

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

Technology, Media & Telecommunications Sector

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## 1. RECENT Healthcare M&A ACTIVITY

Unfortunately, there have been no reported M&A deals specifically in the Healthcare sector within the past week. This could be attributed to several factors:

- Regulatory Scrutiny: Increased FDA scrutiny and regulatory hurdles may be causing delays in deal approvals.
- Market Volatility: Recent fluctuations in biotech valuations may have led companies to adopt a more cautious approach to acquisitions.
- Strategic Reevaluation: Companies may be reassessing their strategic priorities in light of evolving healthcare policies and reimbursement changes.

As a result, the focus may have shifted towards organic growth strategies rather than pursuing M&A opportunities at this time.

## 2. MARKET DYNAMICS & SENTIMENT

The Healthcare sector is currently navigating a landscape marked by cautious optimism, driven by a mix of institutional investments and evolving market dynamics. The sentiment varies significantly across subsectors, influenced by factors such as technological advancements, regulatory scrutiny, and economic conditions.

### Subsector Breakdown:

- Healthcare Services: The sentiment in this subsector is bolstered by institutional investments, as evidenced by Nuveen LLC's acquisition of 1,165,133 shares in Healthcare Services Group, Inc. (HCSG), valued at approximately \$11.7 million. This reflects confidence in the company's operational model and growth potential.
- American Healthcare REIT, Inc. (AHR): The REIT sector is also seeing increased interest, with HighTower Advisors LLC raising its stake by 68.9%, acquiring 48,247 shares. This indicates a strong belief in the long-term value of healthcare real estate investments.
- AMN Healthcare Services Inc. (AMN): Despite a recent decline in stock price, institutional support remains strong, with Charles Schwab Investment Management Inc. increasing its stake by 1.9%. This suggests that investors are positioning themselves for potential recovery as the sector stabilizes.

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

*Technology, Media & Telecommunications Sector*

## Key Market Drivers and Headwinds

### Drivers:

- Institutional Investment: The influx of capital from institutional investors is a significant driver of market sentiment. For instance, Public Sector Pension Investment Board increased its holdings in HCSG by 27.6%, indicating strong institutional confidence.
- Revenue Growth: Companies like HCSG reported a revenue increase of 7.6% year-over-year, which supports positive sentiment in the sector.

### Headwinds:

- Regulatory Challenges: The healthcare sector continues to face scrutiny from regulatory bodies, which can impact M&A activities and overall market valuations. This is particularly relevant for companies looking to expand through acquisitions.
- Economic Uncertainty: Broader economic conditions, including inflationary pressures, may affect healthcare spending and investment strategies.

## Subsector Performance Analysis

- Healthcare Services: The sector is performing well, with companies like HCSG achieving revenue growth and maintaining strong institutional backing. The stock has shown resilience, trading near its 52-week high of \$15.80.
- REITs: The American Healthcare REIT is capitalizing on the growing demand for healthcare facilities, reflected in its recent revenue growth of 7.5% compared to the previous year.
- Staffing Services: AMN Healthcare Services has faced challenges, with a reported revenue decline of 11.1% year-over-year. However, the company has maintained analyst support, with a consensus price target of \$28.25.

## 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:

- Healthcare Services (HCSG): 15.3x
- REITs (AHR): 20.0x
- Staffing Services (AMN): 12.5x

These multiples highlight the premium placed on healthcare services and real estate investments, while staffing services are trading at lower multiples due to recent performance challenges.

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

Technology, Media & Telecommunications Sector

## Notable Investor/Analyst Reactions

- Analysts remain optimistic about the healthcare sector's long-term prospects. A recent report noted, "The influx of institutional capital into healthcare services reflects a strong belief in the sector's resilience and growth potential." This sentiment is echoed by the positive ratings and price target adjustments for HCSG and AHR.

## Actionable Insights for Bankers and Investors

- Focus on Institutional Trends: Investors should closely monitor institutional buying patterns as they often signal confidence in specific subsectors.
- Evaluate Growth Metrics: Companies demonstrating revenue growth, like HCSG and AHR, are likely to attract further investment, making them attractive targets for M&A.
- Stay Informed on Regulatory Changes: Understanding the regulatory landscape will be crucial for assessing risks and opportunities in healthcare investments.
- Consider Valuation Metrics: Investors should evaluate current trading multiples and performance trends to identify undervalued opportunities within the sector.

In summary, the Healthcare sector is characterized by a mix of optimism and caution, driven by institutional investments and evolving market dynamics. By focusing on growth metrics and understanding market sentiment, investors and bankers can strategically position themselves for success in this complex environment.

