



Smart optimism to smart diligence:

**Seeing over the
horizon of a new
deal market**

2025 Healthcare
and Life Sciences
Investment Outlook

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Executive summary

Welcome to the KPMG 2025 Healthcare and Life Sciences Investment Outlook. This in-depth examination of the healthcare and life sciences (HCLS) deal market explores how the major developments of 2024 have prepared the way for the year ahead. In this paper, we analyze how eight subsectors fared during another year of industry challenges and global instability, and how deal activity and market drivers could shape the 2025 investment landscape.

The insights of this report are based on extensive global research into the deal and market environments, as well as our annual survey of corporate and private equity (PE) dealmakers across these subsectors. Crucial to creating this report is the extensive knowledge and experience of our HCLS leaders, who work with our clients on their most pressing deals, strategy, and transformations worldwide.

The macroeconomic climate improved last year, seemingly setting the stage for a more productive HCLS marketplace. Inflation declined, leading to an anticipation of interest rate cuts by the US Federal Reserve that then began with a large, 50-basis-point reduction in September. Consumers continued to spend, unemployment remained low, and the US avoided the recession that many economists had forecast.

Some HCLS subsectors did show signs of returning to the more robust levels of mergers and acquisitions (M&A) seen earlier in the decade. Corporate acquisitions in biopharma rose at the end of 2023 and the beginning of 2024, although those numbers leveled off again later in the year. In hospitals and health systems, 2024's third quarter brought the highest number of deals announced or closed in more than three years. Yet overall deal volumes for the year declined from 2023 levels, with strategic and financial life sciences transactions dropping from 991 to 898, and healthcare deals falling from 932 to 845 (Exhibit 1). (All

2024 deal data is year to date as of December 19, 2024.) The fourth quarter was relatively quiet for announced deals in both life sciences and healthcare (Exhibit 2). Yet strategic investments in life sciences strengthened for most subsectors, with deal levels remaining flat or rising from the previous year's levels in biopharma, life sciences tools and diagnostics, and biopharma services (Exhibit 3 and Exhibit 4). Healthcare transactions by strategic investors increased for hospitals and health systems, while dropping in the other subsectors (Exhibit 5 and Exhibit 6).

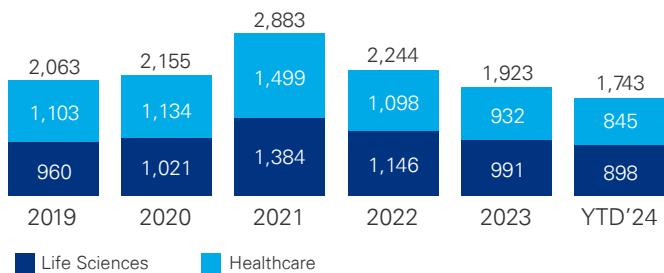
Transformations in many subsectors led to transactions throughout the year. Many hospitals continue to operate at a loss in the postpandemic environment, and large health systems in unfavorable markets and many smaller hospitals and health systems attracted the attention of stronger institutions looking for economies of scale and pricing power with vendors and payers. In healthcare services, drug distributors, PE investors, and other large organizations continued to seek physician practices, although the pace of acquisitions has slowed. Portfolio reviews by healthcare payers have led some to decide to focus on commercial insurance or Medicare Advantage instead of on both. Healthcare information technology (HCIT) remained a priority for many strategic buyers and PE firms.

Biotechnology companies with promising early- or late-stage therapies continued to be targets for acquisitions and strategic partnerships in biopharma as large companies bolstered pipelines to replace high-revenue drugs soon to lose patent protection. Some biopharma services companies increased their capabilities in digitalization and advanced technology by purchasing eClinical specialists, while the success of artificial intelligence (AI)-enabled medical devices, particularly in radiology, fueled M&A. In life sciences tools and diagnostics, companies made numerous acquisitions to position themselves for a postgenomic era of advanced diagnostic capabilities.

Donald Trump's victory in the presidential election brought both hope and uncertainty to HCLS dealmakers, who looked forward to reduced regulation and possible tax reductions while wondering about the impact of increased tariffs and how the president-elect's choices for key healthcare positions might impact their businesses. The future of the Inflation Reduction Act (IRA) and future negotiation of Medicare drug prices are other question marks.

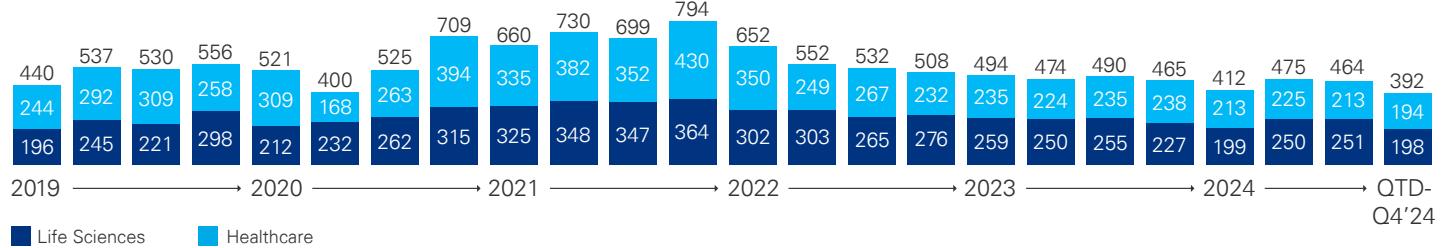
Yet as the end of the year approached, most HCLS leaders continued to anticipate an improving environment for dealmaking in the year ahead, as remarkable and widespread innovation transforms their industries.

Exhibit 1. Healthcare and life sciences deals dip slightly



Notes: Biopharma data sourced from Informa and Pitchbook while all other LS subsectors' data has been sourced from Capital IQ, Refinitiv, Informa, and Pitchbook; HC data has been sourced from Capital IQ, Refinitiv, and Pitchbook; YTD'24 as of December 19, 2024
Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; Pitchbook; Informa; all accessed in December 2024

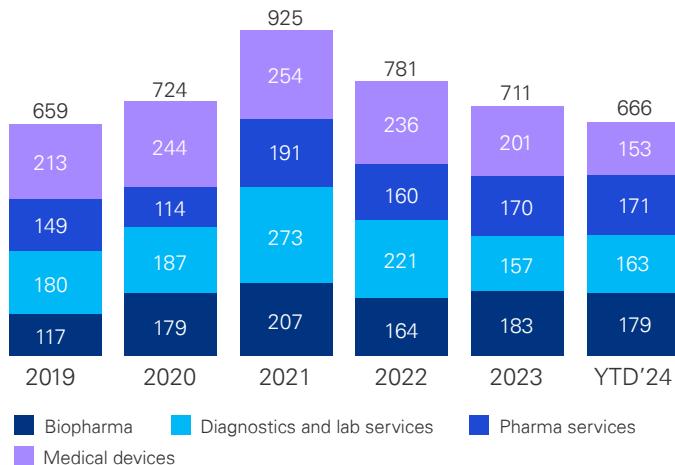
Exhibit 2. Healthcare and life sciences deal volume



Notes: Biopharma data sourced from Informa and Pitchbook while all other LS subsectors' data has been sourced from Capital IQ, Refinitiv, Informa, and Pitchbook; HC data has been sourced from Capital IQ, Refinitiv, and Pitchbook; YTD'24 as of December 19, 2024

Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; Pitchbook; Informa; all accessed in December 2024

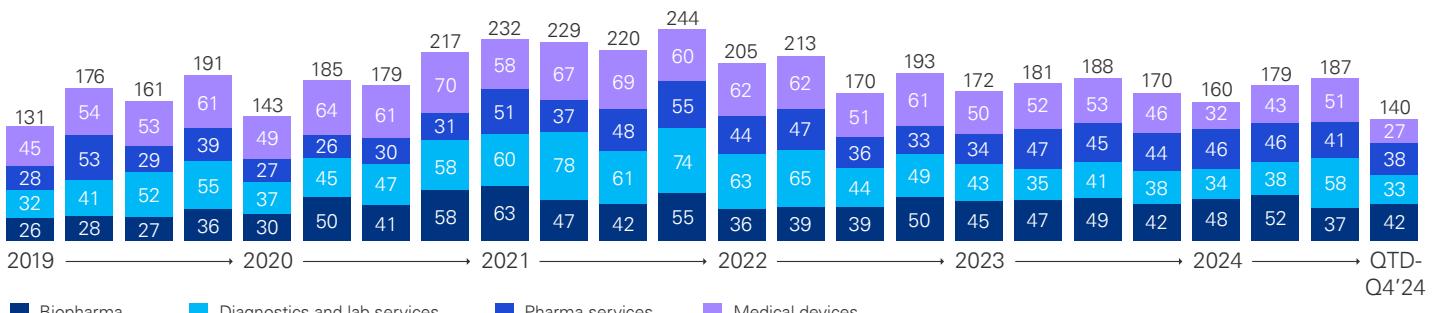
Exhibit 3: Life sciences strategic investments, 2019-2024



Notes: Data for biopharma subsector sourced from Informa and Pitchbook while all other LS subsectors' data has been sourced from Capital IQ and Pitchbook; Biopharma subsector excludes deals pertaining to cannabis and hemp as well as distributors/suppliers of drugs; Diagnostics subsector includes companies that are manufacturers of diagnostics equipment, and LS tools, as well as lab services providers; Companies that are CRO, CMO, or CDMO (support services) for medical device companies have been excluded from our analysis; Pharma services include CROs, CMOs, CDMOs as well as companies that provide commercialization, consulting, advertising services, and other services on contractual basis; YTD'24 as of December 19, 2024

Sources: Capital IQ, a division of Standard and Poor's; Informa; Refinitiv; Pitchbook; all accessed in December 2024

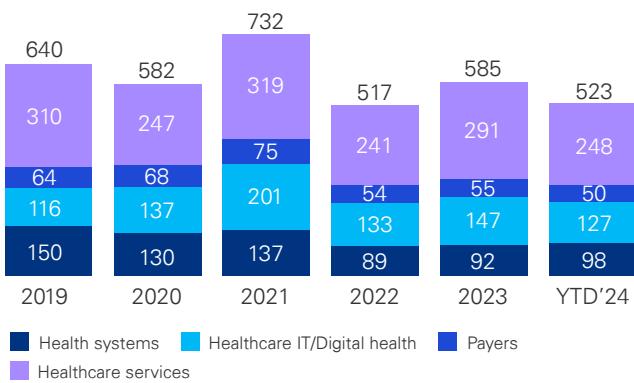
Exhibit 4: Life sciences strategic investments by quarter, 2019-2024



Notes: Data for biopharma subsector sourced from Informa and Pitchbook while all other LS subsectors' data has been sourced from Capital IQ and Pitchbook; Biopharma subsector excludes deals pertaining to cannabis and hemp as well as distributors/suppliers of drugs; Diagnostics subsector includes companies that are manufacturers of diagnostics equipment, and LS tools, as well as lab services providers; Companies that are CRO, CMO, or CDMO (support services) for medical device companies have been excluded from our analysis; Pharma services include CROs, CMOs, CDMOs as well as companies that provide commercialization, consulting, advertising services and other services on contractual basis; YTD'2024 as of December 19, 2024

Sources: Capital IQ, a division of Standard and Poor's; Informa; Refinitiv; Pitchbook; all accessed in December 2024

Exhibit 5: Healthcare strategic investments, 2019-2024

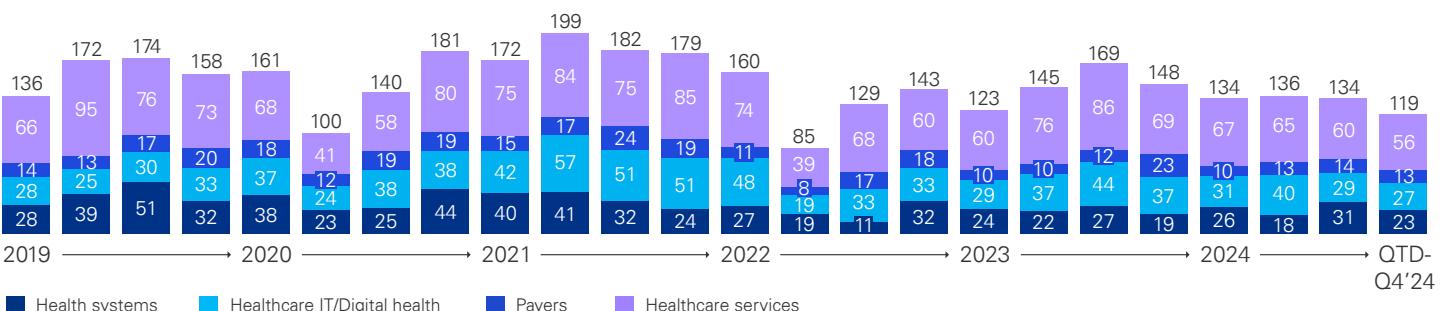


Notes: Data has been sourced from Capital IQ and Refinitiv; Strategic investments include deals undertaken by a public/private company with no major PE backing; Includes deals with only US-based targets; YTD'24 as of December 19, 2024

Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; all accessed in December 2024



Exhibit 6: Healthcare strategic investments by quarter, 2019-2024



Notes: Data has been sourced from Capital IQ and Refinitiv; Strategic investments include deals undertaken by a public/private company with no major PE backing; Includes deals with only US-based targets; YTD'24 as of December 19, 2024

Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; all accessed in December 2024

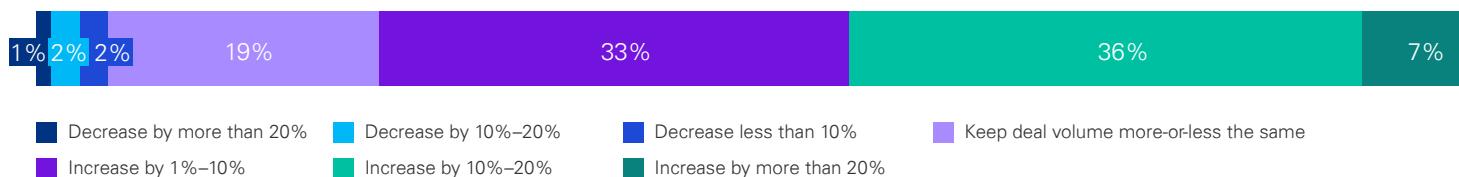
The year ahead

With the hope of better economic conditions as well as reduced headwinds for many subsectors, respondents to our survey said they are looking forward to increased M&A in 2025. Seventy-six percent responded that they expected more deals in the year ahead than in 2024, with 43 percent predicting deal volume would grow by at least 10 percent. Just 5 percent foresaw a decrease in the number of

transactions. Yet buyers are likely to face higher industry valuations. Sixty-two percent of respondents predicted an increase in valuations, while 23 percent expected valuations to remain flat (Exhibit 7). We think this outlook makes sense, with rising motivations to make deals likely spurring competition for a decreasing number of desirable assets.

Exhibit 7: Deal volumes are expected to grow while valuations also rise

Q: What magnitude does your firm plan to increase or decrease M&A deal activity for 2025 compared to 2024, as measured by number of transactions?



Q: To what extent do you believe valuations in your industry will change from 2024 to 2025?



