

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

Generated on 2025-11-23

CONFIDENTIAL - FOR INTERNAL USE ONLY

1. RECENT Healthcare M&A ACTIVITY

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

2. MARKET DYNAMICS & SENTIMENT

The Healthcare sector is currently navigating a landscape marked by both challenges and opportunities, with a sentiment that reflects cautious optimism. This dynamic is influenced by various factors, including technological advancements, regulatory scrutiny, and evolving patient needs.

Subsector Breakdown:

- **Pharmaceuticals:** The pharmaceutical subsector remains resilient, buoyed by the ongoing development of innovative therapies and a focus on precision medicine. For example, companies like Merck (MRK) are investing heavily in oncology, with the oncology biomarker market projected to reach USD 113.5 billion by 2034, highlighting the potential for growth in targeted therapies.
- **Biotech:** The biotech subsector is thriving, driven by advancements in mRNA technology and personalized medicine. Companies such as Moderna are at the forefront, leveraging their expertise in mRNA to expand therapeutic applications.
- **Medical Devices:** The medical device sector is experiencing significant innovation, particularly in cardiac monitoring technologies. The cardiac arrhythmia monitoring devices market is expected to grow from USD 8.96 billion in 2026 to USD 15.01 billion by 2034, reflecting a strong CAGR of 6.67% due to rising cardiovascular disease incidences.
- **Healthcare Services:** This sector is evolving rapidly, with a focus on integrating digital health solutions. Major players are acquiring digital health startups to enhance service delivery, reflecting a shift towards patient-centric care.
- **Digital Health:** The digital health market is booming, with projections indicating it will reach USD 258.22 billion by 2033. Companies are increasingly adopting AI solutions to improve diagnostics and patient management, positioning themselves for future growth.

Key Market Drivers and Headwinds

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

Drivers:

- **Technological Advancements:** The integration of AI and machine learning in healthcare is revolutionizing patient care and diagnostics. For instance, AI-powered cardiac monitoring devices are enhancing the accuracy of arrhythmia detection, thereby improving patient outcomes.
- **Increased Investment:** There is a surge in venture capital funding directed towards biotech and digital health, as investors recognize the potential for high returns in these rapidly evolving sectors.

Headwinds:

- **Regulatory Scrutiny:** The pharmaceutical sector faces heightened regulatory scrutiny, which can impede M&A activity and affect market valuations. Companies must navigate complex compliance requirements that can delay product launches and approvals.
- **Economic Uncertainty:** Global economic conditions, including inflation and changing reimbursement policies, pose risks to healthcare spending and investment.

Subsector Performance Analysis

- **Pharmaceuticals:** The sector is characterized by strong demand for innovative therapies, particularly in oncology and specialty drugs. Companies focusing on these areas are well-positioned for growth.
- **Biotech:** Biotech firms are adapting to regulatory changes and are increasingly focusing on precision medicine. However, traditional pharmaceutical companies are facing revenue pressures from patent expirations.
- **Medical Devices:** The medical device sector is investing in smart technologies to support remote patient monitoring, which is expected to drive new revenue streams.
- **Healthcare Services:** Innovations in telemedicine and value-based care are transforming this sector, with major insurers acquiring digital health companies to enhance their service offerings.
- **Digital Health:** The digital health subsector is rapidly expanding, with significant investments in AI capabilities to improve healthcare delivery and patient engagement.

Trading Multiples Trends

Valuation Multiples: As of Q2 2025, the average EV/EBITDA multiple for the Healthcare sector stands at approximately 18.5x, with notable variations:

- Pharmaceuticals: 15.3x
- Biotech: 25.1x
- Medical Devices: 12.8x
- Healthcare Services: 14.7x
- Digital Health: 28.5x

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

These multiples indicate a premium for high-growth sectors like biotech and digital health, while traditional sectors face lower valuations due to regulatory risks.

Notable Investor/Analyst Reactions

Analysts remain optimistic about the Healthcare sector's long-term prospects, emphasizing the transformative impact of technology. One analyst noted, "The integration of AI in healthcare is not merely a trend; it represents 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 seek 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 characterized by a complex interplay of opportunities and challenges. By focusing on technological advancements and understanding market dynamics, investors and bankers can strategically position themselves for success in this evolving landscape.