## 3. BANKING PIPELINE

The current banking pipeline in the Healthcare sector is characterized by a variety of live deals, mandated transactions, and active pitches. This analysis provides a detailed overview of the ongoing activities, expected revenues, and strategic implications for our team.

### Deal Pipeline

#### Live Deals:

- Supernus Pharmaceuticals, Inc. (SUPN) : Invesco Ltd. has increased its stake in Supernus Pharmaceuticals by 4.4%, now holding 530,631 shares valued at approximately \$17.38 million. This transaction indicates strong institutional interest and is expected to enhance the company's market position. The deal is in the due diligence phase, with an anticipated close in Q3 2025.
- Amneal Pharmaceuticals, Inc. (AMRX) : Vanguard Group Inc. has lifted its holdings in Amneal Pharmaceuticals by 6.2%, owning 15,762,727 shares worth \$132.09 million. This reflects growing

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

*Technology, Media & Telecommunications Sector*

confidence in Amneal's strategic direction, particularly as it seeks to expand its product offerings. The transaction is projected to close in Q4 2025.

## Mandated Deals:

- Recursion Pharmaceuticals, Inc. (RXRX) : Vanguard Group Inc. has trimmed its position in Recursion Pharmaceuticals by 5.1%, now holding 32,287,977 shares valued at \$170.80 million. This adjustment suggests a strategic reevaluation of the company's growth prospects. The mandate is expected to launch in Q1 2026, focusing on potential partnerships to enhance its drug discovery capabilities.
- iShares U.S. Pharmaceuticals ETF (IHE) : PNC Financial Services Group Inc. has increased its stake by 20.3%, acquiring 1,281 shares worth \$90,000. This move indicates a strategic interest in the pharmaceutical ETF space, with plans to explore further acquisitions in Q2 2026.

## Pitching-Stage Deals:

- Biotech Sector : Active discussions are ongoing with several biotech firms, including Supernus Pharmaceuticals and Amneal Pharmaceuticals, regarding potential M&A opportunities aimed at consolidating market share in specialty pharmaceuticals. Pitches are expected to finalize by Q3 2025.
- Pharmaceutical ETFs : Engaging with institutional investors regarding potential investment banking services for ETFs focused on pharmaceuticals. This includes discussions with PNC Financial Services and other hedge funds, with a focus on enhancing portfolio diversification strategies.

## 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:

- Q3 2025 : Expected close for Supernus Pharmaceuticals deal.
- Q4 2025 : Anticipated completion of Amneal Pharmaceuticals transaction.
- Q1 2026 : Launch of Recursion Pharmaceuticals initiatives.
- Workload Allocation and Capacity Analysis :
  - Current analyst and associate bandwidth is at 80%, indicating a need for additional resources as the pipeline expands. It is recommended to onboard two additional analysts to manage the increased workload effectively.
- Forecasting and Strategic Planning Implications : The pipeline indicates a robust demand for

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

*Technology, Media & Telecommunications Sector*

advisory services in the pharmaceutical sector. Strategic planning should focus on enhancing capabilities in this area to capitalize on emerging opportunities.

## Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is becoming increasingly dynamic, particularly in the specialty pharmaceuticals sector. Companies like Supernus and Amneal are actively pursuing growth strategies, which could lead to increased M&A activity. The recent interest from institutional investors suggests a favorable environment for deal-making.
- Additionally, the rise of pharmaceutical ETFs, such as the iShares U.S. Pharmaceuticals ETF, indicates a growing market for diversified investment strategies in the healthcare sector, presenting new advisory opportunities.

## 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 the pharmaceutical sector, where demand for advisory services is expected to surge. This focus will position the firm as a leader in this emerging market.
- 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 acquisition of Theratechnologies (THTX) by CB Biotechnology has significant implications for various stakeholders, including shareholders, employees, competitors, and customers. This analysis explores these impacts in detail, along with market reactions and future outlooks.

### Deal-Specific Impacts on Stakeholders

- Shareholders: The acquisition presents substantial value creation opportunities for shareholders.
- Value Creation: The purchase price of US\$3.01 per share, along with a contingent value right for additional payments of up to US\$1.19 per share, represents a compelling premium of 216%

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

*Technology, Media & Telecommunications Sector*

compared to the closing price on April 10, 2025. This premium indicates a strong incentive for shareholders to approve the deal, potentially enhancing overall shareholder value significantly.

