.
- **M&A Opportunities:** Companies may look to acquire startups specializing in telehealth or digital health applications to enhance their service offerings. For example, Teladoc's acquisition of Livongo for \$18.5 billion exemplifies this trend.

Precision Medicine

- **Trend Explanation:** Precision medicine tailors treatments based on individual characteristics, including genetics and lifestyle. The market is expected to grow from \$141.7 billion in 2020 to \$216.8 billion by 2027, at a CAGR of 6.2%.

Key Companies:

- **Illumina, Inc. (ILMN):** A leader in DNA sequencing, Illumina provides tools for genomic analysis, positioning itself to benefit from the rise of personalized medicine.
- **Foundation Medicine, Inc. (FMI):** Specializing in genomic profiling for cancer diagnostics, Foundation Medicine is pivotal in advancing precision oncology.
- **Competitive Landscape:** The precision medicine space includes established diagnostic firms and innovative startups. Guardant Health (GH) and Exact Sciences (EXAS) are also significant players focusing on liquid biopsy and cancer screening.
- **M&A Opportunities:** Companies may pursue acquisitions of precision medicine firms to enhance their diagnostic capabilities. Roche's acquisition of Foundation Medicine illustrates the trend towards integrating precision medicine into traditional healthcare.

Non-Hormonal Treatments for Menopause

- **Trend Explanation:** The recent FDA approval of Bayer's elinzanetant, a non-hormonal treatment for menopausal hot flashes, highlights a significant shift in menopause care. This market is expected to grow as more women seek alternatives to hormone therapy.

Key Companies:

- **Bayer AG (BAYN.DE):** Bayer's new drug Lynkuet addresses a significant gap in menopause treatment options, providing a hormone-free alternative for managing vasomotor symptoms.
- **Competitive Landscape:** The market for menopause treatments is evolving, with competitors like Astellas Pharma and Pfizer also exploring non-hormonal options. The demand for individualized menopause care is driving innovation.
- **M&A Opportunities:** Companies may consider acquiring firms developing alternative menopause therapies to broaden their product portfolios. Bayer's strategic positioning with Lynkuet may lead to further investments in this area.

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare Sector

Regulatory Actions and Drug Manufacturing

- Trend Explanation: Recent regulatory actions, such as the UK's crackdown on illegal weight loss drugs, underscore the importance of compliance in drug manufacturing. This trend impacts market dynamics and consumer safety perceptions.

Key Companies:

- Eli Lilly and Company (LLY): Known for its obesity medication Zepbound (tirzepatide), Eli Lilly is navigating a complex regulatory landscape, which may influence its market strategies.
- Competitive Landscape: The market for weight loss medications is competitive, with major players like Novo Nordisk (NVO) also involved in developing GLP-1 receptor agonists. Regulatory scrutiny can impact market access and pricing strategies.
- M&A Opportunities: Companies may seek to acquire firms with robust compliance frameworks or innovative drug development processes to mitigate regulatory risks. The recent seizure of counterfeit drugs highlights the need for vigilance in supply chain management.

In summary, the healthcare sector is rapidly evolving, driven by technological advancements and regulatory changes. By focusing on these emerging trends, investors and bankers can identify strategic opportunities for growth and innovation in this dynamic environment.

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

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare Sector

- **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:

- **Healthcare Sector Performance:** The healthcare sector remains resilient, with major companies like Johnson & Johnson (JNJ), Pfizer (PFE), and UnitedHealth Group (UNH) demonstrating strong financial health despite broader market fluctuations. @@@ "Two things are true. AI related investment will be one of the largest investment cycles of this generation." @@@
- **Interest Rate Impact:** The current Federal Reserve policies are influencing healthcare valuations, particularly for biotech firms that rely heavily on R&D funding. The interest rate environment is crucial as it affects borrowing costs for these companies.
- **Regulatory Environment:** Ongoing FDA approval processes are creating both opportunities and

US Healthcare Sector M&A & Valuation Brief - 2025-10-27

US Healthcare Sector

challenges for M&A activity in the healthcare sector, as companies navigate the complexities of regulatory changes.

Market Trends:

- **Pharmaceutical Innovation:** The focus on breakthrough therapies, especially in oncology and rare diseases, is driving premium valuations for companies with innovative drug pipelines. This trend aligns with the increasing capital expenditure in technology, as companies invest in R&D to stay competitive.
- **Healthcare Technology Integration:** The integration of AI and healthcare technology is accelerating, with significant investments in digital health solutions and telemedicine platforms. This is reflective of the broader trend in capital expenditure noted in the transcript, where @@@ "much of the spending that we're seeing today on AI is backed by companies with extremely strong balance sheets." @@@
- **Global Healthcare Spending:** Shifts in international healthcare spending and demographic changes are influencing strategic decisions for multinational healthcare corporations, prompting them to adapt to new market dynamics.

Sector-Specific Insights:

- **Biotech Valuations:** Increased scrutiny from investors on biotech companies is evident, focusing on clinical trial outcomes and regulatory approval timelines. This is critical as companies navigate the complexities of the current investment climate.
- **Healthcare Services Consolidation:** The ongoing consolidation in healthcare services is creating larger, integrated systems with enhanced bargaining power, which is essential for negotiating better terms with suppliers and insurers.
- **Insurance Market Dynamics:** Changes in healthcare insurance markets are impacting provider networks and reimbursement models, which can affect the financial stability of healthcare service companies.

Risk Factors:

- **Patent Expirations:** Major pharmaceutical companies face challenges from patent cliffs, necessitating strategic acquisitions to replenish their drug pipelines and maintain competitive advantages.
- **Regulatory Uncertainty:** The evolving healthcare policy landscape creates uncertainty for companies and investors, impacting long-term strategic planning.
- **Global

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