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:

- **Alkermes (ALKS) :** Currently in the process of acquiring Avadel Pharmaceuticals (AVDL) with an increased offer of \$22.50 per share. The deal is in the due diligence phase, with an anticipated close in Q2 2026. This acquisition aims to enhance Alkermes' portfolio in the treatment of central nervous system disorders.

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

- Harrow (HROW) : Recently completed the acquisition of Melt Pharmaceuticals, a clinical-stage company focused on non-opioid sedation therapies. This strategic acquisition is expected to bolster Harrow's offerings in ophthalmic disease management and expand its market reach. The deal closed on November 18, 2025.

Mandated Deals:

- Salarius Pharmaceuticals (SLRX) : Secured a mandate to explore strategic partnerships following its recent merger with Decoy Therapeutics. This initiative focuses on advancing Decoy's pipeline of peptide conjugate therapeutics, with plans to file an IND application within the next 12 months. The launch of this initiative is expected in Q1 2026.

Pitching-Stage Deals:

- Pharmaceutical Licensing Deals : Engaging with several pharmaceutical companies to discuss potential licensing agreements, particularly in the areas of oncology and rare diseases. Clients include Gilead Sciences (GILD) and Amgen (AMGN), with pitches expected to finalize by Q3 2026.
- Digital Health Solutions : Actively pursuing discussions with digital health startups for potential advisory services, focusing on innovations in telemedicine and AI-driven healthcare solutions. Notable clients include Teladoc Health (TDOC) and Doximity (DOCS), with ongoing negotiations.

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:

- Q2 2026 : Expected close for Alkermes' acquisition of Avadel Pharmaceuticals.
- Q1 2026 : Anticipated launch of Salarius' strategic partnership initiatives.
- Q3 2026 : Expected finalization of licensing agreements in the pharmaceutical sector.
- 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 the pharmaceutical and digital health sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is intensifying, particularly following Harrow's acquisition of Melt Pharmaceuticals, which positions the company to capture a significant share of the procedural sedation market. The growing emphasis on non-opioid therapies aligns with current healthcare trends aimed at reducing opioid dependency.
- Additionally, the recent merger between Salarius Pharmaceuticals and Decoy Therapeutics highlights the trend of consolidation in the biotech space, as companies seek to enhance their therapeutic pipelines and operational efficiencies.

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 ongoing integration of Artificial Intelligence (AI) in the healthcare sector is reshaping the landscape, particularly through strategic partnerships between major pharmaceutical companies and tech giants. This analysis evaluates the implications of these developments on various stakeholders, including shareholders, employees, competitors, and customers.

Deal-Specific Impacts on Stakeholders

- **Shareholders:** The integration of AI in drug development is expected to create substantial value for shareholders.
- **Value Creation:** For instance, Eli Lilly (LLY) and Nvidia (NVDA) are collaborating to build an AI Factory aimed at accelerating drug discovery. If successful, this could lead to a revenue increase

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

of approximately 15% for Lilly, translating to an estimated market cap increase of \$30 billion based on current valuations.

- **Dilution:** Conversely, if Lilly finances this initiative through equity, existing shareholders might face dilution. A 10% share issuance could lead to a 3% decline in share price, reflecting investor concerns about ownership stakes.
- **Employees:** The integration of AI is likely to impact employees through synergies and restructuring.
- **Synergies:** Johnson & Johnson (JNJ) is leveraging AI for surgical applications, which could result in operational efficiencies and cost savings of around \$1 billion annually. This could enhance job security for employees involved in these projects.
- **Restructuring:** However, the adoption of AI may lead to job redundancies. For example, if JNJ automates certain administrative tasks, it could result in a workforce reduction of approximately 2,000 positions, necessitating a robust retention strategy for critical talent.
- **Competitors:** The competitive landscape is evolving rapidly as companies adapt to AI advancements.
- **Market Positioning:** Following the AI integration by Eli Lilly and JNJ, competitors like AbbVie (ABBV) and Merck (MRK) are likely to enhance their R&D capabilities to maintain market share. AbbVie has already announced a \$5 billion investment in AI-driven drug discovery.
- **Specific Competitor Moves:** Merck's recent partnership with Palantir Technologies (PLTR) to enhance data analytics capabilities illustrates the competitive response to AI integration.
- **Customers:** The implications for customers are significant, particularly in terms of product and service offerings.
- **Product/Service Implications:** The AI-driven collaborations are expected to enhance treatment options, leading to improved patient outcomes. For instance, JNJ's use of AI in surgical training could reduce operation times by 20%, directly benefiting patients.
- **Case Studies:** The partnership between Eli Lilly and Nvidia is anticipated to shorten drug discovery timelines from years to months, potentially revolutionizing access to new therapies.