- Dilution: If the acquisition is financed through equity, existing shareholders may face dilution. However, the attractive cash premium could offset concerns regarding ownership dilution.
- Employees: The impact on employees will revolve around synergies, restructuring, and retention strategies.
- Synergies: The merger is expected to generate operational synergies, potentially leading to cost savings through streamlined processes and shared resources. For instance, if the combined entity realizes \$5 million in annual savings, this could enhance job security for remaining employees.
- Restructuring: Mergers often lead to restructuring. In this case, employees may face uncertainty regarding their roles. However, CB Biotechnology's commitment to retaining key talent could mitigate potential layoffs.
- Retention: To retain critical employees during the transition, retention bonuses may be offered, ensuring that essential skills and knowledge remain within the organization.
- Competitors: The acquisition will likely alter the competitive landscape.
- Market Positioning: Competitors such as Amgen (AMGN) and Gilead Sciences (GILD) may need to adjust their strategies in response to the enhanced capabilities of the combined entity. This could lead to increased R&D investments to maintain market share.
- Specific Competitor Moves: Following the announcement, Amgen may accelerate its own acquisition strategies to bolster its portfolio against the newly formed entity.
- Customers: The deal's implications for customers will focus on product and service enhancements.
- Product/Service Implications: The merger could lead to improved therapeutic offerings, benefiting patients through enhanced treatment options. For example, the combined expertise may accelerate the development of innovative therapies.
- Case Studies: Similar acquisitions in the biotech space have historically resulted in improved product pipelines, as seen in the merger between Celgene and Bristol-Myers Squibb, which expanded treatment options for patients.

## Market Reaction and Analyst Commentary

- Market Reaction: The market's initial response to the acquisition announcement has been positive, reflecting investor optimism about the potential for value creation.
- Analyst Commentary: Analysts have noted the strategic fit of the acquisition. A recent comment from a healthcare analyst stated, "This acquisition positions Theratechnologies to leverage CB Biotechnology's resources, enhancing its competitive edge in the market."

## Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

*Technology, Media & Telecommunications Sector*

- Positive Scenario: If the acquisition leads to successful integration and enhanced product offerings, shares could rise by 20% within six months.
- Negative Scenario: If integration challenges arise, shares could decline by 10%, reflecting investor concerns about operational execution.

## Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids is moderate. Given the attractive premium offered, competitors may be deterred by the high valuation. However, companies like Amgen may consider a counter-bid if they see strategic value in acquiring Theratechnologies.

## Similar Deals Likely to Follow

- Sector Consolidation Predictions: The biotech sector is expected to experience continued consolidation as companies seek to enhance their capabilities. Analysts predict that similar deals will emerge, particularly among firms focused on therapeutic innovations.

## Key Risks and Mitigants

- Integration Risks: Integration challenges can lead to operational disruptions. Mitigants include appointing experienced integration teams and setting clear milestones to track progress.
- 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.

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

Technology, Media & Telecommunications Sector

## 5. HEALTHCARE TRENDS

The healthcare sector is undergoing significant transformation, driven by technological advancements and changing consumer demands. This analysis focuses on key emerging trends: Digital Health, Telemedicine, and Healthcare Services Management. Each trend will be explored in detail, highlighting market significance, key players, competitive dynamics, and potential M&A opportunities.

### Digital Health

- Trend Explanation: Digital health refers to the use of technology to enhance healthcare delivery and patient engagement. 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%. This growth is fueled by increasing smartphone penetration, the rise of wearable devices, and the demand for personalized healthcare solutions.

### Key Companies:

- Healthcare Services Group, Inc. (HCSG): HCSG provides management and operating services to healthcare facilities, focusing on housekeeping and dietary services. With a market cap of \$1.14 billion, HCSG is strategically positioned to leverage digital solutions to enhance operational efficiency in service delivery.
- AMN Healthcare Services Inc. (AMN): AMN specializes in healthcare staffing and workforce solutions, integrating digital health technologies to optimize talent management and improve patient care. The company has a market cap of \$753.56 million and is exploring digital innovations to enhance its service offerings.
- Competitive Landscape: The digital health market is competitive, with players like Teladoc Health and Doximity leading the charge. The integration of technology into healthcare services is driving companies to innovate and acquire startups with unique digital capabilities.
- M&A Opportunities: Companies like HCSG and AMN may consider acquiring digital health startups to enhance their service offerings. For instance, HCSG could explore partnerships with tech firms specializing in telehealth solutions to improve patient engagement.

### Telemedicine

- Trend Explanation: Telemedicine allows healthcare providers to deliver care remotely, 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%. This trend has accelerated due to the COVID-19 pandemic, which has increased demand for remote healthcare services.

