

US Healthcare Sector M&A & Valuation Brief - 2025-09-26

Technology, Media & Telecommunications Sector

Generated on 2025-09-26

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1. RECENT Healthcare M&A ACTIVITY

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

2. MARKET DYNAMICS & SENTIMENT

The Healthcare sector is currently navigating a landscape marked by cautious optimism, driven by technological advancements and strategic acquisitions. Despite ongoing regulatory scrutiny, the sector exhibits resilience, with varying sentiments across subsectors and geographies.

Subsector Breakdown:

- **Pharmaceuticals:** The pharmaceutical subsector remains strong, buoyed by innovations in drug development and precision medicine. For instance, companies like Pfizer (PFE) are increasingly leveraging AI technologies to enhance their drug discovery processes.
- **Biotech:** The biotech sector is experiencing rapid growth, particularly with firms such as Moderna (MRNA) pushing the boundaries of mRNA technology. However, traditional pharmaceutical companies face challenges from these innovative biotech entrants.
- **Medical Devices:** The medical device sector is evolving with the integration of smart technologies. Medtronic (MDT) has introduced AI-powered monitoring systems aimed at improving patient outcomes and reducing costs.
- **Healthcare Services:** The healthcare services sector is thriving, with major players like UnitedHealth Group (UNH) acquiring digital health startups to enhance their service offerings and integrate telemedicine solutions.
- **Digital Health:** Digital health is a hotbed of activity, with companies like Tempus utilizing AI to disrupt traditional diagnostic models, promising advancements in precision medicine.

Key Market Drivers and Headwinds

Drivers:

- **Technological Advancements:** Continuous innovation in AI and genomics is propelling growth across healthcare sectors. For example, Moderna's advancements in mRNA technology are set to revolutionize personalized medicine.

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- Increased Investment: Strong venture capital and private equity investments are particularly evident in biotech and digital health, as investors seek to capitalize on emerging trends.

Headwinds:

- Regulatory Scrutiny: Heightened FDA scrutiny poses risks to M&A activities and market valuations, particularly in the pharmaceutical sector. Companies are grappling with complex compliance requirements that can delay potential deals.
- Economic Uncertainty: Global economic conditions, including inflation and changes in reimbursement policies, may impact healthcare spending and innovation investments.

Subsector Performance Analysis

- Pharmaceuticals: The pharmaceutical sector is thriving, 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, with a focus on precision medicine. However, traditional pharma is facing revenue declines due to patent expirations.
- Medical Devices: Companies in the medical device sector are investing in smart technology to support remote monitoring, which is expected to create new revenue streams.
- Healthcare Services: The healthcare services sector is benefiting from innovations in telemedicine and value-based care, with major insurers consolidating by acquiring digital health startups.
- Digital Health: The digital health subsector is booming, with significant investments in AI capabilities across various healthcare applications.

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:

- 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 are trading at lower multiples due to regulatory risks.

Notable Investor/Analyst Reactions

- Analysts express optimism about the long-term prospects of the Healthcare sector, emphasizing

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technological advancements as a growth driver. One analyst noted, "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 analysis provides insights into ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- Scilex Holding Company (SCLX) : Recently completed a business combination with Denali Capital Acquisition Corp, resulting in the formation of Semnur Pharmaceuticals, Inc. The deal closed on September 22, 2025, and the newly combined entity will trade under the ticker symbols "SMNR" and "SMNRW." This strategic move is expected to enhance Scilex's capabilities in non-opioid pain management and accelerate growth initiatives.

Mandated Deals:

- ACADIA Pharmaceuticals Inc. (ACAD) : Secured a mandate to explore strategic partnerships aimed at expanding its product offerings in CNS disorders. The anticipated launch of this initiative is set for Q1 2026, as the company seeks to leverage its innovative therapies to address unmet

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medical needs.

- Mirum Pharmaceuticals, Inc. (MIRM) : Mandated to evaluate potential acquisitions that can enhance its portfolio of therapies for rare diseases. The timeline for this initiative is projected for Q2 2026, focusing on expanding its market presence and therapeutic capabilities.

Pitching-Stage Deals:

- Kiniksa Pharmaceuticals International, plc (KNSA) : Engaging in active discussions regarding potential M&A opportunities to consolidate its position in the rare disease market. Pitches are expected to finalize by Q3 2025, with a focus on innovative therapies that align with Kiniksa's strategic goals.
- Digital Health Sector : Ongoing pitches with various digital health companies for potential advisory services, particularly those innovating in telehealth and AI diagnostics. Notable clients include companies that are emerging in the telemedicine space, with discussions expected to progress in Q4 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 : Expected close for ongoing discussions with Kiniksa Pharmaceuticals.
- Q1 2026 : Anticipated launch of ACADIA's strategic partnership initiatives.
- Q2 2026 : Expected launch of Mirum's acquisition evaluation process.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 80%, indicating a need for additional resources to manage the expanding pipeline effectively. It is recommended to onboard two additional analysts to ensure optimal workload management.
- Forecasting and Strategic Planning Implications : The pipeline indicates a robust demand for advisory services in the biotech and digital health sectors. Strategic planning should focus on enhancing expertise 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 Scilex and ACADIA are actively pursuing growth through strategic partnerships and

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acquisitions. The recent completion of Scilex's business combination demonstrates a trend toward consolidation in the market.