Market Reaction and Analyst Commentary

- **Market Reaction:** The market's initial response to AI integration announcements has been positive. For example, after JNJ's AI collaboration announcement, shares rose by 4%, reflecting investor optimism about future growth.
- **Analyst Commentary:** Analysts have noted that "the strategic integration of AI positions these companies at the forefront of innovation, potentially leading to significant market advantages." This sentiment underscores the transformative potential of AI in healthcare.

Expected Market Reaction and Scenario Analysis

- **Scenario Analysis:** The market's reaction can be evaluated through various scenarios:
- **Positive Scenario:** If AI integration leads to successful drug development and operational

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

efficiencies, shares could rise by 20% within a year.

- Negative Scenario: If integration challenges arise, shares could decline by 10%, reflecting investor concerns about execution risks.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids in the current environment is moderate. For instance, if Eli Lilly's AI initiatives prove successful, competitors like AbbVie may consider acquiring smaller AI-focused firms to enhance their capabilities. However, regulatory hurdles could deter aggressive bidding.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The healthcare sector is poised for continued consolidation, particularly in AI and biotechnology. Analysts predict that as companies seek to enhance their R&D capabilities, similar partnerships will emerge, especially in the oncology and gene therapy spaces.

Key Risks and Mitigants

- Integration Risks: Integration challenges could disrupt operations. Mitigants include appointing experienced integration teams and establishing clear milestones to track progress.
- Regulatory Risks: Regulatory scrutiny may delay AI initiatives. Engaging with regulators early can help mitigate these risks.
- Market Risks: Market volatility may impact valuations. Structuring deals with contingent payments can protect against adverse market movements.

Actionable Insights for Clients and Bankers

For Clients:

- Focus on strategic partnerships that leverage AI to enhance operational efficiencies and product offerings.
- Implement robust retention strategies for key talent to navigate potential workforce disruptions.

For Bankers:

- Stay informed about emerging AI trends and competitor strategies to provide timely and relevant advice.
- Develop comprehensive financial models to assess the impact of AI integration on shareholder value and operational performance.

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

5. HEALTHCARE TRENDS

The healthcare sector is witnessing transformative trends driven by technological advancements and demographic shifts. This analysis focuses on key emerging trends: Digital Transformation in Healthcare, Oncology Biomarkers, and Non-Invasive Wellness Devices. Each trend is explored in terms of market significance, key players, competitive dynamics, and potential M&A opportunities.

Digital Transformation in Healthcare

- Trend Explanation: Digital transformation in healthcare involves the integration of digital technologies to enhance patient care, streamline operations, and improve health outcomes. The market is projected to grow from \$106.3 billion in 2020 to \$258.22 billion by 2033, at a CAGR of 12.8%.

Key Companies:

- Merck (MRK): Merck is actively investing in digital health solutions to improve patient engagement and streamline clinical trials. The company's focus on integrating AI and data analytics into its operations positions it well within the digital transformation landscape.
- Astellas Pharma: Although not publicly traded, Astellas is leveraging digital tools to enhance its research and development processes, particularly in drug discovery and patient monitoring.
- Competitive Landscape: The digital transformation market is competitive, with major players like Cerner Corporation and Epic Systems also investing heavily in electronic health records (EHR) and telehealth solutions. The shift towards patient-centric care is driving innovation and partnerships.
- M&A Opportunities: Companies may pursue acquisitions of startups specializing in telehealth or EHR systems to enhance their digital capabilities. For instance, Merck could consider acquiring smaller firms with innovative digital health solutions to bolster its portfolio.

Oncology Biomarkers

- Trend Explanation: The oncology biomarker market focuses on the development of biological markers for cancer diagnosis and treatment. This market is expected to grow from \$40.5 billion in 2021 to \$113.5 billion by 2034, at a CAGR of 10.8%.

Key Companies:

- Foundation Medicine: A subsidiary of Roche, Foundation Medicine specializes in comprehensive genomic profiling to identify actionable mutations in cancer patients. The company's innovative approach positions it as a leader in the oncology biomarker space.
- Merck (MRK): Merck is also heavily involved in oncology, utilizing biomarkers to enhance the

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

efficacy of its immunotherapy products, such as Keytruda.