Note(s): Sum of percentages may not add up to 100 due to rounding off; Options changed across years but the question remained same

Source: KPMG HCLS Investment Survey, November 2024

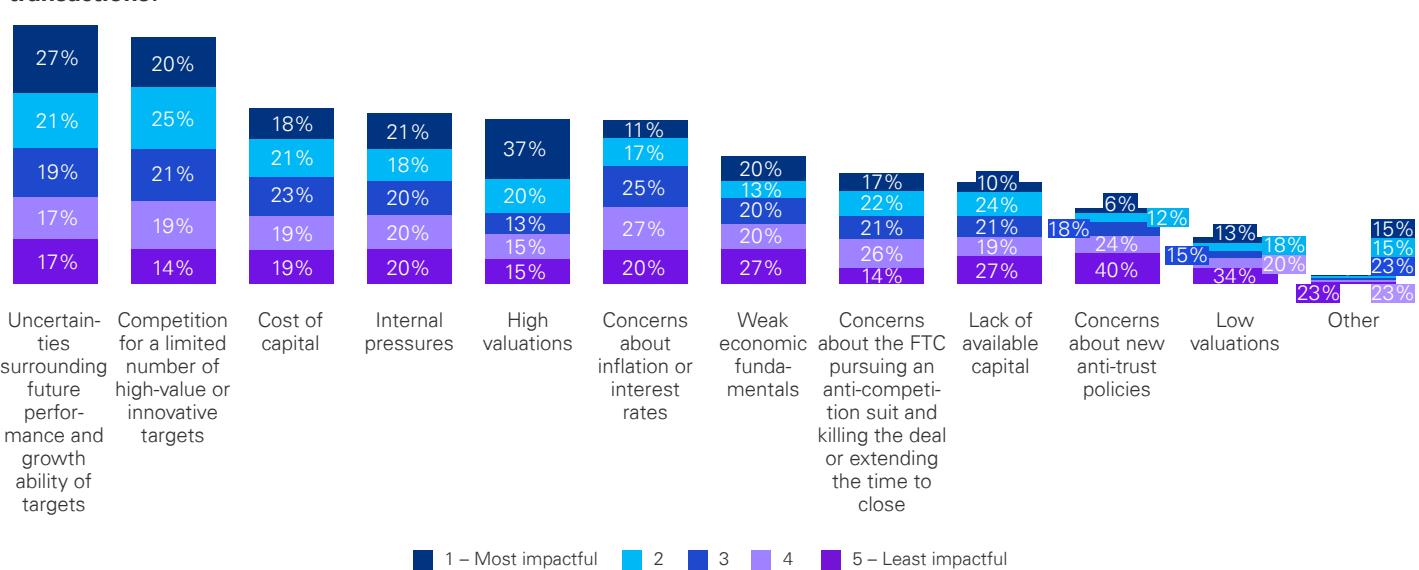


What could cloud the outlook for the year ahead? Survey respondents focused on the impact of those increased valuations and competition for high-value assets as well as uncertainties about the future performance of target companies and the still-high cost of capital (Exhibit 8). In sum, the smart optimism we saw in 2024 is holding steady, but now paired with realistic smart diligence. As we highlight, deals will be more competitive, wallets will

be tighter, synergies will need to be realized, and realized in a short timeline. The diligence and preparation done in every deal is critical to its success, and even areas like integration diligence or IT transformation, which may have been holdouts in previous years, cannot wait. In the months ahead, we will continue to uncover the trends driving M&A across HCLS and bring you quarterly updates on these evolving industries.

Exhibit 8: Headwinds that could impact deal activity in 2025

Q: What have been the most significant factors impacting your firm's M&A deal activity in 2024, as measured by number of transactions?



Note(s): Sum of percentages may not add up to 100 due to rounding off; Options changed across years but the question remained same; Bar height indicates the total number of respondents who answered the question.

Source: KPMG HCLS Investment Survey, November 2024



Subsector analyses

Subsector overview highlights



Biopharma

- The pharmaceutical industry is on the clock to refill pipelines with innovative therapies as a patent cliff for many blockbusters approaches. That search, potentially aided by AI's increasing role in drug discovery and development, has been complicated by economic headwinds for smaller biotechs, which could find firmer footing if interest rates continue to drop. Advanced therapeutics for precision medicine, particularly in oncology, remain a primary focus, leading to many of the largest recent acquisitions and partnerships. The success of GLP-1s for diabetes and weight loss is also having a broad impact, spurring clinical trials for additional indications and reviving interest in drugs that might be used by broad populations. The profound impact of the IRA on pharma company strategies and direction continues to be assessed, and with the next round of choices for Medicare drug price negotiation due this coming February, the incoming Trump administration's support for the IRA will face an early test. If uncertainty eases as 2025 progresses, the pace of dealmaking could pick up. (12)

Life sciences tools and diagnostics

- During 2024, this subsector continued its post-COVID-19 repositioning in the face of slowing growth in China, reduced public and private funding, and new regulatory initiatives. Core lab testing expanded into genetics and other advanced diagnostic categories as leading testing companies made deals to broaden and deepen their capabilities. Advances in AI-based diagnostics and digital pathology have led to the development of a growing range of algorithms and biomarkers for many cancers and other diseases in a postgenomic era that's potential is only beginning to be tapped. An improvement in macroeconomics conditions could help spur revived M&A in 2025. (20)

Medical devices

- Dealmaking in this subsector remained sluggish in 2024. Yet there were multiple large transactions as companies looked to shape their portfolios in cardiology and other key therapeutic categories. AI-enabled products and services, especially in radiology, also figured in numerous acquisitions and partnerships. Other trends involved further innovation in diabetes care and medical decision support, and renewed demand for elective procedures by an aging population has been a tailwind. M&A could rebound in 2025 as companies make moves to improve product lines, increase market share in innovative categories, and focus on high-demand, high-margin areas. (25)

Biopharma services

- Despite some headwinds, broad outsourcing of clinical trials, drug development, manufacturing, and commercialization to biopharma services companies continued in 2024, and transactions by both strategic and financial investors remained above prepandemic levels. Chinese companies subject to a potential ban from US markets have shown an interest in selling assets in the US and Europe. AI tools for clinical trials are an increasing focus, and there were several acquisitions of key eClinical assets. Questions about the priorities of the new Trump administration regarding vaccines and other pharmaceutical products, including GLP-1s, could cloud the outlook, but if improved capital market conditions benefit the biotechs that outsource to this subsector, higher levels of M&A activity seem likely in 2025 and beyond. (30)

Subsector analyses

Subsector overview highlights



Hospitals and health systems

- Most leading hospitals and health systems were in good positions in 2024 compared to 2023, thanks to reimbursement increases, lower interest rates, and more staffing stability. Larger institutions pursued acquisitions and partnerships, expanded offerings, and invested in efficiencies; financial investors remained mostly on the sidelines, given the industry's margin challenges and capital requirements. We expect more deals as struggling institutions reach for lifelines, and regulators look more favorably on large acquirers growing scale and share across regions and service lines. (38)

Healthcare services

- This subsector continued to attract strategic and financial buyers in 2024, but deal volume was low, partly in response to changing reimbursement schedules. We expect plenty of smaller to medium-sized transactions in 2025 in this broad category, which includes physicians' practices and other nonhospital providers. Financial and strategic investors will continue to seek assets in the space to gain capabilities or expertise, such as in value-based payments; expand networks or services in networks; or merge with other providers to gain scale advantages. (44)

Healthcare payers

- In the shifting payer marketplace, companies and investors must constantly adjust strategies to drive profitable growth. After acquiring provider and pharmacy assets to influence the total cost of care, for example, many players are now divesting health plans that attract patients but lose money or require capital. Given the complexity of the space, we expect plenty of deals in 2025, mostly as strategic buyers divest lower-performing assets, enter new markets, and acquire new offerings and capabilities. (50)

Healthcare IT

- Headwinds across healthcare—such as rising costs, shrinking margins, and staffing shortages—are tailwinds in healthcare IT (HCIT), which can boost efficiencies and help staff accomplish more. We expect a steady flow of deals as strategic and financial buyers alike continue to look for companies harnessing AI and other technologies to improve revenue cycle management, handle process-heavy workflows, streamline data exchange, free caregivers to spend more time with patients, and provide predictive insights. (56)



Life sciences

Life sciences: Preparing for a new era of innovation and growth

In the KPMG 2024 Life Sciences CEO Outlook, leaders of companies across this industry's subsectors were largely confident about the road ahead. Focused on driving innovation in their companies, the CEOs said they expect significant organic growth in 2024 and beyond while they also invest heavily in AI and other emerging technologies and make strategic transactions. Seventy-nine percent of the leaders expressed confidence in their company's growth prospects, and 60 percent said that generative AI (GenAI) was their top investment priority. Yet more than half of the CEO respondents noted concerns about the economy and geopolitics, and 70 percent said they believed that the pace of progress on GenAI regulation could be a barrier to its widespread integration into their operations.

Respondents to our 2024 HCLS Investment Survey were similarly optimistic, with a large majority expecting an increase in M&A in 2025 as life sciences companies position themselves for further innovation and growth. Seventy-nine percent of respondents expected to execute more deals in 2025 than in 2024, with 45 percent anticipating an increase in deal volume of at least 10 percent. Expectations for the life sciences tools and diagnostics subsector were particularly high, with 86 percent of respondents looking ahead to greater dealmaking in 2025, and 40 percent expecting M&A growth of 10 percent or more. Much of this optimism is driven by the necessity of staying competitive in rapidly innovating industries. Biopharma respondents, for example, said they expected to focus their dealmaking on solidifying their companies' portfolios of advanced treatment modalities, mRNA-based therapies, and bispecifics. Asked what could hamper that improvement, respondents cited uncertainties about future performance

of target companies, competition for a limited number of targets, and the elevated cost of capital.

The last of those may improve in the year ahead, although progress toward lower interest rates could stall earlier than expected, according to KPMG Economics. With inflation expected to move higher again, the Federal Reserve is likely to make only two additional rate cuts before the end of 2025.

Subsector by subsector, life sciences companies are being propelled by many of the same themes and share several common concerns. In biopharma, the impact of the Inflation Reduction Act (IRA) and price negotiation on major therapies continues to be assessed amid predictions that the IRA could ultimately lead to lost revenues of almost \$1 trillion.¹ The loss of patent protection for 190 drugs, including 69 blockbusters, by 2030,² brings increased urgency for developing or acquiring the next generation of



¹ "Implications of the Inflation Reduction Act for cancer medicine development," Charles River Associates, September 2024

² "FTC targets 300 Big Pharma 'junk patents,' sends warning letters to top drugmakers," benefitspro.com, May 15, 2024

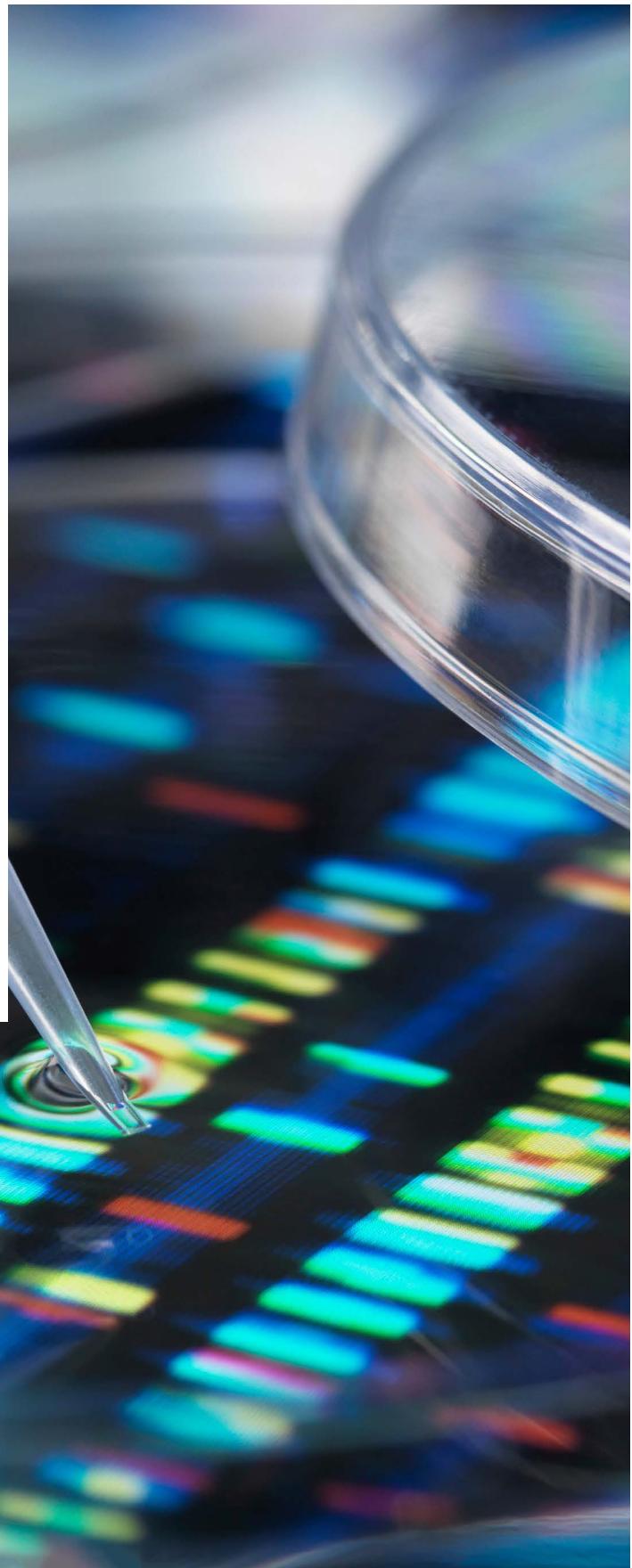
advanced therapeutics. Licensing deals and other creative structures remain popular as tools for mitigating the risk of making transactions for early-stage assets.

In life sciences tools and diagnostics, the increasing pace of innovation, particularly in the realm of postgenomic science and product development, led to multiple transactions in 2024 and seems poised to lift M&A further in 2025. Core lab testing is expanding into genetics and other advanced diagnostic categories, and advances in AI-based diagnostics and digital pathology have resulted in the creation of a growing range of algorithms and biomarkers for cancer and other diseases.

Medical device companies, still caught in a postpandemic downturn, continue to reshape their portfolios in cardiology and other key therapeutic categories, and AI-enabled products in radiology and other areas are in increasing demand, leading to multiple transactions in 2024.

Companies across the biopharma services subsector have been buoyed by continued outsourcing of all stages of drug development, manufacturing, and commercialization. If capital market conditions improve, demand from biotechs could increase, and M&A could rise.

The uncertain impact of a new administration and the actions of officials in key positions loom over many of these subsectors, as the prospect of reduced regulation may be offset by new challenges. Yet the overall outlook for life sciences remains positive, and headwinds could ease as the months pass, unlocking increased dealmaking.



Biopharma: Key questions remain

Several trends that impacted biopharma M&A in 2024 are likely to continue to shape this subsector during the next five years. The rate of pipeline growth may be slowing just as a raft of blockbuster drugs lose patent protection, impacting some \$60 billion in industry sales by 2029.³ While oncology assets remain a leading interest, pharmaceutical companies have also shown interest in autoimmune and neurology. Interestingly, 2024 was marked not only by lower deal volume, but also by less deployed capital compared to the prior five years.

Yet even as these trends play out for biopharma, the outcome of the presidential election has raised key questions for this subsector. Although President-elect Trump has in the past supported drug price negotiation for Medicare, it is not yet clear what his administration plans to do about the IRA. In 2024, the Department of Health and Human Services (HHS) began implementing the IRA, announcing steep negotiated price discounts for 10 drugs that are set to take effect in 2026.⁴ Republicans in Congress oppose these efforts, which they characterize as price controls, and there could be attempts to repeal all or part of the IRA. However, the IRA has been politically popular with voters, and there is also evidence the Trump administration may focus on rolling back specific controversial elements of the IRA.⁵ The new administration faces a February 1 deadline for selecting up to 15 new drugs for price negotiation.⁶

There may be some near-term exuberance among pharma companies about the Trump administration's

stated focus on deregulation that could affect the IRA as well as the Federal Trade Commission (FTC), Food and Drug Administration (FDA), and other regulatory bodies. A change in leadership at the FTC, in particular, could be seen as positive for the industry.⁷ But the personnel choices for running the top health agencies suggest an agenda that could bring challenges for biopharma.⁸ One early indicator of the degree the new FTC may be more pro-business and more focused on its approach to regulating M&A will be how it manages the new Hart-Scott-Rodino (HSR) form requirements that Lina Khan and team updated in fall 2024. Those rules call for companies to disclose internal documents such as diligence and investment thesis materials supporting the rationale for why they pursued a particular acquisition. If the new FTC and Department of Justice leadership roll back elements of the HSR reform, then it will be a positive sign for M&A.

In addition, most economists believe that if Trump pursues the policies he campaigned on—including instituting broad tariffs and restricting immigration—then it will lead to inflation and an end to the Federal Reserve's interest rate cuts that began in September 2024. If rates stay at current levels or begin to rise, then the result is likely to be slower deal activity, reduced venture capital spending on early-stage biotech, and a slowdown in innovation, with fewer new molecular entities (NMEs). This could ultimately result in reduced investment in early-stage assets and fewer clinical trials for investigational new drugs (INDs).

³ KPMG research and analysis; Evaluate Pharma 2023; Pharmavoice 2023

⁴ "Medicare Drug Price Negotiation Program: Negotiated Prices for Initial Price Applicability Year 2026," Centers for Medicare and Medicaid Services, August 15, 2024

⁵ "How Trump could weaken Medicare drug pricing negotiations," Axios.com, February 7, 2024

⁶ "Future of Medicare drug price negotiations murky under Trump," Roll Call, November 15, 2024

⁷ "With Trump victorious, biotech industry's focus turns to his plans for FDA, FTC," Biotech Dive, November 7, 2024

⁸ "Trump 2.0 health picks signal a changed agenda," Axios, November 22, 2024



How biopharma fared in 2024

The volume of biopharma deals declined further in 2023 after peaking during the pandemic years of 2020 and 2021. Yet the past year's 199 overall deals still surpassed the total of 177 in prepandemic 2019. In today's environment, financial deals have become less common as well, making up just 10 percent of total deals in 2024, compared with 21 percent a year earlier (Exhibit 9).

