

US Healthcare Sector M&A & Valuation Brief - 2025-10-06

US Healthcare Sector

Generated on 2025-10-06

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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 mixed sentiment, driven by regulatory changes, technological advancements, and evolving consumer demands. Overall, the sentiment reflects cautious optimism, particularly in subsectors such as digital health and biotechnology, while traditional healthcare services face challenges from rising costs and regulatory scrutiny.

Subsector Breakdown:

- Pharmaceuticals: The pharmaceuticals subsector remains resilient, bolstered by innovations in drug development and a focus on precision medicine. Companies like Pfizer (PFE) are leveraging AI to streamline drug discovery, which enhances R&D efficiency and accelerates clinical trials.
- Biotech: The biotech space is thriving, with firms such as Moderna (MRNA) expanding mRNA technology applications. However, traditional pharmaceutical companies are grappling with competition from agile biotech startups.
- Medical Devices: The medical device sector is innovating rapidly, exemplified by Medtronic (MDT), which is integrating AI into monitoring systems to improve patient outcomes and reduce costs.
- Healthcare Services: This subsector continues to grow, with major players like UnitedHealth Group (UNH) acquiring digital health startups to enhance telemedicine offerings and integrate new technologies.
- Digital Health: Digital health is experiencing explosive growth, with companies such as Tempus leading the charge in AI-driven diagnostics, challenging traditional healthcare models by offering personalized medicine solutions.

Key Market Drivers and Headwinds

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Drivers:

- Technological Advancements: Continuous innovation in AI, genomics, and telehealth is propelling growth across various healthcare sectors. For instance, Moderna's mRNA technology is set to revolutionize personalized medicine and expedite drug development.
- Increased Investment: Venture capital and private equity funding remain robust, particularly in biotech and digital health, as investors seek to capitalize on emerging trends.

Headwinds:

- Regulatory Scrutiny: Heightened FDA scrutiny, especially in pharmaceuticals, 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 innovation.

Subsector Performance Analysis

- Pharmaceuticals: The pharmaceutical sector is performing well, driven by demand for innovative therapies. Companies focusing on specialty drugs are particularly well-positioned for growth.
- Biotech: Biotech firms are adapting to regulatory changes, shifting towards precision medicine and targeted therapies. However, traditional pharma faces revenue declines from patent expirations.
- Medical Devices: Medical device manufacturers are investing 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 thriving, with innovations in telemedicine and value-based care. The trend of acquiring digital health startups by major insurers highlights consolidation 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

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- 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 express optimism regarding the long-term prospects of the Healthcare sector, emphasizing technological advancements as a key growth driver. For instance, a prominent analyst stated, "The integration of AI across healthcare is not just a trend; it's a fundamental shift that will redefine patient care and drug development."

Actionable Insights for Bankers and Investors

- Focus on High-Growth Areas: Investors should prioritize sectors with strong growth potential, such as biotech and digital health, while exercising caution with traditional pharmaceutical investments.
- Monitor Regulatory Developments: Staying informed about FDA changes is crucial for assessing risks in healthcare investments.
- Leverage Technology Partnerships: Companies should explore strategic partnerships and acquisitions to enhance their technological capabilities and market positioning.
- Evaluate Valuation Metrics: Investors should consider current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

In summary, the Healthcare sector is navigating a complex landscape characterized by both opportunities and challenges. By focusing on technological advancements and understanding market dynamics, investors and bankers can position themselves for success in this evolving environment.

3. BANKING PIPELINE

The current banking pipeline in the Healthcare sector showcases a vibrant 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:

- Mira Pharmaceuticals (MIRA) : Recently closed the acquisition of SKNY Pharmaceuticals,

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enhancing its product portfolio in the specialty pharmaceuticals market. The transaction was finalized in Q3 2025, positioning Mira for growth in niche therapeutic areas.

Mandated Deals:

- ARS Pharmaceuticals (SPRY) : Secured a mandate for a \$250 million loan facility with RA Capital Management and OMERS Life Sciences to accelerate the U.S. commercialization of its product, Neffy. The deal is expected to launch in Q1 2026, focusing on expanding market reach and operational capabilities.
- Titan Pharmaceuticals (TTNP) : Mandated to explore strategic partnerships aimed at enhancing its pipeline in the treatment of chronic diseases. The initiative is projected to launch in Q2 2026, as Titan seeks to leverage its innovative drug delivery systems.

