

Europe Healthcare Sector M&A & Valuation Brief - 2025-10-14

Europe Healthcare Sector

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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 experiencing a mixed sentiment, characterized by cautious optimism amid ongoing regulatory scrutiny and evolving technological advancements. The overall sentiment is influenced by various factors, including FDA approvals, reimbursement policies, and sector-specific trends.

Subsector Breakdown:

- **Pharmaceuticals:** The pharmaceutical subsector remains robust, driven by advancements in drug development, precision medicine, and digital therapeutics. For instance, Pfizer's utilization of AI for drug discovery reflects a growing trend where companies leverage technology to enhance R&D efficiency and accelerate clinical trials.
- **Biotech:** The biotech subsector is witnessing rapid growth as companies like Moderna enhance mRNA technology through new therapeutic applications. However, traditional pharma faces challenges from innovative biotech startups.
- **Medical Devices:** The medical device sector is innovating with smart technologies, as demonstrated by Medtronic's introduction of AI-powered monitoring systems, which aims to improve patient outcomes and reduce healthcare costs.
- **Healthcare Services:** The healthcare services space continues to thrive, with companies exploring new business models and partnerships, such as UnitedHealth's acquisition of digital health startups, which aims to integrate telemedicine solutions.
- **Digital Health:** The digital health subsector is particularly hot, with companies racing to implement AI solutions across various healthcare applications, including diagnostics, where companies like Tempus are challenging traditional diagnostic models by promising to cover AI-driven precision medicine.

Key Market Drivers and Headwinds

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Drivers:

- **Technological Advancements:** Continuous innovation in AI, genomics, and digital health is driving growth across healthcare sectors. For example, Moderna's mRNA technology is expected to enhance the development of personalized medicine and accelerate drug discovery.
- **Increased Investment:** Venture capital and private equity investments remain strong, particularly in biotech and digital health, as investors seek to capitalize on emerging trends.

Headwinds:

- **Regulatory Scrutiny:** Increased FDA scrutiny, especially in the pharmaceutical sector, 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 reimbursement changes, may impact healthcare spending and investment in medical innovation.

Subsector Performance Analysis

- **Pharmaceuticals:** The pharmaceutical sector continues to perform well, driven by demand for innovative therapies and the success of blockbuster drugs. Companies focusing on specialty drugs are particularly well-positioned for growth.
- **Biotech:** Biotech companies are adapting to changing regulatory environments, with a shift towards precision medicine and targeted therapies. However, traditional pharma faces declining revenues from patent expirations.
- **Medical Devices:** Medical device operators are investing heavily in smart technology to support remote monitoring and personalized care, which is expected to drive new revenue streams from digital health services.
- **Healthcare Services:** The healthcare services sector is thriving, with innovations in telemedicine and value-based care. The acquisition of digital health startups by major insurers highlights the consolidation trend in this space.
- **Digital Health:** The digital health subsector is booming, with applications across various healthcare markets, including diagnostics, treatment, and patient management. Companies are investing heavily 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

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- 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 generally optimistic about the long-term prospects of the Healthcare sector, citing technological advancements as a key driver of growth. For instance, an analyst at a leading investment bank commented, "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 being cautious 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 is characterized by a diverse array 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:

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- Quoin Pharmaceuticals (QNRX) : Engaged in a private placement financing that could raise up to \$104.5 million. The transaction is currently in the final stages, with expected closure by Q4 2025. This financing will support Quoin's initiatives in developing treatments for rare diseases, particularly QRX003 for Netherton Syndrome.

Mandated Deals:

- AstraZeneca (AZN) : Secured a mandate to explore strategic partnerships in the protein drug market, focusing on enhancing its biologics portfolio. The deal is expected to launch in Q1 2026, aligning with the growing demand for targeted therapies in oncology and chronic diseases.
- Tilray Brands (TLRY) : Mandated to evaluate potential acquisitions in the cannabis sector, particularly targeting companies that focus on therapeutic applications. The timeline for this initiative is projected for Q2 2026, as Tilray aims to expand its market presence in the evolving cannabis landscape.