Exhibit 9: Biopharma deals declined again but remained above 2019 levels



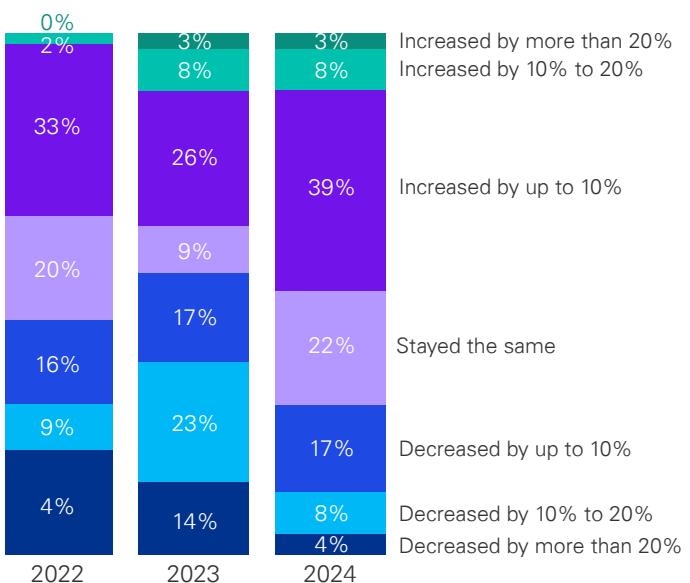
Notes: Strategic deals data for biopharma sourced from Informa while all other life sciences subsectors' data has been sourced from Capital IQ, Refinitiv, Informa, and Pitchbook; Healthcare data has been sourced from Capital IQ, Refinitiv, and Pitchbook; Annual biopharma deal outlook publication does not include M&A deal activity with financial investors and includes other non-M&A deals such as strategic R&D collaborations, outputs will thus differ to this publication; YTD'24 as of December 19, 2024

Sources: Capital IQ, a division of Standard and Poor's; Pitchbook; Informa; Refinitiv; all accessed in December 2024

Through early December, the Nasdaq biotechnology index, which tracks the prices of public biotech companies traded on the exchange, had risen by more than 15 percent in 2024. That increase came even as many privately held biotechs continued to struggle, and the number of IPOs remained about the same as during the previous two lackluster years.⁹ But about half of the respondents to our survey, asked to assess the changes in biotech valuations, said they believed valuations had increased during 2024. In 2023, 63 percent of respondents said that biotech valuations had decreased or stayed the same (Exhibit 10).

Exhibit 10: A growing number of respondents believe biotech valuations are increasing

Q: To what extent do you believe the valuations of innovative pharmaceutical or biotech companies have changed in 2024, 2023, and 2022?



Note(s): Sum of percentages may not add up to 100 due to rounding off;
Options changed across years but the question remained same

Source(s): KPMG HCLS Investment Survey, November 2024; KPMG HCLS Investment Survey, November 2023; KPMG HCLS Investment Survey, November 2022

⁹ "Three biotechs raise \$700 million in rare burst of IPO activity," Biopharma Dive, September 12, 2024

We saw several noteworthy trends in biopharma in 2024

An uncertain outlook for interest rates could limit investment in biotech.

Large pharma companies increasingly depend on innovative biotechs to help fill their pipelines. Yet amid rapidly rising interest rates during the past two years, many of those young companies faltered. Venture capital funds reserved funding for existing portfolio companies, leaving many biotechs to burn through their cash, and IPOs and acquisitions dropped sharply. VC funding in 2023 for biotech startups was about \$23 billion for 613 deals—21 percent less than in 2022 and 42 percent below the peak of funding in 2021. Perhaps in anticipation of the Federal Reserve's first rate cut, a 50-basis-point reduction in September 2024, VC funding rounds were higher in 2024, but the money went to far fewer companies, and that rise could prove temporary if rates again move higher. These trends could mean heightened competition among large pharma companies for a smaller universe of potential targets.

A mixed outlook for advanced therapeutics. During the past four years, biopharma steadily increased its focus on complex, advanced therapies. In 2023, 22 percent of the total deal volume in biopharma involved cell and gene therapies, and 9 out of 10 of the biggest acquisitions had a precision medicine focus. In the first half of 2024, however, deals involving advanced therapeutics made up just 19 percent of total M&A in the subsector, compared with 31 percent of deals in 2023. There has been a divergence in the appetite for cell and gene therapies—deals involving gene therapy fell during the first half of 2024, while M&A involving cell therapies remained near the levels seen in 2023.

Several factors may have influenced these changes. Roadblocks in clinical trials of some gene therapies and a lack of new research funding have slowed progress, and the poor commercial performance of recently launched gene therapies has led to reduced interest. Companies looking to make acquisitions in this space have also

found a scarcity of attractive small biotech targets.

Still, with industry trends continuing to favor advanced therapies such as cell and gene, it is unlikely this lull in dealmaking will turn into a long-term pullback in precision and other advanced therapeutics. Indeed, we would note the acquisitions of Poseida Therapeutics and Kate Therapeutics by Roche and Novartis, respectively, both announced in late November 2024, as evidence that big pharma is still willing to engage in M&A in the cell and gene markets.^{10,11}

A comeback for large-population therapies.

In an accompanying trend, the runaway success of GLP-1 drugs for diabetes and weight loss, and clinical trials that point to likely additional indications for those medicines, has led pharma companies to show a renewed interest in therapeutic areas that have the potential to touch broad swaths of the population. Metabolic health, including weight loss, cardiovascular prevention, metabolic dysfunction-associated steatohepatitis (MASH), severe hyperlipidemia, and perhaps new approaches to Alzheimer's disease are all drawing considerable interest, and this focus is likely to grow in 2025 and beyond. Companies are also positioning themselves to find other large population, multi-indication opportunities.

Oncology continues to be a focus for early-stage investment and M&A.

Most clinical trials dollars and VC spending are earmarked for a wide range of advanced and complex molecules such as ADCs, bispecifics, cell therapies, and other unique mechanisms of action (MoA). ADCs in particular have been targeted in major biopharma deals. After Pfizer's acquisition of Seagen, a maker of targeted cancer therapies,¹² in 2023, AbbVie completed its purchase of ImmunoGen in March 2024.¹³ The past year also saw Johnson & Johnson's purchase of ADC-focused Ambrx Biopharma,¹⁴ and Genmab's acquisition of ProfoundBio,¹⁵ another developer of ADCs. MediLink Therapeutics signed a licensing deal with

¹⁰ "Roche to buy cell therapy developer Poseida for \$1B," BioPharma Dive, November 26, 2024

¹¹ "Novartis wagers more than \$1B on gene therapies for the nervous system," BioPharma Dive, November 21, 2024

¹² "Pfizer looks past COVID with \$43 bln for cancer drug maker Seagen," Reuters, March 13, 2023

¹³ "AbbVie completes its acquisition of ImmunoGen," press release, February 12, 2024

¹⁴ "Johnson & Johnson completes acquisition of Ambrx," press release, March 7, 2024

¹⁵ "Genmab completes acquisition of ProfoundBio," press release, May 21, 2024

Roche to develop ADCs, and Adcendo agreed to a similar deal with Multitude Therapeutics.¹⁶

ProfoundBio, MediLink, and Multitude are all Chinese companies, and those deals point to another trend in 2024: an increase in high-profile oncology data coming out of China. Non-Chinese companies are licensing Chinese assets, and the possible passage of the BIOSECURE Act, which would restrict the use of Chinese intellectual property, equipment, and services by US companies,¹⁷ could lead other Chinese biopharma companies to make deals to get their intellectual property out of China to support global distribution and commercialization.

The techbio revolution has not changed

everything—yet. The promise of using AI to make drug development faster, more efficient, and more successful continues to drive R&D, partnerships, and acquisitions in biopharma (Exhibit 11). Among other uses, AI has the potential to speed the discovery of novel compounds for clinical testing and help reanalyze therapies that may have failed in late-stage trials to see whether a discarded drug might prove effective in other populations. Technology company Nvidia has been active in partnering with Amgen, Recursion, and other so-called techbio companies, AI-focused firms that are using Nvidia's BioNeMo GenAI platform with their own data to search for drug candidates.¹⁸ Techbio company Owkin is partnering with Evotec, a pharma company developing treatments for neurology, oncology, and metabolic and infectious disease.¹⁹ In May, Owkin announced that it had signed a licensing agreement with Idorsia to develop and commercialize OKN4395, a clinic-ready, best-in-class dual inhibitor of receptors EP2 and EP4, inflammatory agents that may promote inflammation and cancer.²⁰

The merger between two AI-based drug developers, Recursion and Exscientia, announced in August 2024, bolstered the combined firm's pipeline of rare disease and oncology therapies.²¹ In October 2024, Recursion announced that its nonantibiotic treatment for C.diff infections had proceeded to a Phase II clinical trial.²² Insilico Medicine advanced its GenAI-developed treatment for inflammatory bowel disease into the clinic,²³ and other AI-based discovery efforts have spurred development of pipeline assets. In October, Pathos AI, spun out from AI precision medicine firm Tempus, announced that it had received \$62 million in funding. Pathos focuses on identifying existing Phase 1 cancer drugs that could succeed with more targeted patient populations.²⁴ AI-based drug developer Formation Bio, previously a biopharma services provider, is now seeking to develop its own therapies and in June 2024 announced that it had received an additional \$372 million in funding.²⁵

Larger pharma companies are continuing to make acquisitions or to hire key leaders to strengthen their capabilities in AI-enabled drug development. In October 2024, Eli Lilly appointed Thomas Fuchs as the company's first chief AI officer. Fuchs, who had led AI and digital health initiatives at Mt. Sinai Hospital in New York City, will help integrate AI efforts in drug discovery, clinical trials, and manufacturing.²⁶

So far, however, most new compounds discovered through AI-enabled processes have been "me-too" drugs rather than first-in-class medicines, and even with all of the focus on building up AI-based efforts, improvements in drug discovery have been incremental. Yet AI has made great strides in optimizing the R&D process, and further advances are likely.

¹⁶ "Billion dollar bets on antibody-drug conjugates," Nature, October 22, 2024

¹⁷ "What might a Trump administration mean for the Biosecure Act," PharmaVoice, November 20, 2024

¹⁸ "Nvidia grows drug research footprint with Amgen, Recursion pacts," Fierce Biotech, January 8, 2024

¹⁹ "Evotec and Owkin enter an AI-powered strategic partnership to accelerate therapeutics pipeline in oncology and I&I," press release, January 4, 2024

²⁰ "Owkin unveils AI-driven oncology and immunology pipeline, in-licenses best-in-class asset OKN4395," press release, May 23, 2024

²¹ "Biotech firm Recursion to buy smaller rival Exscientia for \$688 million," Reuters, August 8, 2024

²² "Recursion advances AI-based C. diff candidate to phase II," Genetic Engineering and Biotechnology News, October 29, 2024

²³ "Insilico does first patient with AI-designed IBD treatment," Genetic Engineering and Biotechnology News, December 6, 2023

²⁴ "Chicago's Pathos AI raises \$62M to advance AI-driven drug development," IBIO, October 30, 2024

²⁵ "Sanofi-backed Formation Bio raises \$372 million in late stage funding round," Reuters, June 26, 2024

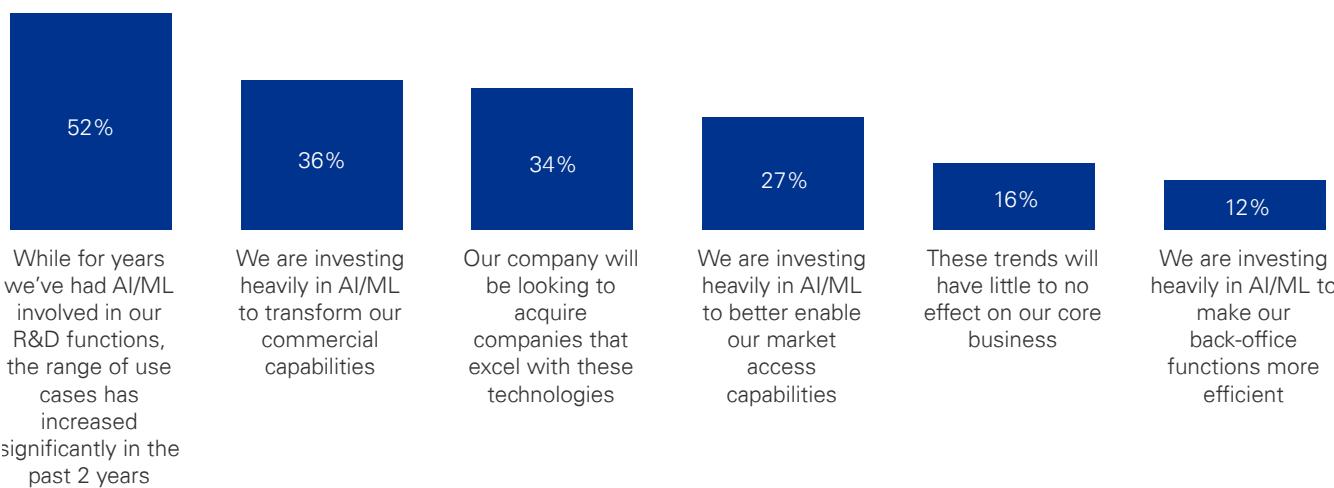
²⁶ "Lilly appoints Thomas J. Fuchs as first chief AI officer," press release, October 8, 2024

The now uncertain impact of the IRA. Depending on what happens to the IRA and drug price negotiation once the Trump administration takes office, the implications of the law could reverberate through the biopharma industry. Beyond reducing projected pharma industry revenue by almost \$1 trillion by 2039, the IRA's Medicare Drug Price Negotiation Program could impact drug development in several important ways. One could be a reduction in postmarketing clinical studies that pharma companies depend on for understanding how a particular drug may work in different disease stages, for new treatment regimens, and for patient groups not studied during preapproval clinical trials. These

studies are necessary for submissions to the FDA for new indications for a drug or may be used to provide additional treatment information to healthcare providers and could negatively impact patients. One simulation looking at the possible impact of the IRA on five existing oncology therapies estimated that postmarketing clinical studies for five oncology drugs would have been reduced from 10 percent to 79 percent. Such cutbacks could limit approval of new indications for smaller patient populations, hinder the development of combination therapies that may significantly improve patient outcomes, and harm underrepresented patients.²⁷

Exhibit 11: Investment in AI continues to increase

Q: What effect do you envision artificial intelligence or machine learning will have on the biopharma industry?



Note(s): Sum of percentages may not add up to 100 due to multi select question; Options changed across years but the question remained the same
Source: KPMG HCLS Investment Survey, November 2024



²⁷ "Implications of the Inflation Reduction Act for cancer medicine development," Charles River Associates, September 2024

How pro M&A will the Trump FTC be?

By Jeffrey Stoll, Ph.D., National Life Sciences Strategy Leader, KPMG LLP



On December 10, president-elect Trump announced Andrew Ferguson would take over leadership of the FTC from Lina Khan. As KPMG has highlighted in prior publications, Khan led a significantly more progressive and active FTC, deploying new ideas on anticompetition and more stringent criteria for determining what deals were anticompetitive. Under Ferguson, there is a belief that the new FTC leadership will lighten regulatory scrutiny and allow deal activity to occur more freely.²⁸

While the Republican FTC will likely be less aggressive,²⁹ the market should not expect M&A to become a free for all. Limiting the impact of big tech remains a focal point, and any large deals where there is an impression of potentially causing harm to consumers will remain top of mind. The focus on the pharmaceutical industry will likely become less intense than under the old FTC regime, but large deals and commercial stage deals will likely continue to garner scrutiny.