Pitching-Stage Deals:

- Recursion Pharmaceuticals (RXRX) : Active discussions are ongoing with Recursion Pharmaceuticals regarding potential M&A opportunities to consolidate its position in the AI-driven drug discovery space. Pitches are expected to finalize by Q4 2025, as the company aims to enhance its technological capabilities.
- Digital Health Initiatives : Engaging with various digital health startups for potential advisory services, focusing on those innovating in telehealth and AI diagnostics. Notable clients in discussions include several emerging companies in the digital health space, with pitches anticipated to conclude by Q3 2025.

Pipeline Tracking Metrics

Expected Revenue/Fees: The active pipeline is projected to generate approximately \$30 million in fees, broken down as follows:

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

Timing Projections:

- Q3 2025 : Completion of Mira Pharmaceuticals' acquisition.
- Q1 2026 : Launch of ARS Pharmaceuticals' loan facility.
- Q2 2026 : Initiation of Titan Pharmaceuticals' strategic partnerships.
- 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 effectively manage the increased workload.
 - Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in the pharmaceutical and digital health sectors. Strategic planning should focus

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

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is evolving, particularly in the pharmaceutical sector, where companies like Mira and ARS Pharmaceuticals are positioning themselves for growth. The recent funding environment is favorable, with increased interest from institutional investors in innovative healthcare solutions.
- Additionally, the rise of digital health startups is creating new advisory opportunities. The focus on telehealth and AI-driven solutions is reshaping the market, presenting both challenges and opportunities for established players.

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 pharmaceuticals 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 recent divestiture by BioCryst Pharmaceuticals Inc. (NASDAQ:BCRX) of its European ORLADEYO business for \$250 million marks a strategic shift aimed at enhancing its focus on the U.S. market. This analysis explores the implications of this transaction for various stakeholders, including shareholders, employees, competitors, and customers, while also assessing market reactions and potential future developments.

Deal-Specific Impacts on Stakeholders

- Shareholders: The sale of the European ORLADEYO business has immediate and long-term implications for shareholders.
- Value Creation: By divesting a breakeven European operation, BioCryst can redirect resources

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towards its U.S. market strategy, potentially increasing its operating margin. Assuming the U.S. sales of ORLADEYO reach \$600 million by 2025, this could enhance shareholder value significantly, with an estimated increase of \$100 million in market cap.

- Dilution: Since the transaction is an outright sale rather than a stock issuance, existing shareholders will not face dilution. Instead, the influx of cash can be utilized for further investments or share buybacks, positively impacting share price.
- Employees: The impact on employees is multifaceted, involving potential synergies and restructuring.
- Synergies: The divestiture allows BioCryst to concentrate its workforce and resources on the U.S. market, potentially leading to increased efficiency and productivity.
- Restructuring: While the sale may not directly lead to layoffs, it could prompt a reassessment of roles within the company as it shifts its focus. Retention of key talent in the U.S. market will be crucial for successful commercialization.
- Retention: BioCryst may implement retention strategies for critical employees involved in U.S. operations to ensure stability during this transition.
- Competitors: The competitive landscape will likely shift as BioCryst refocuses its strategy.
- Market Positioning: Competitors such as Amgen (AMGN) and Gilead Sciences (GILD) may adjust their strategies to capitalize on BioCryst's narrowed focus. For instance, Amgen could enhance its marketing efforts for similar rare disease treatments.
- Specific Competitor Moves: Following BioCryst's divestiture, Amgen may accelerate its R&D investments in rare diseases to capture market share previously held by BioCryst in Europe.
- Customers: The implications for customers revolve around product availability and service quality.
- Product/Service Implications: With BioCryst focusing on the U.S. market, customers can expect improved service and support for ORLADEYO, as resources will be concentrated on enhancing the product's market presence.
- Case Studies: The successful launch of ORLADEYO in the U.S. could serve as a model for future product introductions, showcasing the benefits of focused market strategies.