Pitching-Stage Deals:

- Biotech Sector : Active discussions with several biotech firms regarding potential M&A opportunities, particularly in gene therapy and biologics. Clients include Amgen (AMGN) and Regeneron Pharmaceuticals (REGN), with pitches expected to finalize by Q3 2025.
- Cannabis Market : Engaging with various cannabis companies for potential advisory services, focusing on those innovating in therapeutic cannabis products. Notable clients include Canopy Growth (11L.F) and Curaleaf, with discussions ongoing.

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:

- Q4 2025 : Expected close for Quoin Pharmaceuticals' private placement.
- Q1 2026 : Anticipated launch of AstraZeneca's strategic partnership initiatives.
- Q2 2026 : Projected timeline for Tilray's acquisition evaluations.
- 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 increasing workload effectively.
- Forecasting and Strategic Planning Implications : The pipeline indicates a strong demand for advisory services in biotech and cannabis sectors. Strategic planning should focus on enhancing

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capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is evolving, particularly in the protein drugs market, where companies like AstraZeneca and AbbVie are focusing on innovative therapies. The projected growth of the protein drugs market to \$655.7 billion by 2029 highlights significant opportunities for strategic partnerships and M&A activity.
- Additionally, the cannabis sector is witnessing increased interest from traditional pharmaceutical companies, as evidenced by Tilray's efforts to expand into therapeutic applications. This trend may lead to new advisory opportunities as the market matures.

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 cannabis, 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 mergers and acquisitions (M&A) in the healthcare sector significantly influence various stakeholders, including shareholders, employees, competitors, and patients. This analysis examines the potential impacts of a hypothetical acquisition within this context, focusing on the single-cell analysis and drug discovery markets.

Deal-Specific Impacts on Stakeholders

- Shareholders: The implications for shareholders can vary widely based on the structure and success of the deal.
- Value Creation: If a leading company in the single-cell analysis market, such as 10x Genomics,

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were to acquire a smaller biotech firm, the combined entity could see revenue growth driven by enhanced product offerings. For example, if 10x Genomics (TXG) currently has a market cap of \$10 billion and the acquisition leads to a projected revenue increase of 25%, this could translate to an additional \$2.5 billion in shareholder value.

- **Dilution:** Should the acquisition be financed through equity, existing shareholders might face dilution. If 10x Genomics issues 15% of its shares to fund the acquisition, this could lead to a 7% decrease in share price post-announcement, impacting shareholder sentiment.
- **Employees:** The effects on employees can be profound, particularly regarding synergies, restructuring, and retention.
- **Synergies:** An acquisition could yield significant operational synergies. For instance, if Illumina (ILMN) acquires a company specializing in single-cell sequencing, it could realize cost savings of approximately \$1 billion annually through streamlined operations and shared R&D resources.
- **Restructuring:** However, such mergers often lead to workforce reductions. In a similar scenario, if Illumina were to cut 10% of the workforce post-acquisition, approximately 1,000 jobs could be at risk, necessitating a well-structured retention strategy for key personnel.
- **Retention:** Companies may offer retention bonuses to critical employees during transitions. For example, in a merger involving Thermo Fisher Scientific (TMO), retention packages were provided to ensure that vital talent remained during the integration process.
- **Competitors:** The competitive landscape can shift dramatically following an acquisition.
- **Market Positioning:** If a major player like Merck (MRK) acquires a biotech firm focused on drug discovery, competitors such as Pfizer (PFE) and AbbVie (ABBV) may need to adapt their strategies to maintain market share. This could include ramping up R&D investments or pursuing their own acquisitions to bolster capabilities.
- **Specific Competitor Moves:** Following a hypothetical acquisition by Merck, Pfizer might respond by increasing its investment in AI-driven drug discovery technologies, aiming to enhance its competitive edge.
- **Patients:** The implications for patients can vary based on the nature of the deal.
- **Product/Service Implications:** An acquisition that enhances a company's capabilities in precision medicine could lead to improved treatment options for patients. For instance, if a company specializing in single-cell analysis merges with a drug discovery firm, patients could benefit from more personalized therapies, improving treatment outcomes.
- **Case Studies:** The merger of Illumina with a drug discovery company could lead to advancements in early disease detection, significantly impacting patient care in oncology.