²⁸ "Goldman CFO says Trump's FTC pick could spur more M&A activity," Bloomberg.com, December 11, 2024

²⁹ "FTC plots new course on antitrust, Big Tech under Trump nominees," Legaldive.com, December 11, 2024



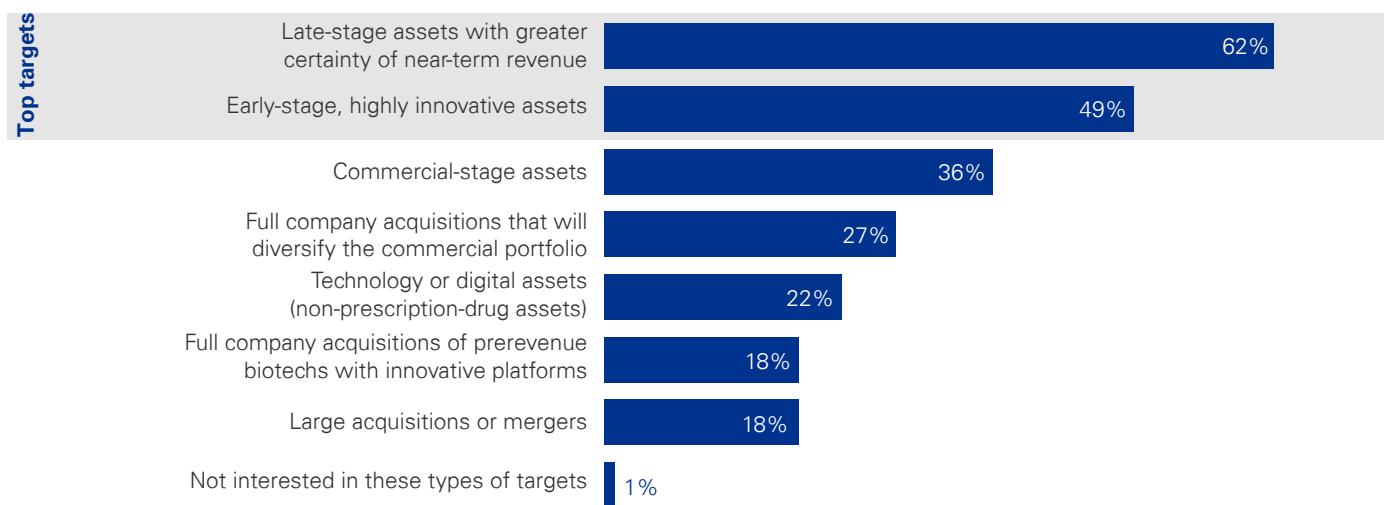
Outlook and investment considerations for 2025

The looming expiration of so many drug patents has only increased the quest for new and innovative therapies. The largest percentage of respondents to our survey—62 percent—said their focus in 2025

would be to acquire late-stage assets that provide a greater certainty of near-term revenue, while 49 percent indicated that they would target early stage, highly innovative assets (Exhibit 12).

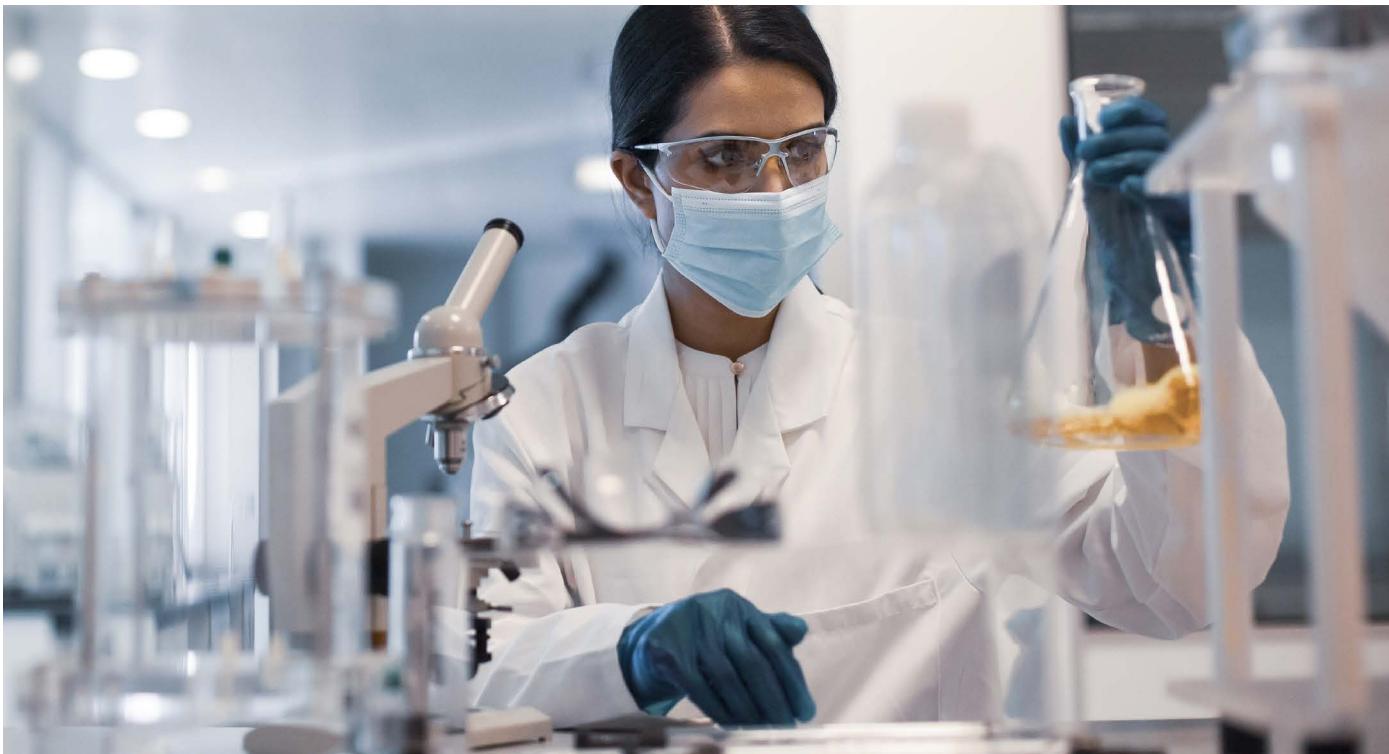
Exhibit 12: Late- and early-stage assets are top biopharma targets

Q: In 2025, what types of targets will your company look to acquire?



Note(s): Sum of percentages may not add up to 100 due to multi select question; Options changed across years but the question remained the same

Source(s): KPMG HCLS Investment Survey, November 2024; KPMG HCLS Investment Survey, November 2023; KPMG HCLS Investment Survey, November 2022

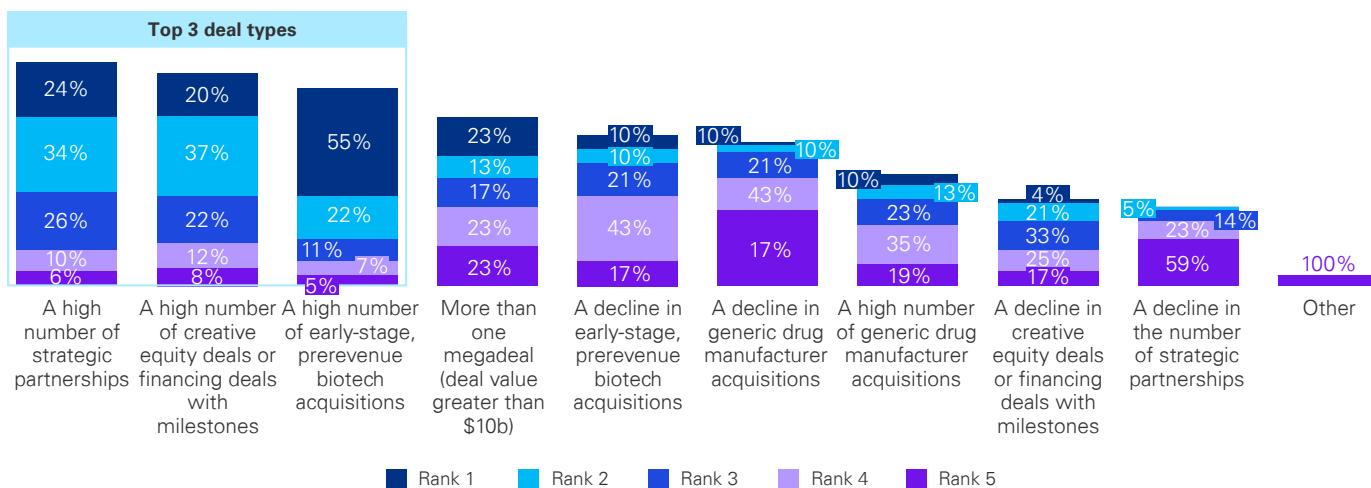


Asked what deal types they would focus on in 2025, survey respondents gave the highest rankings to biotech

acquisitions, strategic partnerships, and equity deals with milestones (Exhibit 13).

Exhibit 13: Biotech acquisitions and strategic partnerships will be a chief focus

Q: What types of pharmaceutical deals do you expect in 2025? (Rank top 5 in order)



Note(s): Bar totals based on respondents who gave some rank to the given factor; Sum of percentages may not add up to 100 due to rounding off; Options changed across years but the question remained the same; Indicates the total number of respondents who answered the question

Source(s): KPMG HCLS Investment Survey, November 2024, KPMG HCLS Investment Survey 2023, KPMG HCLS Investment Survey 2022

Tailwinds and headwinds

Tailwinds

Urgency for restocking pipelines. With 190 drugs scheduled to lose patent exclusivity by 2030, including 69 blockbusters with annual sales of \$1 billion or more—resulting in 46 percent revenue declines for the 10 largest pharma companies³⁰—industry leaders must develop or acquire the next generation of top-selling medications.

Increasing competition for fewer assets. A decline in the pipeline growth rate in the US and globally may lead to heightened competition in a deal landscape that most experts already describe as highly competitive.

Headwinds

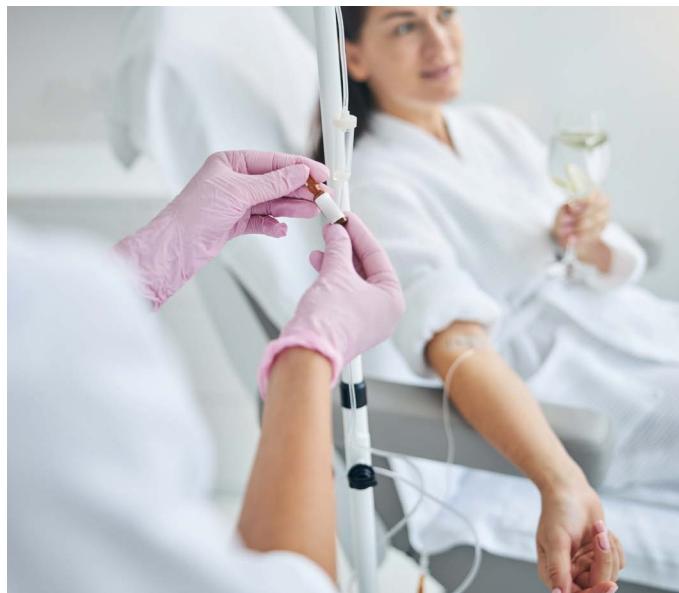
Continued consolidation concerns. The biopharma M&A deals space could continue to face highly focused attention on deals that regulators perceive could negatively impact competition. This focus could occur both in the US and Europe.

Unfolding impact of the IRA. We believe that if the IRA is not repealed or altered, then the price reforms impacting the market through the IRA could decrease enthusiasm in the biopharma space to chase risky R&D, meaning there could ultimately be fewer opportunities for deals in the subsector.



The takeaway

Although biopharma dealmaking remained subdued during 2024, several trends point toward an increase in M&A in the year ahead. As the industry approaches a steep patent cliff, companies are scouring the global biotech landscape for innovative early and late-stage therapies, especially for ADCs and other biologics. AI is increasingly being leveraged to broaden and speed up that search. Uncertainty about the IRA and the focus of the FTC during the new Trump administration, as well as about whether interest rates will continue to decline, may be reduced as the year unfolds, helping to clarify deal strategies.



³⁰ KPMG research and analysis; Evaluate Pharma 2023; Pharmavoice 2023

Life sciences tools and diagnostics: Positioning for a postgenomic era

Makers of life sciences tools and diagnostic products are increasingly focused on the potential of AI and other advanced technology to harness vast troves of biological and molecular data, helping the companies to discover disease biomarkers and enable precision medicine for a wide range of cancers and other conditions. And the principal force shaping that dynamic in this subsector is the move toward a “postgenomic” era from the previous expansion into genomics. In this new era, life sciences firms are using proteomics and multiple ‘omics

approaches (multiomics) and spatial biology to diagnose conditions in a more all-inclusive way.

During 2024, this subsector underperformed broader market indices, in part because of post-COVID-19 repositioning; slowing growth in China; lower public, private, and government funding; and new regulatory initiatives. Still, innovation continues to serve as an impetus for dealmaking, as diagnostics companies acquire and form partnerships with specialists in proteomics and multiomics.



How life sciences tools and diagnostics fared in 2024

M&A in this subsector was relatively steady through 2024. Strategic acquisitions far outpaced deals by financial investors, with strategic transactions increasing slightly from 2023 levels. But the number of deals is still tracking below prepandemic levels. On a more granular basis, dealmaking in diagnostics increased in 2024, while M&A in lab services went down. Also, the aggregate deal value in 2024 was significantly lower than in 2023, reflecting a lack of billion-dollar transactions (Exhibit 14).

Exhibit 14: Life sciences tools and diagnostics deals edge lower



Notes: Strategic deals data for biopharma sourced from Informa while all other life sciences subsectors' data has been sourced from Capital IQ, Refinitiv, Informa, and Pitchbook; Healthcare data has been sourced from Capital IQ, Refinitiv, and Pitchbook; Annual biopharma deal outlook publication does not include M&A deal activity with financial investors and includes other non-M&A deals such as strategic R&D collaborations, outputs will thus differ to this publication; YTD'24 as of December 19, 2024

Sources: Capital IQ, a division of Standard and Poor's; Pitchbook; Informa; Refinitiv; all accessed in December 2024

We saw several noteworthy trends in life sciences tools and diagnostics in 2024

Surging into a “postgenomic” era. The cost of sequencing the DNA in a human genome has dropped to a few hundred dollars. Yet having a map of a patient’s genes tells only part of the story, and recent technological advancements—in mass spectrometry, spatial imaging, and affinity-based proteomic tools—have allowed researchers to dig deeper, accelerating the discovery of predictive biomarkers for Parkinson’s disease and several kinds of early-stage cancer, among other uses.

The rush to acquire capabilities in proteomics, the study of how proteins interact and change and the role they play in diseases, and multiomics, which combines data from the genome, proteome, transcriptome, and other “omes,” was at the center of most of the largest recent deals in the subsector. In July, Thermo Fisher Scientific completed its acquisition of Olink, a Swedish company offering solutions for advanced proteomics discovery and development, for \$3.1 billion, at a rich valuation of 20 times revenue.³¹ In January, Standard BioTools completed its merger with SomaLogic, a protein biomarker discovery and clinical diagnostics company.³² Bruker, which has said it intends to be a leader of the postgenomic era, made multiple strategic acquisitions in 2024, including of NanoString, a US-based producer of gene expression analysis and spatial biology tools, for \$393 million,³³ and ELITechGroup, a European maker of molecular diagnostic systems, for \$943 million.³⁴

Reference labs expand capabilities in genetic testing.