- Additionally, the rise of digital health startups is creating new advisory opportunities, particularly as healthcare systems increasingly adopt telemedicine solutions. This shift is expected to drive demand for investment banking services in the sector.

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 dynamics of M&A transactions in the Healthcare sector significantly influence various stakeholders, including shareholders, employees, competitors, and customers. This analysis examines the potential impacts of recent market activities, particularly focusing on UnitedHealth Group (UNH), Eli Lilly and Company (LLY), and Neurocrine Biosciences (NBIX).

Deal-Specific Impacts on Stakeholders

- **Shareholders**: The impact on shareholders can vary widely based on market conditions and company performance.
- **Value Creation**: For instance, UnitedHealth Group (UNH) experienced a one-month return of 16.38% despite a 38.80% decline over the past year. This volatility reflects investor sentiment and potential recovery opportunities. If UNH can stabilize and grow its market cap of \$318.625 billion, shareholders could see significant value appreciation.
- **Dilution**: If UNH were to pursue acquisitions through stock issuance, existing shareholders might face dilution risks. For example, if UNH issued 10% of its shares to fund an acquisition, existing shareholders could see a proportional decrease in their ownership stake, potentially leading to a

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5% drop in share price.

- Employees: Employee impacts often include synergies, restructuring, and retention strategies.
- Synergies: In the case of Eli Lilly and Company (LLY), the company has been focusing on integrating new technologies and processes that could lead to operational synergies. However, these synergies may come at the cost of restructuring, which could lead to layoffs.
- Retention: To mitigate talent loss, companies like LLY may offer retention bonuses to key employees during transitions. This strategy is crucial for maintaining operational continuity and leveraging existing expertise.
- Competitors: The competitive landscape can shift dramatically following significant M&A activity.
- Market Positioning: Following the recent performance of Neurocrine Biosciences (NBIX), which gained 26.52% over the last year, competitors may need to adapt their strategies to maintain market share. For instance, if NBIX continues to innovate in neurological therapies, companies like LLY and UNH may need to enhance their R&D investments to keep pace.
- Specific Competitor Moves: In response to market pressures, Eli Lilly has been investing heavily in its pipeline, indicating a strategic move to counteract potential market share losses.
- Customers: The implications for customers can vary based on the nature of the deal.
- Product/Service Implications: The integration of new technologies can enhance service delivery. For example, if UnitedHealth Group enhances its digital health services, patients could benefit from improved access to care.
- Case Studies: The performance of Neurocrine Biosciences, which has been optimistic post-guidance adjustments, illustrates how effective management can lead to better patient outcomes through innovative therapies.

Market Reaction and Analyst Commentary

- Market Reaction: The market's response to M&A announcements can be volatile. For instance, UNH's stock has fluctuated significantly, reflecting broader market trends and investor confidence.
- Analyst Commentary: Analysts have noted the challenges faced by companies like LLY, which saw a 19.05% decline over the last year. A quote from a PGIM analyst highlighted that "the healthcare sector is facing headwinds, but companies that adapt quickly will emerge stronger."

Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If UNH successfully integrates new technologies and enhances service delivery, shares could rise by 15% within six months.
- Negative Scenario: If integration challenges arise, shares could decline by 10%, 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. For example, if UNH were to pursue a significant acquisition, competitors like Cigna (CI) might consider counter-bids to maintain competitive parity. However, regulatory hurdles may 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 service offerings, similar deals will emerge, particularly in telehealth and biotech. Companies like Alnylam Pharmaceuticals (ALNY) 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: Digital Health, Telemedicine, and Healthcare Real Estate Investment Trusts (REITs). Each trend is explored for its market significance, key players, competitive dynamics, and potential M&A opportunities.

Digital Health

- Trend Explanation: Digital health leverages technology to enhance healthcare delivery, including mobile health applications, wearable devices, and telehealth services. The global digital health market is projected to grow from \$96.5 billion in 2020 to \$659.5 billion by 2025, reflecting a CAGR of 46.8%.

Key Companies:

- Greystone (GHI): Greystone is a leader in healthcare financing, providing HUD-insured loans to facilitate acquisitions of healthcare facilities. Their recent \$19.3 million loan for a 238-bed facility in North Carolina highlights their strategic role in supporting healthcare investments.
- Teladoc Health, Inc. (TDOC): A pioneer in telemedicine, Teladoc offers virtual healthcare services, positioning itself as a key player in digital health through AI diagnostics and remote monitoring.
- Competitive Landscape: The digital health market is competitive, with players like Amwell (AMWL) and Doximity (DOCS) also making significant strides. The focus on innovation and user experience is driving companies to acquire startups with unique technologies.
- M&A Opportunities: Companies may seek acquisitions of startups specializing in digital health applications. For instance, Greystone's financing capabilities can attract healthcare providers looking to expand their digital offerings.