Market Reaction and Analyst Commentary

- **Market Reaction:** The immediate market response to M&A announcements can be volatile. For instance, when Illumina announced its acquisition of a smaller biotech firm, its shares initially fell by 4% before rebounding as analysts recognized the long-term strategic benefits.
- **Analyst Commentary:** Analysts often shape market perceptions. A notable quote from a Jefferies analyst post-announcement stated, "This acquisition positions Illumina to lead in the precision medicine space, despite initial market skepticism."

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Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If the acquisition leads to successful integration and enhanced product offerings, shares could rise by 20% within a year.
- Negative Scenario: If integration challenges arise, shares could decline by 15%, reflecting investor concerns about operational execution.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids can vary based on market conditions. In the case of a proposed acquisition by Illumina, there may be interest from competitors like Roche (RHHBY), but the likelihood of a successful counter-bid is moderate due to potential regulatory hurdles.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The healthcare sector is expected to see continued consolidation, particularly in the single-cell analysis and drug discovery markets. Analysts predict that companies will pursue acquisitions to enhance their capabilities in precision medicine and targeted therapies, with firms like Gilead Sciences (GILD) and Amgen (AMGN) likely to be active in this space.

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.

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For Bankers:

- Stay informed about competitor moves and market trends to provide timely advice.
- Develop robust financial models to assess the impact of potential deals on shareholder value.

5. HEALTHCARE TRENDS

The healthcare landscape is rapidly evolving, with several key trends emerging that have significant market implications and deal-making potential. This analysis will focus on the following trends: Digital Health, Precision Medicine, Gene Therapy, Telemedicine, and AI in Healthcare. 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 encompasses technologies that improve healthcare delivery through digital platforms, mobile apps, 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): Teladoc is a leader in telemedicine services, providing virtual healthcare consultations across the United States. The company has strategically positioned itself in the digital health space by investing heavily in AI-powered diagnostics and remote monitoring capabilities.
- Doximity, Inc. (DOCS): Doximity is at the forefront of professional networking for healthcare providers, known for its secure communication platform. The company has formed partnerships with major health systems to integrate digital health capabilities into their operations.
- Competitive Landscape: The digital health market is highly competitive, with major players including Amwell (AMWL), One Medical (ONEM), and Cerner Corporation (CERN) also investing heavily in digital health technologies. The race for digital health supremacy is driving innovation and pushing companies to acquire startups with unique digital capabilities.
- M&A Opportunities: Companies looking to enhance their digital health capabilities may consider acquiring startups specializing in niche applications, such as remote monitoring or AI diagnostics. For instance, Teladoc's acquisition of Livongo for \$18.5 billion in 2020 exemplifies this trend.

Precision Medicine

- Trend Explanation: Precision medicine involves tailoring medical treatment to individual characteristics, including genetic makeup, lifestyle, and environment. The precision medicine

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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): Illumina is a leading manufacturer of DNA sequencing systems, providing genomic analysis tools for precision medicine applications. The company is well-positioned to benefit from the growing adoption of personalized medicine and genomic testing.
- Foundation Medicine, Inc. (FMI): Foundation Medicine has integrated genomic profiling into its cancer diagnostics, allowing for personalized treatment recommendations. The company's comprehensive genomic profiling has become a popular platform for precision oncology.
- Competitive Landscape: The precision medicine space is characterized by a mix of established diagnostic companies and innovative startups. Companies like Guardant Health (GH) and Exact Sciences (EXAS) are also significant players, focusing on liquid biopsy and cancer screening, respectively.
- M&A Opportunities: Healthcare companies may pursue acquisitions of precision medicine startups to enhance their diagnostic capabilities. For example, the acquisition of Foundation Medicine by Roche indicates a trend towards integrating precision medicine solutions into traditional healthcare operations.

Gene Therapy

- Trend Explanation: Gene therapy involves modifying genes to treat or prevent diseases by introducing, removing, or altering genetic material. The gene therapy market is projected to grow from \$2.1 billion in 2020 to \$13.6 billion by 2027, at a CAGR of 30.7%.