The largest lab services companies continue to expand their advanced testing capabilities. In August, Labcorp completed its \$239 million acquisition of assets from Invitae, a medical genetics company that filed for Chapter 11 bankruptcy protection in February.³⁵ The deal increased Labcorp’s specialty testing capabilities in oncology and rare diseases.³⁶ Invitae brings Labcorp

genetic testing panels for a range of inherited conditions related to cardiology, hematology, immunology, dermatology, and other medical specialties. In oncology, for example, an Invitae test can show the presence or absence of hundreds of possible genetic changes in 47 target genes for patients who may have an inherited risk of hereditary forms of cancer.³⁷

In another move to enhance hereditary testing capabilities, precision medicine specialist Tempus AI acquired leading genetics testing company Ambry Genetics for \$600 million. The deal expands Tempus into new disease categories, including pediatrics, rare disease, immunology, reproductive health, and cardiology.³⁸

Quest Diagnostics also expanded further into genetic testing, acquiring Canadian testing company LifeLabs in August from OMERS, an international pension plan, for approximately \$1 billion.³⁹

Expanding from genetics testing further into cancer diagnosis, Myriad Genetics acquired genomic testing assets from Intermountain Precision Genomics. One test, Precise Tumor, looks at more than 500 genes and considers both DNA and RNA to help choose the best therapy for patients with advanced solid tumors and to determine patients’ eligibility for clinical trials.⁴⁰

Development of AI-informed products. The promise of AI-based diagnostics started to become a reality in 2024. In September, Roche announced collaborations with eight companies—Deep Bio, DiaDeep, Lunit, Mindpeak, Owkin, Qritive, Sonrai Analytics, and Stratipath—to add 20 algorithms for detecting prostate cancer, breast cancer, non-small-cell lung cancer (NSCLC), and other cancers to its digital pathology open environment.⁴¹ In another partnership, AstraZeneca is working with Roche to develop and market an AI-based biomarker for

³¹ “Thermo Fisher Scientific Completes Acquisition of Olink, Announces Commencement of Subsequent Offering Period,” press release, July 10, 2024

³² “Standard BioTools Completes Merger with SomaLogic, Creating a Diversified and Scaled Leader in Life Sciences Tools,” press release, January 5, 2024

³³ “Bruker Completes Asset Acquisition of NanoString business,” press release, May 6, 2024

³⁴ “Bruker Completes Acquisition of Molecular Diagnostics Innovator ELITech,” press release, May 2, 2024

³⁵ “Labcorp to acquire Invitae’s assets for \$239 million,” Medtech Dive, April 25, 2024

³⁶ “Labcorp finalizes acquisition of select assets of Invitae,” press release, August 5, 2024

³⁷ “FDA authorized blood test for assessing risk of hereditary cancers,” National Cancer Institute, November 2, 2023

³⁸ “Tempus AI to buy genetics testing company for \$600 million,” Medtech Dive, November 6, 2024

³⁹ “Quest Diagnostics Completes Acquisition of LifeLabs, Enhancing Access to Diagnostic Innovation,” press release, August 26, 2024

⁴⁰ “Myriad Genetics Completes Acquisition of Precise Tumor, Precise Liquid and Laboratory from Intermountain Precision Genomics,” press release, February 1, 2024

⁴¹ “Roche advances AI-driven cancer diagnostics by expanding its digital pathology open environment,” press release, September 9, 2024

NSCLC that can identify patients likely to respond to an ADC from AstraZeneca and Daiichi Sankyo.⁴² The Artera AI prostate cancer test, an AI-enabled predictive and prognostic cancer test, has been added to the National Comprehensive Cancer Network clinical guidelines for localized prostate cancer.⁴³ And in a first for AI-enabled diagnostics, a Biotia test for urinary tract infections received regulatory approval from New York State.⁴⁴

Infusing AI into leadership and business processes.

Diagnostic companies are also increasingly using machine learning and AI to make sense of vast amounts of multiomics data. Some are bringing in

outside expertise to bolster their capabilities. For example, Danaher created a new position of chief data and artificial intelligence officer and hired Martin Stumpe from Tempus AI, where Stumpe led efforts to develop tools for AI-enabled precision medicine.⁴⁵ To continue building its AI and data capabilities, Danaher acquired Swiss informatics firm Genedata in August.⁴⁶ Additionally, PathAI entered an agreement with Roche to develop AI-enabled pathology algorithms,⁴⁷ and sold some lab assets to Quest Diagnostics to accelerate Quest's use of AI and digital pathology for cancer diagnosis.⁴⁸



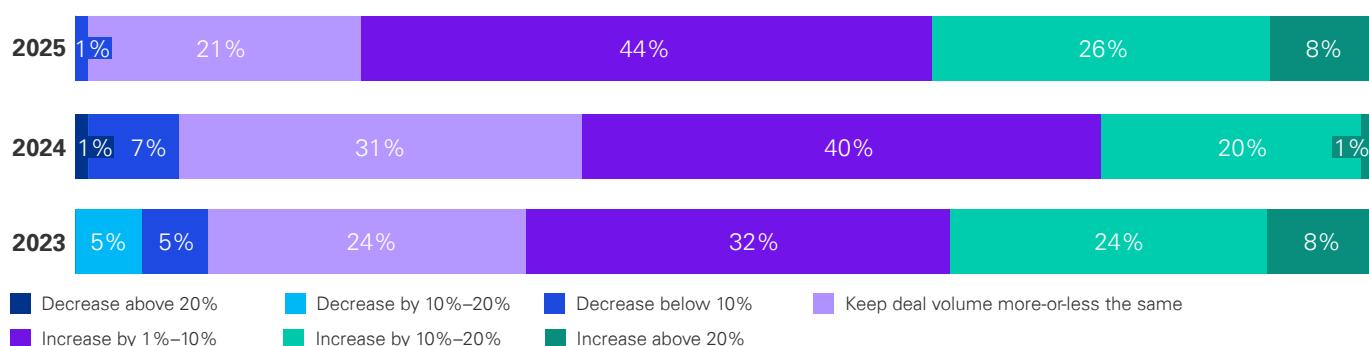
Outlook and investment considerations for 2025

Seventy-eight percent of our survey respondents expect the number of deals in the life sciences tools and diagnostics subsector to rise in 2025, and 34 percent believe deal volume will increase by at least 10 percent.

Those percentages are higher than in our 2023 survey. Then, 61 percent of respondents expected more robust dealmaking in 2024—an increase in M&A that did not materialize (Exhibit 15).

Exhibit 15: Dealmakers expect M&A volume to rise in 2025

Q: How do you believe overall deal volume for diagnostic manufacturers in 2025 will compare to 2024 and 2023?



Note(s): Sum of percentages may not add up to 100 due to rounding off; Options changed across years but the question remained the same

Source(s): KPMG HCLS Investment Survey, November 2024; KPMG HCLS Investment Survey, November 2023; KPMG HCLS Investment Survey, November 2022

⁴² "Novel computational pathology-based TROP2 biomarker for datopotamab deruxtecan was predictive of clinical outcomes in patients with non-small cell lung cancer in TROPION-Lung01 Phase III trial," press release, September 8, 2024

⁴³ "ArteraAI Prostate Test included in NCCN guidelines," Urology Times, March 5, 2024

⁴⁴ "Biotia gets first-ever NY state regulatory approval for a urine infectious disease test powered by genomics and AI," press release, November 5, 2024

⁴⁵ "Danaher Appoints Martin Stumpe to New Role of Chief Data & Artificial Intelligence Officer," press release, June 5, 2024

⁴⁶ "Danaher acquires Genedata," Labpulse.com, August 19, 2024

⁴⁷ "Roche enters into collaboration agreement with PathAI to expand digital pathology capabilities for companion diagnostics" press release, February 13, 2024

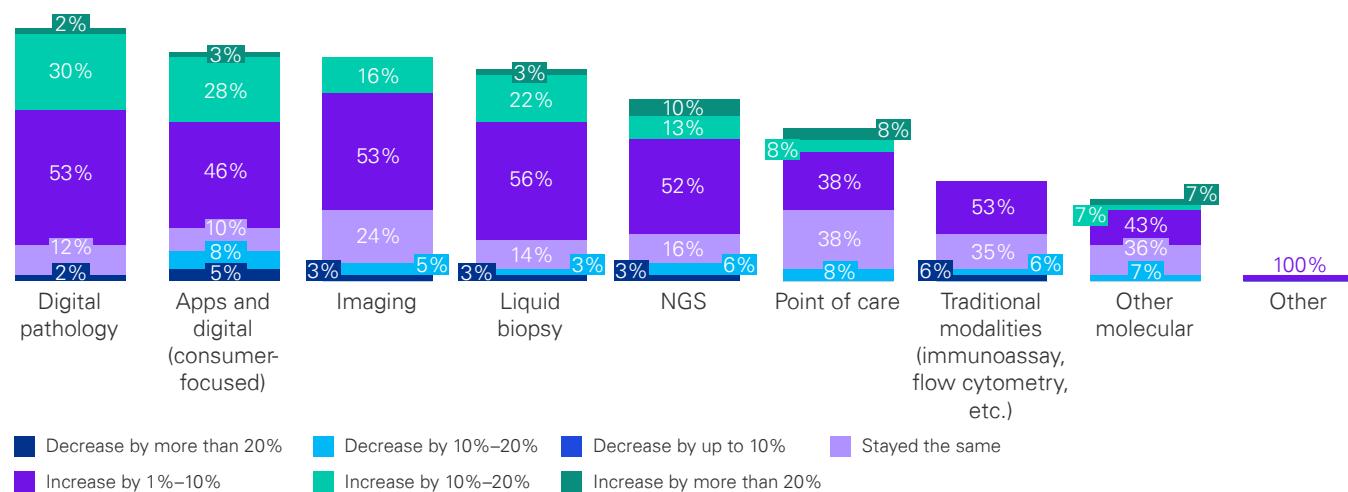
⁴⁸ "Quest Diagnostics completes acquisition of select PathAI Diagnostics' lab assets from PathAI, accelerating adoption of AI and digital pathology to speed cancer diagnosis," press release, June 11, 2024

Next-generation sequencing is expected to be a chief focus of M&A in the subsector in 2025, according to survey respondents, who also cited consumer-focused apps and digital, liquid biopsy, and imaging as likely areas of interest. Last year, digital pathology, liquid biopsy, and imaging were at the top of respondents' list of potential

acquisition targets. Respondents expect valuations of target assets to be generally higher, with 85 percent, 77 percent, and 69 percent anticipating increased valuations for digital pathology, consumer apps and digital, and imaging, respectively (Exhibit 16).

Exhibit 16: 2025 valuations of target assets expected to be broadly higher

Q: How do you expect valuations in 2025 to compare to 2024?



Note(s): Sum of percentages may not add up to 100 due to multi select question; Options changed across years but the question remained the same
Source: KPMG HCLS Investment Survey, November 2024



Tailwinds and headwinds

Tailwinds

Lower interest rates generally lead to a more robust fund-raising environment. The performance of this subsector is closely tied to the public and private funding of biopharmaceutical companies, which use products for drug discovery. In past interest rate cycles, lower interest rates have led to healthier fund-raising conditions and more IPOs.

Postgenomic innovation. The continuing transition to precision medicine and productive research in advanced diagnostics has companies on the hunt for technology and products that can help position them for the future.

AI success. AI is driving the advanced interpretation of terabytes of information as it relates to drug discovery efforts as well as to diagnostics. The realization that AI is transforming the sector is stimulating M&A conversations among industry players who do not want to be left behind.

Headwinds

Increased FDA regulation. New FDA rules published in May, to be phased in over four years, provide additional oversight of lab-developed tests to ensure accuracy and reliability. Likewise, in Europe, implementation of the In Vitro Device Regulation rules continues to unfold. Some industry and patient groups are concerned that increased regulation could hinder or delay patient access to innovative diagnostic solutions.

Conditions in China remain challenging. Most players in this subsector expect more subdued performance in the region as macro factors continue to impact the biopharma markets. Additionally, most believe that geopolitical and trade tensions will continue to have a negative influence on the outlook.



The takeaway

Life sciences tools and diagnostics continue to be the focus of rapid innovation across many areas. Even core lab diagnostic testing is expanding into genetics and other advanced diagnostic categories, while AI is being deployed to create biomarkers for many diseases and to process vast amounts of multiomic data for a postgenomic era of remarkable advances in precision medicine and other applications. Companies positioning themselves for a place in a transforming industry could become more active in M&A in 2025, especially if macroeconomic conditions continue to improve.



Medical devices: Stepping up the search for innovation

Dealmaking in this subsector, which for this paper includes both durable medical equipment (from surgical tools to prosthetics) and disposable/one-time-use products (from medical disposables to respiratory care devices), has yet to rebound to the levels seen in 2021 and 2022. Still, 2024 saw several large transactions as companies looked to shape their portfolios in cardiology and other key therapeutic categories. AI-enabled

products and services were in high demand, and ongoing advances in diabetes care showed promise.

Rapid innovation in medical device technology, especially involving AI, should continue to drive M&A activity during the coming year. In addition to more traditional venture capital firms, device makers' own venture capital arms, such as Olympus Innovation Ventures, are nurturing new companies.



How medical devices fared in 2024

As discussed above, M&A in this subsector in 2024 is still significantly below prepandemic levels, at least in terms of the number of transactions, and total deals in 2024 dropped 19 percent from 2023 levels. What has been consistent, however, is the fact that strategic acquisitions significantly outnumber deals by financial players, by a 2:1 ratio in 2024 (Exhibit 17).

Exhibit 17: Medical device companies' strategic and financial investments, 2019-2024



Notes: Strategic deals data for biopharma sourced from Informa while all other life sciences subsectors' data has been sourced from Capital IQ, Refinitiv, Informa, and Pitchbook; Healthcare data has been sourced from Capital IQ, Refinitiv, and Pitchbook; Annual biopharma deal outlook publication does not include M&A deal activity with financial investors and includes other non-M&A deals such as strategic R&D collaborations, outputs will thus differ to this publication; YTD'24 as of December 19, 2024

Sources: Capital IQ, a division of Standard and Poor's; Pitchbook; Informa; Refinitiv; all accessed in December 2024

We saw several noteworthy trends in medical devices in 2024

Multiple deals bolster major players in heart treatment and other areas.

Some of the largest medical device companies made a series of transactions in 2024 that could have significant long-term implications for their positioning in the medical device industry.

Many of these deals were in the cardiovascular market, which involves both surgical and nonsurgical or minimally invasive devices. Johnson & Johnson MedTech led the way with its \$13.1 billion acquisition of Shockwave, which makes intravascular lithotripsy technology for treating heart disease. Johnson & Johnson also acquired V-Wave,⁴⁹ which makes implantable devices to reduce cardiac events, for up to \$1.7 billion. These deals follow acquisitions of heart pump maker Abiomed and Laminar, an innovator in treating nonvalvular atrial fibrillation (AFib),⁵⁰ adding to the company's strong presence in interventional cardiology.

Edwards Lifesciences also was active. It sold Critical Care, which uses AI algorithms for patient monitoring, to BD for \$4.2 billion.⁵¹ Additionally, the company made four acquisitions: InnovaValve Bio Medical, for \$300 million;⁵² Jenavalve Technology and Endotronix, for a combined \$1.6 billion;⁵³ and JC Medical, from Genesis MedTech, for an undisclosed amount.⁵⁴ Together, these transactions helped Edwards broaden its structural heart portfolio.

Boston Scientific, meanwhile, acquired Silk Road Medical,⁵⁵ which makes devices for treating carotid artery disease, for \$1.28 billion, and Cortex,⁵⁶ which produces a mapping tool that can be used in treating complex AFib cases, for an undisclosed amount.

Prominent deals in other areas included Boston Scientific's \$3.7 billion acquisition of Axonics, a device company treating urinary and bowel disorders;⁵⁷ Stryker's purchase of MOLLI Surgical, which provides technology for breast-conserving surgery;⁵⁸ and Getinge's acquisition of Paragonix Technologies, which develops and manufactures organ preservation and transportation devices.⁵⁹

A robust market for AI-enabled devices.

With more than 700 FDA-approved algorithms, AI applications for radiology account for some 70 percent of all approved AI medical products, and new kinds of devices are now being launched. In January, the FDA approved DermaSensor, a handheld, AI-powered tool that uses spectroscopy to detect skin cancer. In studies, the device found more malignancies than physicians detected on their own and worked across a full range of skin tones.⁶⁰ The Aurora AEYE camera from Optomed, approved in April, uses AI to diagnose diabetic retinopathy during routine eye exams.⁶¹ Retinal scans, with AI-enabled analysis, are also used as a companion diagnostic for AbbVie's investigational treatment for neurovascular age-related macular degeneration.⁶²

Large medical device companies sought to acquire AI capabilities and products, and GE HealthCare was particularly active. In January, the company announced it was buying MIM Software, which makes AI-powered imaging analysis tools for oncology, urology, neurology, and cardiology.⁶³ Then, in July, it said it would acquire Intelligent Ultrasound Group PLC's clinical AI software business, which uses AI-driven image analysis tools to improve ultrasound cardiac imaging.⁶⁴

⁴⁹ "J&J to buy medical device maker V-Wave for up to \$1.7 bln," Reuters, August 20, 2024

⁵⁰ "Johnson & Johnson to Acquire Shockwave Medical," press release, April 5, 2024

⁵¹ "Edwards Lifesciences Completes Sale of Critical Care," press release, September 3, 2024

⁵² "InnovaValve acquired for \$300 million in cash by medical device giant Edwards Lifesciences," CTech, July 16, 2024

⁵³ "Edwards Lifesciences inks \$1.6B in acquisition deals for JenaValve, Endotronix," Fierce Biotech, July 25, 2024

⁵⁴ "Edwards Lifesciences acquires JC Medical from Genesis Medtech," Medical Device Network, August 20, 2024

⁵⁵ "Boston Scientific closes Silk Road Medical acquisition," Medtech Dive, September 17, 2024

⁵⁶ "Boston Scientific continues M&A run with Cortex buy," Medtech Dive, November 4, 2024

⁵⁷ "Boston Scientific acquires urology company Axonics for \$3.7 billion," Stat, January 8, 2024

⁵⁸ "Stryker completes acquisition of MOLLI Surgical," press release, July 31, 2024

⁵⁹ "Getinge completes the acquisition of Paragonix Technologies," press release, September 11, 2024

⁶⁰ "FDA clears non-invasive AI device for skin cancer detection," Cancer Network, January 18, 2024

⁶¹ "Optomed releases first FDA-cleared handheld AI fundus camera for detection of more than mild diabetic retinopathy," press release, May 1, 2024

⁶² "REGENXBIO and AbbVie advance wet AMD Gene Therapy to Phase III," Genetic Engineering and Biotechnology News, March 28, 2024

⁶³ "GE HealthCare announces agreement to acquire MIM Software," press release, January 8, 2024

⁶⁴ "GE HealthCare buying Intelligent Ultrasound Group's AI Software Business," July 18, 2024

Demand for clinical decision support. For clinicians struggling to make sense of an exploding universe of disease information and treatment options, AI-enabled clinical decision support systems (CDSS) utilize predictive analytics and other tools to analyze data in electronic health records, clinical knowledge databases, and other information sources to facilitate informed, personalized decisions about how to diagnose and treat individual patients. This is an unmet need in many clinical settings, and a growing number of medical device and software companies are entering the field. Leading CDSS providers include McKesson, Siemens Healthineers, IBM Watson Health, Phillips Healthcare, and Meditech.⁶⁵ Under a licensing agreement, Abbott Digital Health distributes Beamtree CDSS software under the AlinIQ brand to global pathology departments and hospitals.⁶⁶ Challenges in creating and deploying these AI decision support tools include meeting regulatory requirements, determining what data they can use and who owns that data, and monetizing the offering.