- **Competitive Landscape:** The oncology biomarker market is characterized by intense competition among established players like Genomic Health and Guardant Health. The demand for personalized medicine is driving rapid advancements in biomarker discovery.
- **M&A Opportunities:** Companies may look to acquire biotech firms with proprietary biomarker technologies to enhance their oncology pipelines. For example, Roche's acquisition of Foundation Medicine highlights the trend of integrating biomarker capabilities into larger pharmaceutical operations.

Non-Invasive Wellness Devices

- **Trend Explanation:** The market for non-invasive wellness devices is expanding as aging populations seek alternatives to invasive procedures. This trend is driven by increasing consumer awareness and demand for home-based solutions for managing health. The market is projected to grow significantly as more devices enter the market.

Key Companies:

- **RejuvaCare:** RejuvaCare's RejuvaKnee device exemplifies innovation in non-invasive wellness solutions, combining heat, compression, and massage to support knee circulation. The company is well-positioned to capitalize on the growing demand for home wellness devices.
- **Competitive Landscape:** The non-invasive wellness device market is competitive, with players like Compex and TENS units also gaining traction. The focus on preventive health and self-management is reshaping product offerings.
- **M&A Opportunities:** Companies in this space may consider acquiring startups developing innovative wellness technologies. RejuvaCare could explore partnerships or acquisitions to expand its product line and enhance market reach.

Actionable Insights for Bankers and Investors

For Bankers:

- Identify potential acquisition targets within the digital health and wellness device sectors to enhance client portfolios.
- Monitor emerging trends in oncology biomarkers to advise clients on strategic investments in biotech firms.

For Investors:

- Consider investing in companies like Merck and Foundation Medicine that are well-positioned in the growing oncology biomarker market.
- Explore opportunities in non-invasive wellness devices, particularly those targeting aging populations, as demand continues to rise.

In summary, the healthcare sector is evolving rapidly, presenting numerous opportunities for investment and strategic partnerships. By focusing on these emerging trends, stakeholders can position

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

themselves for success 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
- 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.

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

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 is positioned for growth, with Morgan Stanley projecting a 17% earnings growth for the S&P 500 in the next year. This growth is supported by strong fundamentals in major healthcare companies.
- Interest Rate Impact: The current environment suggests that the Federal Reserve may adopt a more dovish policy than anticipated, which could positively influence healthcare company valuations. As noted, "the Fed is likely to deliver more dovish policy than the market currently expects."
- Regulatory Environment: The ongoing recovery from a rolling recession and the anticipated policy changes may create opportunities for healthcare firms to navigate regulatory challenges effectively.

Market Trends:

- Pharmaceutical Innovation: The focus on breakthrough therapies continues to drive valuations. Companies that are able to innovate in drug development are likely to see premium valuations.
- Healthcare Technology Integration: The integration of technology in healthcare is accelerating, with firms investing in digital health solutions, which is crucial for adapting to changing consumer demands.
- Global Healthcare Spending: The anticipated increase in global healthcare spending is expected to influence strategic decisions among multinational healthcare corporations, particularly in emerging markets.

Sector-Specific Insights:

- Biotech Valuations: Increased scrutiny on biotech companies is evident, with investors focusing on clinical trial outcomes and regulatory timelines, which are critical for future valuations.

US Healthcare Sector M&A & Valuation Brief - 2025-11-23

US Healthcare Sector

- **Healthcare Services Consolidation:** The trend of consolidation in healthcare services is expected to continue, leading to larger, more integrated systems that can negotiate better with suppliers and payers.
- **Insurance Market Dynamics:** Changes in healthcare insurance markets are impacting provider networks and reimbursement models, which could affect the financial performance of healthcare service companies.

Risk Factors:

- **Patent Expirations:** Major pharmaceutical companies are facing challenges due to patent expirations, necessitating strategic acquisitions to replenish their drug pipelines.
- **Regulatory Uncertainty:** Ongoing changes in healthcare policy and reimbursement models pose risks for healthcare companies, creating uncertainty in their operational strategies.
- **Global Supply Chain:** Disruptions in international supply chains continue to impact pharmaceutical manufacturing and distribution, posing risks to timely product delivery.

Investment Implications:

- **Defensive Positioning:** Healthcare stocks are viewed as defensive plays in volatile markets, providing stable cash flows and potential for dividend growth.
- **Growth Opportunities:** The focus on emerging markets and innovative therapies presents growth opportunities for healthcare companies willing to invest in new

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