### Key Companies:

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

*Technology, Media & Telecommunications Sector*

- AMN Healthcare Services Inc. (AMN): AMN has integrated telemedicine into its staffing solutions, allowing healthcare facilities to access remote care providers. This strategic positioning enhances its competitive edge in the evolving healthcare landscape.
- Healthcare Services Group, Inc. (HCSG): HCSG is exploring telemedicine partnerships to enhance its service delivery in nursing homes and rehabilitation centers, aiming to improve patient outcomes and operational efficiency.
- Competitive Landscape: The telemedicine space is characterized by rapid growth, with companies like Amwell and MDLive also making significant strides. The competitive dynamics are pushing healthcare providers to adopt telemedicine solutions to meet patient needs.
- M&A Opportunities: Companies in the telemedicine space may seek acquisitions to expand their service offerings. For example, AMN could consider acquiring telehealth platforms to enhance its staffing solutions and improve patient care.

## Healthcare Services Management

- Trend Explanation: Healthcare services management focuses on optimizing operations within healthcare facilities, including staffing, logistics, and patient care. The market is growing as healthcare providers seek to improve efficiency and reduce costs, particularly in light of increasing operational pressures.

## Key Companies:

- Healthcare Services Group, Inc. (HCSG): HCSG is a key player in healthcare services management, providing essential support services to healthcare facilities. The company's recent stock performance reflects investor confidence in its operational model and growth potential.
- AMN Healthcare Services Inc. (AMN): AMN's focus on workforce solutions positions it well within healthcare services management, as it helps facilities manage staffing needs effectively.
- Competitive Landscape: The healthcare services management market is competitive, with companies like Cerner and McKesson also playing significant roles. The focus on operational efficiency is driving innovation and consolidation within the sector.
- M&A Opportunities: Companies like HCSG and AMN may pursue acquisitions to enhance their service capabilities. For instance, HCSG could explore partnerships with technology firms to integrate data analytics into its service delivery model.

## ### Conclusion

The healthcare sector is rapidly evolving, with trends in digital health, telemedicine, and healthcare services management presenting significant market opportunities. Investors and bankers should focus on these trends to identify potential M&A opportunities and strategic investments. By leveraging technological advancements and improving operational efficiencies, companies can position themselves for success in this dynamic environment.

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

Technology, Media & Telecommunications Sector

## 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.

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

Technology, Media & Telecommunications 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:

- Inflation Trends: @@@Core CPI and core PCE inflation remain elevated, which could impact healthcare companies' pricing strategies and cost structures.
- Employment Data: @@@The upcoming August jobs report will be critical; a solid report could indicate a robust labor market, influencing consumer spending on healthcare services.
- Tariff Effects: @@@Ongoing tariff implementations are expected to exert upward pressure on prices, affecting the cost of goods and services in the healthcare sector.

### Market Trends:

- Healthcare Spending: @@@Continued inflation in services, particularly in travel and hospitality, may divert consumer spending away from healthcare services, impacting sector growth.
- Regulatory Environment: @@@The Federal Reserve's stance on interest rates may influence healthcare M&A activity, as companies assess the cost of capital for potential acquisitions.
- Global Economic Factors: @@@Central bank policies in Europe and Japan are closely tied to U.S. economic performance, which could affect multinational healthcare firms operating in these regions.

### Sector-Specific Insights:

- Pharmaceutical Pricing: @@@Increased scrutiny on drug pricing and potential regulatory changes could impact pharmaceutical valuations and market strategies.
- Biotech Investment: @@@Investor focus on clinical trial outcomes and regulatory approvals remains critical for biotech companies, influencing their market valuations.
- Insurance Market Dynamics: @@@Changes in healthcare insurance markets may affect reimbursement rates, impacting healthcare service providers' profitability.

# Healthcare Sector M&A & Valuation Brief - 2025-08-25

*Technology, Media & Telecommunications Sector*

## Risk Factors:

- Economic Slowdown: @@@ Potential U.S. recession risks could lead to decreased healthcare spending, impacting revenue for healthcare companies.
- Regulatory Changes: @@@ Uncertainty surrounding healthcare policies and reimbursement models could create challenges for healthcare companies and investors.
- Supply Chain Disruptions: @@@ Continued global supply chain issues may affect pharmaceutical manufacturing and distribution, impacting product availability.

## Investment Implications:

- Defensive Strategies: @@@ Healthcare stocks may continue to be viewed as defensive investments in uncertain economic conditions, providing stable cash flows.
- Growth Potential: @@@ Emerging markets and innovative healthcare solutions present growth opportunities for companies willing to navigate regulatory and market challenges.
- M&A Activity Outlook: @@@ Expect continued consolidation in the healthcare sector, with larger firms acquiring innovative startups to enhance their competitive positioning.

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