Diabetic care innovation continues. Wide adoption of GLP-1 drugs for losing weight and controlling diabetes has the potential to reduce demand for continuous glucose monitors (CGMs) and other medical devices for diabetes care. Yet, makers of the devices have argued that people taking GLP-1s actually increase their use of CGMs,⁶⁷ and 2024 brought further advances in medical device technology for diabetes care. In March, Dexcom received FDA clearance to sell the first over-the-counter CGM patch, for Type 2 diabetes patients who do not use insulin.⁶⁸ That may also appeal to those without diabetes who choose to monitor their blood sugar.⁶⁹ Also in 2024, devices approved for Type 1 diabetes saw expanded applications for people with Type 2. In August, the FDA approved the use of Insulet's Omnipod 5 automated insulin delivery system, sometimes known as an artificial pancreas, to treat Type 2 diabetes patients.⁷⁰ Insulet and Tandem Diabetes Care, which also makes an automated insulin pump, Control IQ, approved for Type 1 users, reported increasing use of their systems by Type 2 patients. Tandem planned to file for expanded FDA approval of its device by the end of the year.⁷¹



Outlook and investment considerations for 2025

The continuing postpandemic rebound in elective surgeries could fuel M&A in the medical devices subsector, and respondents to our survey indicated what kinds of deals they are likely to pursue in this area in 2025. Fifty-seven percent were interested in potential acquisition targets for their underlying technology, 38 percent said they would look for tuck-in acquisitions to expand market share, and 37 percent were interested in tuck-in acquisitions that could expand their share

of wallet. The one-third of respondents who were focused on large acquisitions or mergers was the same percentage as in the previous year's survey (Exhibit 18).

Asked what kind of medical device deals were likely to characterize 2025, 36 percent of survey respondents chose small, strategic tuck-ins within core capabilities and product areas, and 30 percent expected small, strategic bolt-ons that would add new innovative capabilities and products. Seventeen percent of

⁶⁵ "Top 10 leading companies offering clinical decision support systems (CDSS) to enable better and enhanced medical decision-making," Emergen Research, April 19, 2023

⁶⁶ "The laboratory journey to become a decision engine: a roadmap for diagnostic transformation," De Gruyter, February 26, 2023

⁶⁷ "Wegovy study details revive debate over GLP-1 impact on devices," Medtech Dive, November 13, 2023

⁶⁸ "Dexcom's first-ever over-the-counter glucose monitor patch gets FDA clearance," CNBC, March 5, 2024

⁶⁹ "Is blood sugar monitoring without diabetes worthwhile?" Harvard Health Publishing, April 23, 2024

⁷⁰ "FDA Clears First Automated Device to Deliver Insulin to People with Type 2 Diabetes," U.S. News and World Report, August 27, 2024

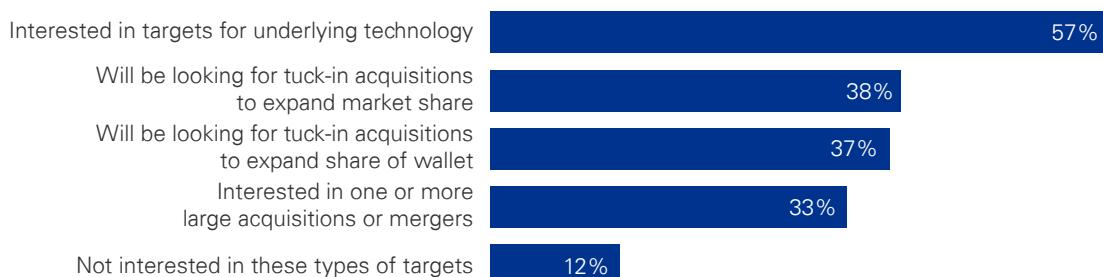
⁷¹ "Tandem, Insulet tout Type 2 expectations as tech attracts new users," Medtech Dive, November 8, 2024

respondents predicted 2025 to be characterized by strategic partnerships in this subsector, and 16 percent mentioned large transformational deals. That is down slightly from the 19 percent who said in the previous year's survey that they expected transformational deals, and forecasts of strategic partnerships also dipped significantly, from 32 percent of respondents in the 2023 survey to 17 percent in 2024.

Respondents to our survey also weighed in on what they consider the biggest headwinds facing the medical device market. Pricing pressures and the inability to pass along cost increases ranked first for 29 percent of respondents, while 23 percent said difficulty getting new products to market was at the top of their list of challenges, and 21 percent cited developing new innovations (Exhibit 19).

Exhibit 18: How dealmakers are looking at elective surgery

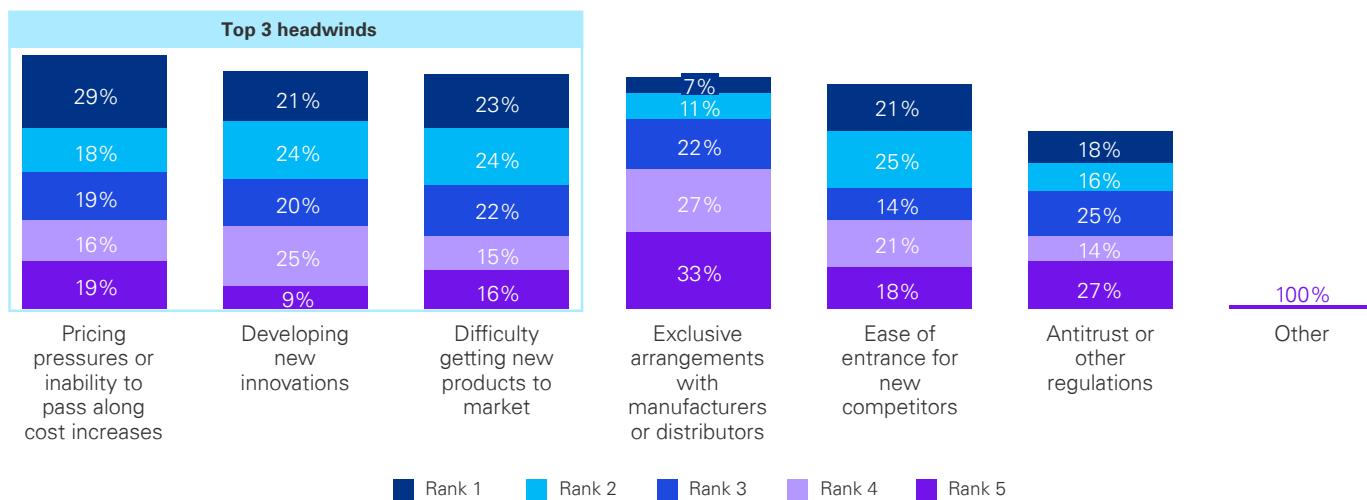
Q: To what extent will you be targeting elective procedure medical device manufacturers for investment in 2025?



Note(s): Sum of percentages may not add up to 100 due to multi select question; Options changed across years but the question remained the same
Source: KPMG HCLS Investment Survey, November 2024

Exhibit 19: Pricing pressures and getting new products to market are top challenges

Q: What do you see as the biggest headwinds in the medical device industry?



Note(s): Bar totals based on respondents who gave some rank to the given factor; Sum of percentages may not add up to 100 due to rounding off; Options changed across years but the question remained the same; Indicates the total number of respondents who answered the question
Source: KPMG HCLS Investment Survey, November 24



Tailwinds and headwinds

Tailwinds

The transformational impact of AI. FDA approval of AI medical devices has grown steadily during the past decade, and the pace of adoption in 2024 reached new heights.⁷² AI throughout this subsector is transforming both product offerings and processes.

Enhancing device portfolios in high-demand, high-margin categories. Taking advantage of innovation that expands what devices can accomplish, major device companies are making strategic acquisitions of businesses with attractive growth and margin profiles.

Recovering demand for elective procedures. Pent-up demand for knee and hip replacements and other procedures involving medical devices continued to fuel equipment and device purchases by hospitals during 2024. We believe this should rise further in the coming year.

Headwinds

Regulatory uncertainty. The impact of AI and machine learning on the FDA's regulation of software as medical device requirements and the arrival of a new leader of the FDA's Center for Devices and Radiological Health inject a measure of uncertainty for medical device companies in 2025. The European Union AI Act and other emerging regulatory efforts could add to the questions for industry leaders.

Rising manufacturing input costs. Higher prices for silver and other metals used in medical devices and some lingering supply chain issues could cut into profit margins for device makers unable to pass along higher costs.



The takeaway

Medical device companies continue to chart their way into an uncertain future likely to be dominated by AI-enabled products and capabilities and the demands of an aging population for elective procedures. M&A is likely to rebound in 2025 as companies use divestitures and acquisitions to improve product lines; increase market share in innovative areas; and focus on high-demand, high-margin areas.

⁷² "The number of AI medical devices has spiked in the past decade," Medtech Dive, October 9, 2024

Biopharma services: A favorable outlook, but questions remain

The outsourcing trend within the biopharmaceutical industry is continuing to build momentum. Indeed, what started many years ago as an initiative to outsource clinical trials has morphed into something much larger, and now includes commercialization services, such as medical communications, as well as manufacturing services, especially as it relates to less complex medicines.

While this outsourcing trend generally has benefited biopharma services, there have been some twists and turns along the way. After a period of significant demand driven by the COVID-19 pandemic, public, private, and government funding has been less robust during the past several years. This downturn in funding has negatively impacted the balance sheets of many development-stage biopharma companies and forced belt tightening. That contraction has also resulted in a reduction in demand for many biopharma services companies. As a result, many biopharma services companies have experienced flat year-over-year performance.

The impact of the incoming Trump administration could bring additional uncertainty. Its emphasis on deregulation could be welcomed by companies in this subsector. Yet, new tariffs could lead to inflation and potentially higher interest rates, which could result in reduced dealmaking, less venture capital investment in early-stage biotech, and a slowdown in spending on drug development and clinical trials.

However, notwithstanding some potential negatives such as the IRA, which could lead to some course corrections in the choices biopharma companies make in building their pipelines, the outlook for the biopharma services sector is generally positive. The outsourcing trend within the biopharma industry is not going away, and capital markets activity (within the biotech sector) is expected to normalize, which should ultimately translate to a return to growth for biopharma services companies.





How biopharma services fared in 2024

Overall dealmaking in this subsector increased slightly from 2023 levels, and M&A in both 2023 and 2024 was above prepandemic levels. And although there were increases in both strategic and financial transactions, the almost 9 percent bump in deals by financial buyers may reflect the slow improvement in conditions in capital markets (Exhibit 20).

Exhibit 20: Biopharma services deals tick upward



Notes: Strategic deals data for biopharma sourced from Informa while all other life sciences subsectors' data has been sourced from Capital IQ, Refinitiv, Informa, and Pitchbook; Healthcare data has been sourced from Capital IQ, Refinitiv, and Pitchbook; Annual biopharma deal outlook publication does not include M&A deal activity with financial investors and includes other non-M&A deals such as strategic R&D collaborations, outputs will thus differ to this publication; YTD'24 as of December 19, 2024

Sources: Capital IQ, a division of Standard and Poor's; Pitchbook; Informa; Refinitiv; all accessed in December 2024

We saw several noteworthy trends in biopharma services in 2024

Outsourcing versus insourcing. Most large pharma companies, as well as developmental-stage biotechs, continue to outsource much of what they do to biopharma services companies that conduct clinical trials, commercialize and market new therapies, and manufacture drugs and other products. That model continues to predominate, although two prominent deals in this subsector in 2024 involved large pharma companies taking direct control of suppliers. In February, Novo Holdings, the parent company of Novo Nordisk, announced it would pay \$16.5 billion for Catalent, a CDMO that will expand capacity to help meet the mushrooming demand for Novo Nordisk's GLP-1 injectables.⁷³ That acquisition was a unique situation in which Novo wanted to keep control of its highest-value drugs while attempting to address a supply shortfall. Also, Eli Lilly acquired Aparito, a Welsh company focused on digitalizing clinical trials and collecting real-world evidence. Smaller biotechs, too, are considering

what to outsource and what to develop in-house. In radiotherapeutics, a growing focus for biopharma, biotechs that had developed their own capabilities have been more likely to attract the attention of potential suitors.

The possible impact of the BIOSECURE Act. This proposed legislation, which passed the US House of Representatives in September, prohibits federal agencies from using biotechnology equipment or services "produced or provided by a biotechnology company of concern," and the bill lists several Chinese companies subject to that ban. Those firms include BGI, MGI, Complete Genomics, WuXi AppTec, and WuXi Biologics.⁷⁴ All of those companies are active in the US pharma services market, and in 2023, WuXi AppTec, which provides R&D and manufacturing services to pharma companies, had revenue of \$3.6 billion in the US.⁷⁵

⁷³ "Novo Nordisk's parent to buy Catalent for \$16.5 bln to boost Wegovy supply," Reuters, February 5, 2024

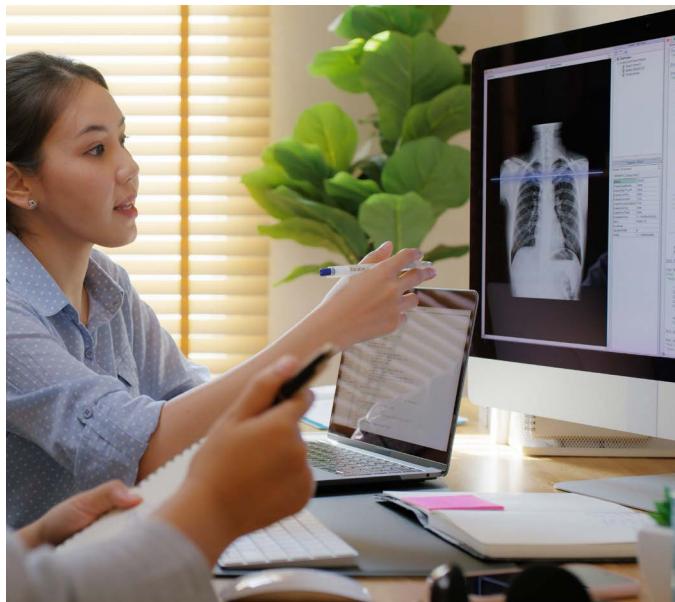
⁷⁴ "BIOSECURE Act: Anticipated Movement, Key Provisions, and Likely Impact," Foley & Lardner LLP, September 10, 2024

⁷⁵ "The US could upend biopharma manufacturing. WuXi rivals have an opening," Endpoints News, March 25, 2024

In anticipation that the bill may pass, WuXi and other companies that would be subject to the BIOSECURE ban have shown interest in selling US assets as well as European facilities. WuXi Advanced Therapies, a CDMO based in Philadelphia, is said to be for sale,⁷⁶ and US and non-Chinese companies may be positioned to purchase some of those assets or take a portion of the Chinese companies' market share. Enzene Biosciences, for example, which operates in India and the US, has said it could replace some of WuXi's biologics and chemistry manufacturing. According to an analysis by Evercore ISI, Charles River Laboratories might be able to take as much as 30 percent of WuXi's US business in lab analysis, chemistry discovery services, and other services.⁷⁷

AI's evolution. The emergence of next-generation AI tools for clinical trials includes Faro Health's Study Designer, which uses GenAI to write clinical protocol documents;⁷⁸ Weave Bio's AI-powered platform for drafting, reviewing, and submitting regulatory documents in drug development;⁷⁹ and Ryght's AI platform for paperwork management and other clinical trials processes.⁸⁰ Biopharma services companies are adopting these and other specific AI-enabled solutions rather than depending on AI from large service providers or tech companies.