Telemedicine

- Trend Explanation: Telemedicine enables remote healthcare delivery, improving access and reducing costs. The telemedicine market is expected to grow from \$45.5 billion in 2020 to \$175.5 billion by 2026, at a CAGR of 25.2%.

Key Companies:

- Amwell (AMWL): Amwell provides a telemedicine platform that connects patients with healthcare providers. The company is well-positioned to capitalize on the increasing demand for remote healthcare services.
- One Medical (ONEM): Integrating telemedicine into primary care, One Medical offers virtual consultations, enhancing patient access to healthcare.
- Competitive Landscape: The telemedicine sector features established players like MDLive and newer entrants focusing on niche markets. The competitive environment encourages innovation and strategic partnerships.
- M&A Opportunities: Companies may pursue acquisitions to enhance telemedicine capabilities. For example, Amazon's acquisition of One Medical demonstrates a trend towards integrating

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telehealth solutions into broader healthcare strategies.

Healthcare Real Estate Investment Trusts (REITs)

- Trend Explanation: Healthcare REITs focus on acquiring, managing, and developing properties for healthcare services. The sector is gaining traction as the demand for healthcare facilities continues to rise, driven by an aging population and increased healthcare spending.

Key Companies:

- Healthcare Realty Trust Incorporated (HR): HR specializes in real estate investments related to outpatient healthcare services. The firm has seen increased interest from institutional investors, with Voya Investment Management recently raising its stake by 2.8%.
- National HealthCare Co. (NHC): NHC operates skilled nursing and assisted living facilities, providing essential services. The company has also attracted significant investment, indicating strong market confidence.
- Competitive Landscape: The healthcare REIT market includes major players like Welltower (WELL) and Ventas (VTR), which are also expanding their portfolios to meet growing demand.
- M&A Opportunities: Healthcare REITs may consider acquiring smaller operators or facilities to expand their footprint. The increasing interest from institutional investors suggests a favorable environment for consolidation in this sector.

In summary, the healthcare sector is experiencing significant growth driven by digital health innovations, telemedicine expansion, and robust interest in healthcare REITs. By focusing on these trends, investors and bankers can identify lucrative opportunities for strategic investments and acquisitions.

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

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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

Key Economic Indicators:

- Transition to Recovery: The macroeconomic landscape is shifting from a rolling recession to a rolling recovery, as highlighted by Mike Wilson: @@@@ "we think the rolling recession ended with Liberation Day and that we're now transitioning to an early cycle backdrop." This transition is

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crucial for healthcare companies, particularly those reliant on consumer spending and government healthcare programs.

- **Earnings Growth:** Positive operating leverage is leading to a sharp increase in earnings projections, with median stock EPS growth turning positive at 6%. This recovery in earnings could benefit healthcare stocks, especially those with strong fundamentals.
- **Labor Market Dynamics:** The labor cycle is showing signs of improvement, which is essential for healthcare service providers that depend on a stable workforce. Wilson noted, @@@ "the private economy, in fact, is finally coming out of its earnings recession, which has been in now for three years."

Market Trends:

- **Inflation and Pricing Power:** Accelerating inflation is seen as a potential positive for equities, including healthcare stocks, as it indicates strong pricing power. Wilson stated, @@@ "when inflation is accelerating, that's a sign that pricing power is pretty good." This could enhance profit margins for pharmaceutical companies and healthcare providers.
- **Interest Rate Environment:** The Federal Reserve's recent rate cuts are expected to create a more favorable environment for healthcare investments. The Fed's cautious approach to rate cuts may influence the cost of capital for healthcare firms, impacting their valuations.

Sector-Specific Insights:

- **Healthcare Services Performance:** The recovery in the broader economy may lead to increased demand for healthcare services. The consolidation trend within the healthcare sector could further enhance the bargaining power of larger healthcare systems.
- **Pharmaceutical Valuations:** As the economy improves, pharmaceutical companies may experience renewed investor interest, particularly those with strong product pipelines and innovative therapies.

Risk Factors:

- **Regulatory Challenges:** Ongoing regulatory scrutiny and potential changes in healthcare policy could pose risks for healthcare companies. The uncertainty surrounding these changes may impact M&A activity in the sector.
- **Supply Chain Disruptions:** Global supply chain issues continue to affect pharmaceutical manufacturing, which could lead to increased costs and delays in product availability.

Investment Implications:

- **Defensive Positioning:** Healthcare stocks are likely to remain attractive as defensive plays in a recovering economy, given their stable cash flows and dividend growth potential.

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- M&A Activity: The

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