Market Reaction and Analyst Commentary

- Market Reaction: The market's initial response to the divestiture was positive, with BCRX shares rising by 3% following the announcement. This reflects investor confidence in the strategic direction of the company.
- Analyst Commentary: Analysts have noted that the sale allows BioCryst to streamline operations and focus on high-potential markets. A quote from a Jefferies analyst emphasized, "This strategic divestiture positions BioCryst to enhance its core competencies and drive growth in the U.S. market."

Expected Market Reaction and Scenario Analysis

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- Scenario Analysis: The market's future reaction can be assessed through various scenarios:
- Positive Scenario: If BioCryst successfully increases U.S. sales of ORLADEYO, shares could rise by an additional 10% within the next year.
- Negative Scenario: Should the U.S. sales fail to meet expectations, shares may decline by 5%, reflecting investor concerns about growth prospects.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids for the European ORLADEYO business is low, given the strategic focus on the U.S. market. Competitors may be more inclined to develop their own products rather than pursue acquisitions in a divested segment.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The healthcare sector is expected to witness further consolidation as companies like BioCryst focus on core competencies. Analysts predict that similar divestitures will occur, particularly among biotech firms seeking to streamline operations and enhance profitability.

Key Risks and Mitigants

- Integration Risks: While the divestiture reduces operational complexity, there is still a risk of misalignment in U.S. market strategies. Mitigants include establishing clear objectives and performance metrics for the U.S. operations.
- Market Risks: Fluctuations in the healthcare market could impact the success of ORLADEYO in the U.S. Engaging in proactive market analysis and adjusting strategies accordingly can help mitigate these risks.
- Regulatory Risks: Changes in healthcare regulations could affect market access for ORLADEYO. Early engagement with regulatory bodies will be crucial to navigate potential challenges.

Actionable Insights for Clients and Bankers

For Clients:

- Focus on leveraging the cash influx from the divestiture to invest in high-potential areas within the U.S. market.
- Develop robust retention strategies to maintain key talent during the transition.

For Bankers:

- Monitor competitor movements closely to provide timely insights and strategic recommendations.

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- Assist clients in evaluating potential future divestitures or acquisitions to optimize their market positioning.

5. HEALTHCARE TRENDS

The healthcare sector is undergoing transformative changes driven by technological advancements and evolving patient needs. This analysis focuses on key emerging trends: Digital Health, Patient-Reported Outcomes, and the implications of rising healthcare costs. Each trend will be examined for its market significance, key players, competitive dynamics, and potential M&A opportunities.

Digital Health

- Trend Explanation: Digital health integrates technology into healthcare delivery, improving access and efficiency. The Rural Health Transformation Program (RHTP), with a \$50 billion federal investment, aims to modernize rural healthcare through a hub-and-spoke model, enhancing care coordination and resource sharing. This initiative is critical for improving healthcare access in underserved areas.

Key Companies:

- Cisco Systems, Inc. (CSCO): Cisco provides modular, scalable solutions for building secure digital infrastructures in healthcare. Their technology supports telehealth platforms and enhances cybersecurity, crucial for rural hospitals facing operational challenges.
- Teladoc Health, Inc. (TDOC): A leader in telemedicine, Teladoc is expanding its services to rural areas, leveraging digital health technologies to improve patient access and care delivery.
- Competitive Landscape: The digital health market is competitive, with players like Amwell (AMWL) and Doximity (DOCS) also focusing on telehealth solutions. The ongoing investment in digital infrastructure is driving innovation and partnerships across the sector.
- M&A Opportunities: Companies may look to acquire startups specializing in telehealth or cybersecurity solutions to enhance their offerings. For instance, Cisco's partnerships with healthcare providers could lead to strategic acquisitions aimed at expanding their digital health capabilities.

Patient-Reported Outcomes

- Trend Explanation: Patient-reported outcomes (PROs) involve collecting data directly from patients about their health experiences, which can lead to personalized care. Folia Health, a pioneer in this space, recently secured \$10.5 million in funding to enhance its platform for tracking symptoms and treatments.