Yet because large pharma companies, in particular, are cautious with respect to potential AI-related issues from their suppliers, most are using AI tools behind the scenes. For example, Veeva Systems, which provides software and services to life sciences companies, announced an AI partner program to help client companies build internal AI applications,⁸¹ IQVIA announced a GenAI assistant,⁸² and Medidata and



Thermo Fisher Scientific's PPD clinical research business announced the renewal of a collaboration to expedite innovation in clinical trials.⁸³

Dealmaking for eClinical assets. With biopharma companies increasingly prioritizing later-stage clinical assets, there is rising demand for digitalization and advanced technology, which have demonstrated their ability to improve efficiency and data quality in phase II and phase III trials. This has led to several deals. Arsenal Capital acquired Endpoint Clinical, an eClinical provider of randomization and trial supply management solutions for late-stage trials.⁸⁴ GI Partners purchased a majority stake in eClinical Solutions, which provides digital clinical software and services.⁸⁵ Precision for Medicine acquired Algorics, a clinical technologies and biometrics service provider.⁸⁶ And Calyx and Invicro merged to become Perceptive, an eClinical specialist.⁸⁷

⁷⁶ "Amid BIOSECURE Act, WuXi AppTec and WuXi Biologics explore selling assets," BioProcess International, October 3, 2024

⁷⁷ "The US could upend biopharma manufacturing. WuXi rivals have an opening," Endpoints News, March 25, 2024

⁷⁸ "Harnessing Gen AI for Clinical Protocol Authoring," Faro Health company website

⁷⁹ "Weave Bio Announces \$10M in New Funding and Launch of Its AI-Powered Platform to Streamline Drafting, Reviewing & Submitting Regulatory Documents in Drug Development," press release, May 30, 2024

⁸⁰ "Find sites, optimize research operations, and get there faster," Ryght company website

⁸¹ "Veeva launches AI partner program," press release, April 18, 2024

⁸² "IQVIA announces IQVIA AI Assistant, powered by IQVIA healthcare-grade AI," press release, October 2, 2024

⁸³ "Medidata renews partnership to expedite clinical trials innovation," Clinical Trials Arena, February 29, 2024

⁸⁴ "Fortrea signs definitive agreement to divest Endpoint Clinical and patient access businesses to Arsenal Capital Partners," press release, March 11, 2024

⁸⁵ "GI Partners acquires a majority stake in eClinical Solutions," The Clinical Trial Vanguard, September 13, 2024

⁸⁶ "Precision for Medicine acquires Algorics, adding innovative clinical technologies to portfolio," VentureCapital.com, May 29, 2024

⁸⁷ "Calyx and Invicro agree to combine and create a global leader in medical imaging and software solutions for the clinical research community," press release, March 7, 2024



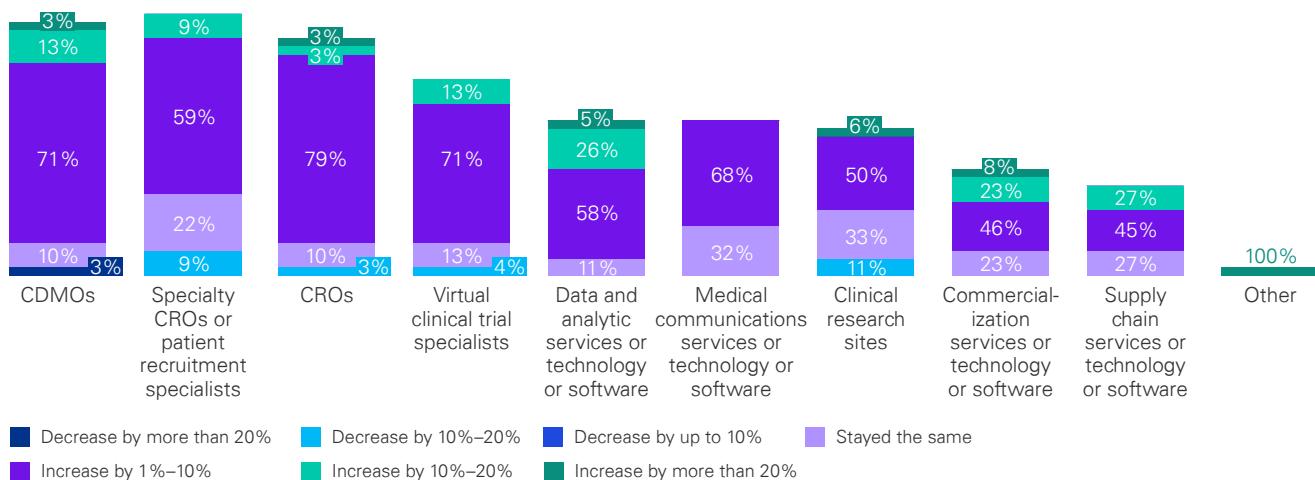
Outlook and investment considerations for 2025

A large majority of respondents to this year's survey said they expected valuations to rise in almost every area of this subsector in 2025. Eighty-seven percent of respondents thought valuations would be higher for CDMOs, 85 percent projected an increase in valuations for CROs, and 84 percent expected higher valuations of virtual clinical trial specialists. Those percentages, and

those for other areas, marked a significant increase from those of respondents to our 2023 survey (Exhibit 21). According to survey respondents, the top three areas for M&A activity in biopharma services in 2025 are likely to be CROs, specialty CROs, and CDMOs. Those three areas were also the top choices of respondents to last year's survey (Exhibit 22).

Exhibit 21: Investors expect rising valuations across most areas

Q: How do you expect 2025 valuations to compare to those in 2024?

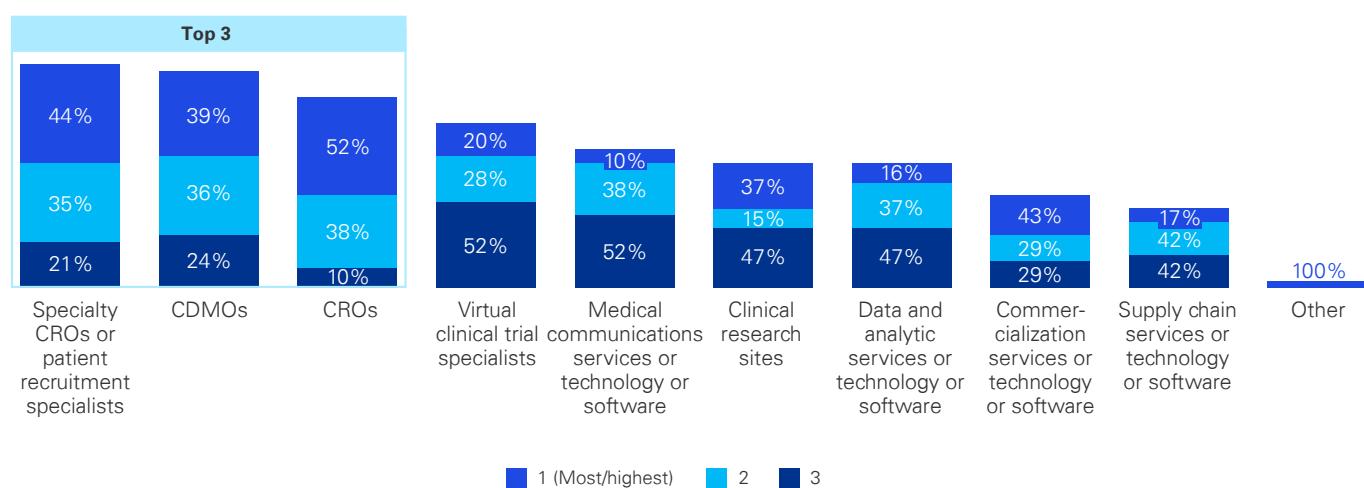


Note(s): Sum of percentages may not add up to 100 due to rounding off; Options changed across years but the question remained the same

Source: KPMG HCLS Investment Survey, November 2024

Exhibit 22: Where investors expect to focus in 2025

Q: What areas within biopharma services do you expect to have the most deal activity in 2025?



Note(s): Bar totals based on respondents who gave some rank to the given factor; Sum of percentages may not add up to 100 due to rounding off; Options changed across years but the question remained the same; Indicates the total number of respondents who answered the question

Source(s): KPMG HCLS Investment Survey, November 2024; KPMG HCLS Investment Survey 2023; KPMG HCLS Investment Survey 2022



Tailwinds and headwinds

Tailwinds

Success of GLP-1 medications. Since 2022, there have been 124 obesity-focused drugs under development,⁸⁸ and the market for approved GLP-1 medications such as Novo's Ozempic and Wegovy continues to expand rapidly. This trend could result in rising demand for biopharma services companies that have capabilities in this area.

Continuation of outsourcing trend. As personalized medicine and advanced therapeutics continue to proliferate within drug development pipelines, the need biopharma services have within these areas will continue to expand.

Improving conditions in the capital markets.

If interest rates continue to fall, then that should not only buttress fundraising activity in public and private markets and stimulate demand for biopharma services, but also could reduce the cost of debt for private equity, helping firms pay more for assets and businesses.

Possible implications of BIOSECURE. The potential curtailing of biopharma services from China-based companies may translate into M&A activity as the companies look to divest assets, and businesses and US-based companies look to gain market share.

Headwinds

Impact of the IRA. With Medicare drug price limits becoming a reality, many large pharma companies and biotechs are rethinking their pipelines, which may lead to a decline in innovative, early-stage drug development in favor of less risky and less expensive initiatives. This change in direction may negatively impact some biopharma services providers. However, the Trump administration and Congress could alter or repeal the IRA, reducing or eliminating this headwind.

Working through COVID-19 oversupply. This subsector is still feeling the effects of the pandemic build-up in manufacturing facilities, clinical trials, and other areas served by biopharma services companies. It may take some time for demand to catch up with supply.

Decrease in government funding. Similarly, the withdrawal of much of the funding provided during the pandemic continues to impact companies in this subsector and may slow down the normalization of fundraising in the public and private capital markets.



The takeaway

The fortunes of biopharma services companies could finally improve markedly during 2025, especially if better capital market conditions benefit the biotechs that outsource much of their work in drug discovery, manufacturing, and commercialization to companies

in this subsector. The runaway success of GLP-1s, in particular, should continue to be a boon for the sector, and a higher level of M&A activity seems likely in 2025 and beyond.

⁸⁸ "GLP-1 Agonists Report," GlobalData, May 2024



Navigating tax disruptors in the life sciences M&A landscape

The healthcare and life sciences sector is experiencing significant disruptions that are shaping the M&A landscape, driven by US tax policy changes and global tax reforms—a so-called “Tax Policy Trifecta”: (1) a 2025 tax cliff and potential for new tax cuts, (2) regulatory disruption including possible new tariffs, and (3) global tax reform.

The upcoming fiscal cliff resulting from the expiration of the Tax Cuts and Jobs Act (TCJA) provisions could lead to a substantial tax bill in 2025-2026. Congress can extend or modify TCJA provisions to avoid the tax increases scheduled to go into effect under current law. Congress may also need to look for revenue raisers to pay for new tax policies, including some of those discussed during President-elect Trump’s campaign.

Global tax reforms, particularly those related to the Organisation for Economic Co-operation and

Development’s Base Erosion and Profit Shifting initiative, are also influencing US tax policy. These reforms aim to address tax avoidance and ensure that profits are taxed where economic activities occur. The implications for the healthcare and life sciences sector include potential changes in international tax regulations and increased compliance requirements.

Notwithstanding the potentially business-friendly incoming administration, the combination of the foregoing disruptors is creating a cautious tax environment for M&A activity in the life sciences sector. Companies are focusing on active portfolio management, cost-cutting, and efficiency improvements to prepare for potential acquisitions. Emerging biopharma companies, in particular, face challenges in navigating these complexities while striving to innovate and attract investment.





Healthcare

Dealmaking remains essential in a big, fast-moving, complex marketplace

Scale and flexibility may seem incompatible—the largest organizations benefit from economies of scale while smaller firms generally pivot faster—but both underpin the success of most healthcare companies. That is why dealmaking will continue to play a strategic role in each healthcare subsector. Acquiring a hospital, surgical network, insurer, or software tool takes much less time than building one, and can be far less expensive. Meanwhile, investors and healthcare institutions will continue to sell lower-performing assets to adjust portfolios to new strategies and shifting marketplace realities.

Challenges across the industry include the costs of care, which in many cases are rising faster than reimbursement; shrinking margins; staffing shortages; and the shifting demands of patients, customers, regulators, legislators, and other stakeholders. Healthcare IT (HCIT) and tech-enabled services can help players manage these challenges by raising efficiencies, letting staff accomplish more, improving forecasting, and speeding decision-making.

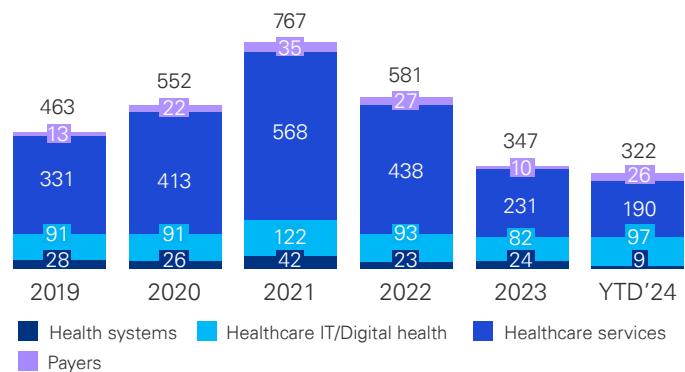
We expect a steady flow of dealmaking in HCIT as strategic and financial buyers alike continue to look for companies that can help improve revenue cycle management (RCM), handle process-heavy workflows, streamline data exchange, and give caregivers more time with patients.

Hospitals and health systems will also continue to make deals. Struggling institutions will look for partners, alliances, or mergers to gain scale advantages and stay in business; larger health systems will aim to gain share in regions and service lines, especially if federal regulators look more favorably on big deals. Few financial buyers will seek major acquisitions in this subsector, given its margin challenges and capital requirements. Indeed, as complexities mount in the healthcare space, financial investors are making the fewest acquisitions in years (Exhibit 23).

Healthcare services continued to attract strategic and financial buyers in 2024, but transaction volume remained relatively low. We expect mostly smaller to medium-sized transactions in 2025 as private equity and strategic investors look to gain capabilities or expertise, such as in value-based payments; expand networks or services within networks; or merge with other providers for scale advantages.

Payers will continue to make strategic shifts, driving dealmaking. Some players acquired provider and pharmacy assets in recent years to influence the total cost of care, for example, and many are now considering divestitures of health plans that lose money or require large capital expenditures. We expect plenty of deals in this dynamic space in 2025, mostly as strategic buyers divest lower-performing assets, enter new markets, and acquire new offerings and capabilities.

Exhibit 23: Financial investors remained relatively quiet in 2024

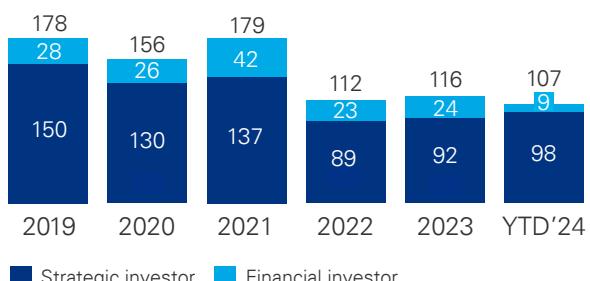


Source: Pitchbook | Notes: Financial investments include platform/add-on deals undertaken by private equity (PE) firms; Includes deals with only US-based targets; YTD'2024 as of December 19, 2024

Hospitals and health systems: Large institutions continue to look for opportunities

Most leading hospitals and health systems are in better positions today than in 2023, thanks to reimbursement increases, lower interest rates, and more stability in clinical staffing, including less need for contract labor. Deal volume in 2024 was in line with the previous two years as larger institutions pursued acquisitions, partnerships, and joint ventures; expanded their offerings; invested in new operational efficiencies; and monetized intellectual property. Financial investors remained mostly on the sidelines (Exhibit 24). Some institutions are improving margins by moving from fee-for-service to value- or risk-based care and more advanced payment models that offer incentives or global payments to improve the quality of care or clinical performance, and optimizing their operating models. That said, some providers found scaling value-based care solutions difficult and less profitable than originally anticipated.