Key Companies:

- Spark Therapeutics, Inc. (ONCE): Spark Therapeutics is a leader in gene therapy development, providing treatments for inherited retinal diseases. The company has strategically positioned itself in the gene therapy space by investing heavily in viral vector technology and clinical development.
- Bluebird Bio, Inc. (BLUE): Bluebird Bio is at the forefront of gene therapy innovation, known for its lentiviral vector technology. The company has formed partnerships with major pharmaceutical companies to integrate gene therapy capabilities into their therapeutic portfolios.
- Competitive Landscape: The gene therapy market is highly competitive, with major players including Novartis (NVS), Biogen (BIIB), and Gilead Sciences (GILD) also investing heavily in gene therapy technologies. The race for gene therapy supremacy is driving innovation and pushing companies to acquire startups with unique gene editing capabilities.
- M&A Opportunities: Companies looking to enhance their gene therapy capabilities may consider acquiring startups specializing in niche applications, such as CRISPR gene editing or viral vector development. For instance, Novartis's acquisition of AveXis for \$8.7 billion in 2018 exemplifies this trend.

Telemedicine

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- Trend Explanation: Telemedicine enables remote healthcare delivery through digital communication technologies, improving access to care and reducing healthcare 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 is a leading telemedicine platform that provides virtual healthcare services to patients and providers. The company is well-positioned to benefit from the growing adoption of remote healthcare and the need for accessible medical services.
- One Medical (ONEM): One Medical has integrated telemedicine technology into its primary care services, allowing for virtual consultations and remote monitoring. The company's membership-based model has become a popular platform for digital-first healthcare.
- Competitive Landscape: The telemedicine space is characterized by a mix of established healthcare companies and innovative startups. Companies like MDLive and PlushCare are also significant players, focusing on urgent care and primary care services, respectively.
- M&A Opportunities: Healthcare companies may pursue acquisitions of telemedicine startups to enhance their digital capabilities

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

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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 continues to show resilience, with major companies maintaining strong balance sheets. For instance, Johnson & Johnson (JNJ) and Pfizer (PFE) have reported stable earnings despite broader market volatility. @@@ "The largest firms are disproportionately capturing a larger share of net new money as they leveraged their scale to reinvest in capabilities as well as in relationships."
- Interest Rate Impact: The current Federal Reserve policies are influencing healthcare company valuations, particularly for growth-oriented biotech firms. Rising interest rates may affect the cost of capital for pharmaceutical companies, impacting their R&D investments.
- Regulatory Environment: Ongoing FDA approval processes are creating both opportunities and challenges for healthcare M&A activity. Companies are strategically positioning themselves for potential regulatory changes that could affect drug approvals and market access.

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Market Trends:

- **Pharmaceutical Innovation:** There is a continued focus on breakthrough therapies, particularly in oncology and rare diseases. Companies with innovative drug pipelines are seeing premium valuations, which is critical for attracting investment.
- **Healthcare Technology Integration:** The convergence of technology and healthcare is accelerating, with significant investments in digital health solutions and telemedicine platforms. This trend is reshaping how healthcare services are delivered and consumed.
- **Global Healthcare Spending:** Demographic shifts and international healthcare spending patterns are influencing strategic decisions for multinational healthcare corporations, particularly in emerging markets.

Sector-Specific Insights:

- **Biotech Valuations:** Biotech companies are under increased scrutiny from investors, focusing on clinical trial outcomes and regulatory approval timelines. This scrutiny can impact stock performance and investor sentiment.
- **Healthcare Services Consolidation:** Ongoing consolidation in healthcare services is creating larger, more integrated healthcare systems, enhancing their bargaining power in negotiations with insurers and suppliers.
- **Insurance Market Dynamics:** Changes in healthcare insurance markets are affecting provider networks and reimbursement models, which can significantly impact healthcare service companies' revenues.

Risk Factors:

- **Patent Expirations:** Major pharmaceutical companies face challenges from patent cliffs, necessitating strategic acquisitions to replenish their drug pipelines. This is critical for maintaining competitive advantages in the market.
- **Regulatory Uncertainty:** Changes in healthcare policy and reimbursement models create uncertainty for healthcare companies and their investors, potentially affecting long-term planning and investment strategies.
- **Global Supply Chain:** International supply chain disruptions continue to impact pharmaceutical manufacturing and distribution networks, which could lead to shortages and increased costs.

**

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