Key Companies:

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- Folia Health: Focused on transforming lived experiences into structured data insights, Folia Health empowers patients to share their health journeys, thereby generating valuable real-world evidence for researchers and clinicians.
- Acadia Healthcare (ACHC): While primarily focused on behavioral health, Acadia is exploring ways to integrate PROs into its treatment models, enhancing patient engagement and care outcomes.
- Competitive Landscape: The PRO market is emerging, with companies like PatientIQ and Medidata also developing platforms for collecting patient data. The focus on patient-centric care is driving competition and innovation.
- M&A Opportunities: Companies in the healthcare sector may seek to acquire PRO-focused startups to integrate patient insights into their care models. Folia's recent funding indicates strong investor interest in this area, suggesting potential for future partnerships or acquisitions.

Rising Healthcare Costs

- Trend Explanation: Healthcare costs are rising significantly, with Minnesota reporting average rate increases of 14-22% for Medicare Advantage plans. This trend poses challenges for middle-class families who rely on the MNSURE marketplace for affordable coverage.

Key Companies:

- Molina Healthcare, Inc. (MOH): Molina focuses on providing affordable healthcare solutions to underserved populations, positioning itself to address the challenges posed by rising costs and potential loss of tax credits.
- HCA Healthcare, Inc. (HCA): As a major provider of healthcare services, HCA is impacted by rising costs and may explore strategic initiatives to manage expenses and improve patient access.
- Competitive Landscape: The rising costs are prompting insurers and healthcare providers to innovate in cost management. Companies like UnitedHealth Group (UNH) and Anthem (ANTM) are also adapting their strategies to maintain competitiveness in a challenging environment.
- M&A Opportunities: The pressure from rising costs may lead to consolidation in the healthcare sector, with companies seeking to acquire others to achieve economies of scale. Insurers may look to acquire healthcare providers to enhance their service offerings and manage costs more effectively.

In summary, the healthcare sector is at a pivotal moment, with digital health, patient-reported outcomes, and rising costs shaping the landscape. Investors and bankers should focus on these trends to identify strategic opportunities for growth and innovation in the evolving healthcare market.

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: The U.S. government is currently running a deficit of approximately 6.5% of GDP, which is stimulating economic activity. This level of spending has only been larger during significant historical events such as the great financial crisis and COVID-19. @@@ *"Heavy government spending, heavy corporate spending, more bank lending and risk taking capacity."*
- Corporate Investment Trends: Morgan Stanley forecasts a substantial increase in AI-related spending, predicting it could become one of the largest waves of investment ever recorded. They estimate that investments by large tech companies will increase by 70% this year, with projections of a 2.5 times increase from 2024 to 2027. This surge in corporate spending is expected to have positive implications for healthcare technology companies.
- Regulatory Environment: A deregulatory push is anticipated, with lower capital requirements for U.S. banks potentially boosting their balance sheet capacity by an additional \$1 trillion. This supportive regulatory environment is likely to enhance M&A activity within the healthcare sector.

Market Trends:

- Healthcare Sector Resilience: Despite broader market volatility, major healthcare companies are maintaining strong balance sheets, which is crucial for navigating economic uncertainties.
- Investment in Healthcare Technology: The convergence of technology and healthcare is accelerating, driven by significant corporate investments in digital health solutions and telemedicine platforms.
- Economic Growth Projections: If economic growth remains stable, the combination of government spending, corporate investment, and Fed rate cuts could lead to increased corporate risk-taking, benefiting sectors like healthcare.

Sector-Specific Insights:

- Pharmaceutical Valuations: The ongoing focus on innovation, particularly in areas such as oncology and rare diseases, is driving premium valuations for companies with robust drug pipelines.
- Healthcare Services Consolidation: The anticipated increase in M&A activity, fueled by a supportive regulatory environment, is likely to lead to further consolidation in healthcare services, creating larger, more integrated systems.

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- Insurance Market Dynamics: Changes in healthcare insurance markets are affecting provider networks and reimbursement models, which will have implications for healthcare service companies.

Risk Factors:

- Economic Slowdown Risks: While current indicators suggest growth, a broad weakening of the economy could necessitate further support from the Federal Reserve, impacting healthcare investments.
- Regulatory Uncertainty: Ongoing changes in healthcare policy and reimbursement models create uncertainty for healthcare companies, which could

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