Exhibit 24: Deal volume remained steady, with little PE participation



Notes: Strategic investments include deals undertaken by a public/private company with no major private equity backing (PE); Financial investments include platform/add-on deals undertaken by PE firms; Includes deals with only US-based targets; YTD'2024 as of December 19, 2024

Sources: Capital IQ, a division of Standard and Poor's, and Refinitiv

Strategic portfolio rationalization continues as larger institutions exit noncore markets and unprofitable offerings, buy hospitals in appealing markets, or integrate or reposition hospitals under their umbrellas. These moves enable them to gain economies of scale, strengthen purchasing or pricing power with vendors and payers, and attract new patient volumes. Some large transactions are structured as mergers under a new parent entity that shares resources across both organizations.

In our survey, 60 percent of respondents said they expect deal volume in the subsector to rise in 2025; fewer than one in ten expect a decline. Asked about the types of partnerships they expect health systems to forge in 2025, alliances with digital health companies and primary and multispecialty physician groups topped the list.

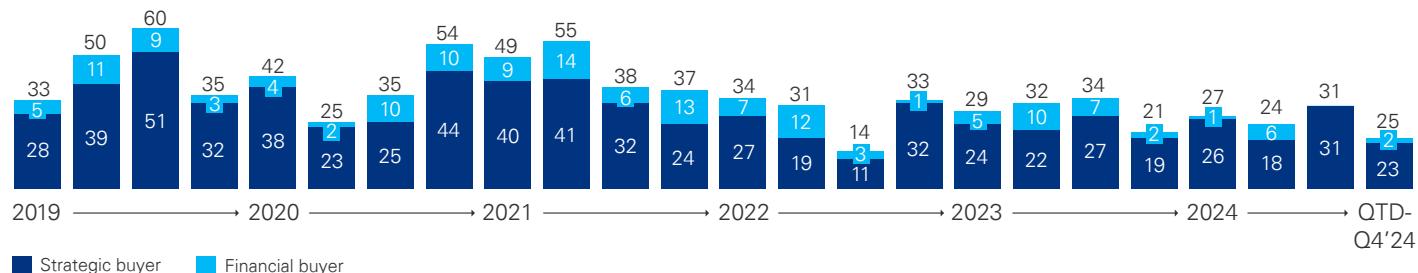
Other targets include big health systems in unfavorable markets and smaller hospitals and health systems. Many continued to operate at a loss in 2024 as they struggled with staffing, reimbursement, margin, market position, and cybersecurity challenges. Across the subsector, leaders are exploring outsourcing and offshoring for non-patient-facing services, particularly institutions with the scale to reap enough benefits to counteract service-level disruption risks.

Health systems continue to partner in areas such as physical therapy and urgent care where they are not seasoned operators, have a higher centralized cost structure, or may be able to capitalize on better reimbursement rates or incremental volume synergies.

Dealmaking will continue in 2025 as the most successful institutions in profitable markets look for opportunities. Financial buyers are eager to put capital to use but are likely to remain mostly on the sidelines in this brick-

and-mortar subsector, given that overall costs are rising faster than revenues and many health systems need major infrastructure investments.

Exhibit 25: Strategic dealmaking on the rise



Notes: Biopharma data sourced from Informa and Pitchbook while all other LS sub-sectors' data has been sourced from Capital IQ and Pitchbook; HC data has been sourced from Capital IQ, Refinitiv, and Pitchbook; Annual biopharma deal outlook publication does not include M&A deal activity with financial investors and includes other non-M&A deals such as strategic R&D collaborations, outputs will thus differ to this publication; YTD'2024 as of December 19, 2024

Sources: Capital IQ, a division of Standard and Poor's, and Refinitiv



How hospitals and health systems fared in 2024

Transactions gathered steam in 2024: 33 deals were announced or closed in the third quarter, the biggest quarterly total in almost three years (Exhibit 25), reflecting growing confidence in the industry overall. Margins topped 4 percent in all four quarters of 2024 after remaining under 3 percent throughout 2023, according to research by KaufmanHall.⁸⁹

But industry-wide numbers obscure wide gaps between haves and have-nots: almost 40 percent of US hospitals are operating at a loss. Top performers are delivering margins of up to 29 percent, while those in the bottom tier recorded -16 percent margins, a 45-percentage-point gap between leaders and laggards.

Few rural and community hospitals have the scale to make significant efficiency gains or find and retain the staff they need. According to KaufmanHall, 21 of these facilities closed across the US in 2024. Others are paring back essential services in response to labor and reimbursement challenges; more than 30 institutions stopped offering maternity services in 2024, for

example.⁹⁰ Most laggards will struggle to find buyers, but some will improve their viability by joining forces.

Strategic portfolio deals. Survey respondents in the subsector have clear dealmaking priorities for 2025, including portfolio rationalization, expanding profitable service lines, and entering new ones (Exhibit 26).

Deals in 2024 reflected these strategic aims. Tenet Health, for example, made a range of agreements to strengthen its position in the marketplace, selling four hospitals in California to UCI Health, two to Adventist Health, and three in South Carolina to Novant Health. As part of the deal, Conifer Health Solutions, a Tenet subsidiary, received contracts to provide RCM for each of the hospitals. In the third quarter, Tenet announced it would sell Brookwood Baptist Health, a five-hospital system in Alabama, to Orlando Health.

Ascension, on a parallel tack, plans to sell eight Illinois hospitals to Prime Healthcare and invest in "acute and nonacute services, including ambulatory surgery

⁸⁹ "National Hospital Flash Report: August 2024 Metrics," KaufmanHall, October 3, 2024

⁹⁰ "37 maternity service closures in 2024," Beckers Hospital Review, December 31, 2024

centers, physician practices, physical and occupational therapy, at-home and virtual care, imaging, and pharmacy.”⁹¹ Ascension also sold its St. Vincent’s sites of care in Alabama to UAB Health System.

Other divestitures included two by Quorum Health, one by HCA Healthcare, and two hospitals in a single transaction by CommonSpirit Health.

California-based Astrana Health agreed in November to purchase the majority of Prospect Medical’s managed care platform from Medical Properties Trust, a real estate investment trust, for about \$745 million. Astrana says it will make investments in Prospect, which employs 3,000 primary care providers and 10,000 specialists, to improve care access and quality.

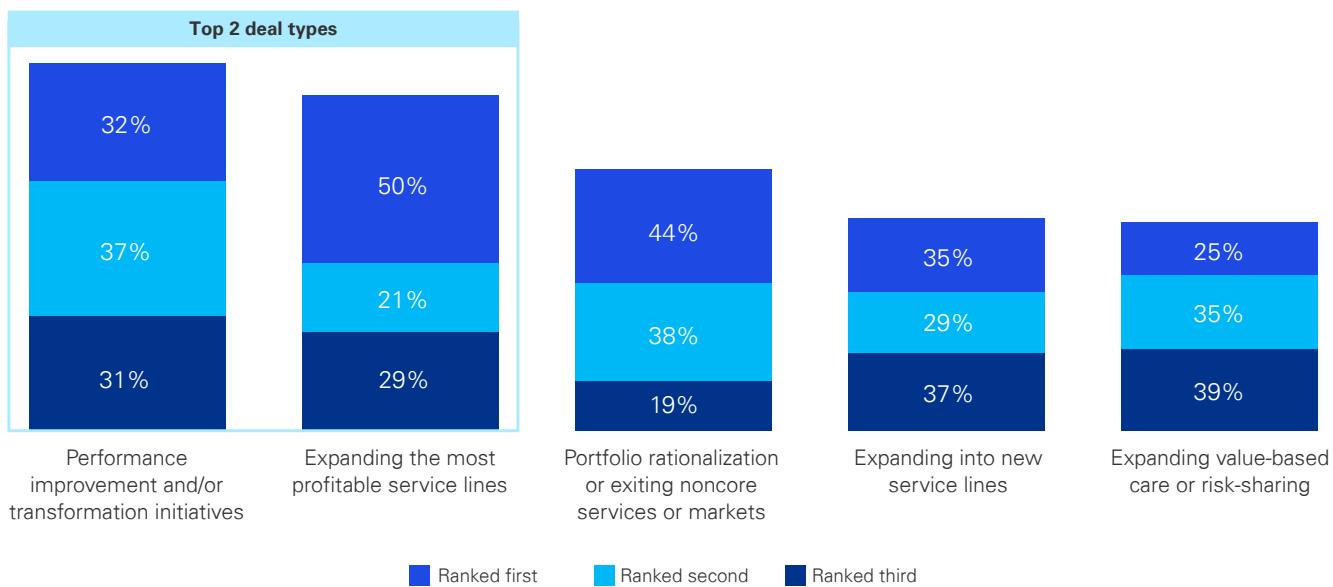
Some players joined forces. Ascension and Henry Ford Health launched a joint venture in October, for example, to expand access to care, lower costs, and improve outcomes for 50,000 employees in more than 550 sites in Michigan, including 13 acute care hospitals and behavioral health and cancer care facilities.⁹² Also in

the third quarter, Sanford Health in South Dakota and Marshfield Clinic Health System in Wisconsin said they would join forces.

Some of the largest players got bigger. In 2023, Kaiser Foundation Hospitals formed Risant Health, a charitable organization, to access value-based care. In April 2023, Risant completed its acquisition of Geisinger, a provider of value-based care to 1.2 million people in urban and rural communities in Pennsylvania. In June 2024, Risant announced that it would also acquire Cone Health, which serves half a million people in North Carolina with more than 13,000 employees. These expansions into noncontiguous regions may have helped the dealmakers avoid antitrust concerns.

Some leaders exited geographies that no longer seemed promising. Community Health Systems announced it would depart the Pennsylvania market, selling the three hospitals of Commonwealth Health to WoodBridge Healthcare, a nonprofit, to raise money to pay down its debt.

Exhibit 26: Health system priorities for 2025 include performance improvement, expanding profitable service lines and entering new ones, and portfolio rationalization



Note: Sum of percentages may not add up to 100 due to rounding off. Source: KPMG HCLS Investment Survey, November 2024

⁹¹ “Embracing Change: Ascension Evolving to Meet the Needs of Our Communities,” Ascension News, July 22, 2024

⁹² “An Incredible Privilege: Henry Ford Health & Ascension Michigan Launch New Organization,” www.henryford.com, October 1, 2024



Outlook for M&A in 2025

We expect hospital and health system dealmaking to remain strong in the year ahead as margin pressures and service line and portfolio rationalizations continue. Even the largest, most profitable institutions will look for ways to grow by entering promising new geographies and starting new ventures. The nation's many loss-making institutions will need to make new alliances or sales to improve performance.

It is too early to know exactly what dealmakers can expect under the new administration in Washington. We are confident that regulators will have fewer antitrust concerns, but a number of key questions remain:

- **Will federal cost-cutting pressures affect Medicare and Medicaid reimbursement, or the Children's Health Insurance Program?**

Pressures on access to Medicaid may hurt margins, but interest in Medicare Advantage may rise compared to traditional Medicare, which would likely benefit acute care providers and health systems. In 2024, more than half of Medicare beneficiaries were enrolled in MA—a new high.⁹³

- **Will the government make private-run Medicare Advantage the default enrollment option?**

Medicare continues to consume a larger share of federal government spending each year, but MA reimbursements are likely to be lower in 2025 than many providers expected.⁹⁴

- **How will the Affordable Care Act (ACA) change?**

The temporary expansions of the premium tax credit (PTC) for ACA marketplace coverage that were extended in the Inflation Reduction Act are set to expire after December 31, 2025.

- **Will the new administration pull back on infrastructure investments?**

These include the American Rescue Plan Act, which allocated funds to build, renovate, and modernize healthcare facilities, and the Build Back Better Act and its \$10 billion in contributions to healthcare facility projects.



⁹³ "Why Medicare Advantage Plans Are Likely to Be Squeezed Next Year, Reduce Benefits," Forbes, June 18, 2024

⁹⁴ Ibid. See also "National health expenditure data fact sheet," www.cms.gov



Tailwinds and headwinds

Tailwinds

An aging population. This trend will continue to drive steady growth in demand, particularly as more baby boomers enter their senior years and live longer. By 2040, about 24 percent of Americans will be 65 or older, up from 16 percent in 2019, while the number of those 85 and older will have more than doubled to over 14 million.

Continued move to value-based care. The shift away from fee for service continues in earnest, which means that hospitals and health systems can lean into M&A in ways that can enhance the coordination of care and maximize regulatory and payer incentives that are directly connected to improved performance on quality metrics and better outcomes using value-based care.

Partnering with digitally mature systems. A lot of money and effort is required to modernize these organizations' digital infrastructures, increasing the appeal of systems with leading digital capabilities that can help laggards piggyback their way to tech leadership.

Headwinds

Talent shortages. This trend persists, especially in New York, New Jersey, Tennessee, Massachusetts, and Georgia, according to research by Mercer. Most states will see shortages of nurse practitioners. Registered nurses continue moving away from hospitals to find better hours, lighter workloads, and higher pay, such as in physicians' offices. Overall, Mercer expects a shortage of 100,000 healthcare workers by 2028.

Continuing antitrust concerns. Even if regulators in the new administration are less concerned that M&A could hinder competition, many of the biggest health systems have now almost completed their regional and multiregional expansions and might face a public or regulatory backlash if they attempt to get even bigger. Some might need to seek vertical integration instead.

Ongoing cybersecurity threats. Bad actors, many of them flush with talent, cash, and even government support, will continue to hone their skills, raising risks. The total cost of the 2024 hack of Change Healthcare, for example, is now approaching \$2.9 billion.⁹⁵ That means hospitals and health systems without first-rate cybersecurity may be much less appealing to investors.

Rising costs of care. As labor, drugs, and supplies become more expensive, hospitals and health systems could face even more margin pressure, leaving smaller institutions with less and less room to maneuver.



The takeaway

With a growing economy and aging population, demand will grow for what hospitals and health systems provide; about 10,000 Americans become eligible for Medicare every day. Scale and efficiency will increasingly define the outperformers. We expect them to make more deals in 2025 as struggling institutions look for lifelines,

and regulators look more favorably on acquirers aiming to grow their market shares in regions and service lines. Few financial buyers will seek major acquisitions, given the industry's margin challenges and capital requirements.

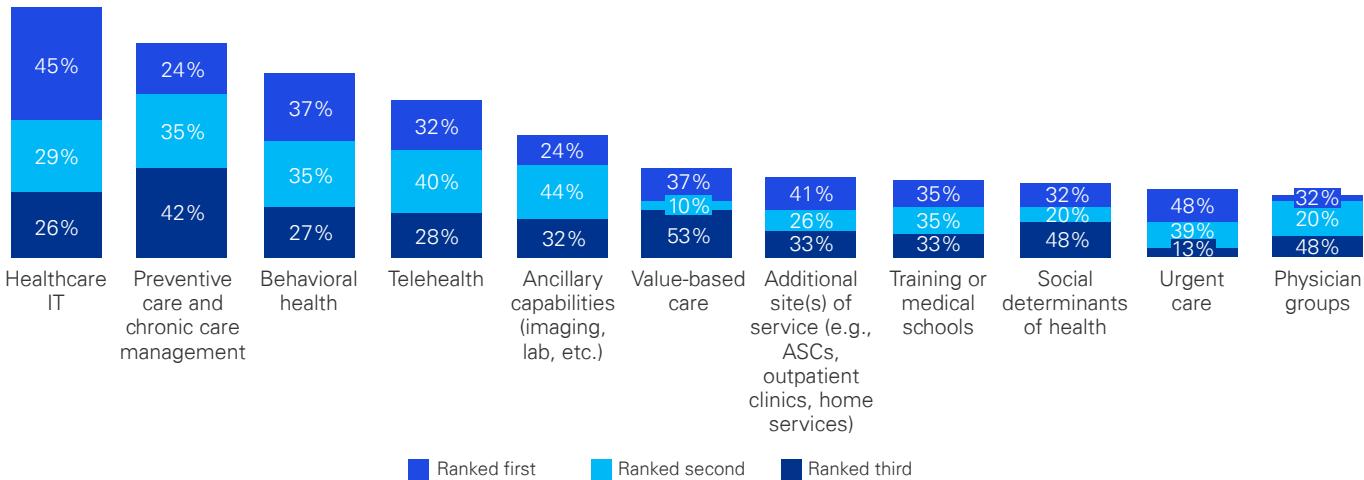
⁹⁵ "Change Healthcare Attack Cost Estimate Reaches Nearly \$2.9B," BankInfoSecurity, October 16, 2024

In addition to rationalizing portfolios, survey respondents' strategic priorities include improving performance and expanding profitable service lines. This helps explain why many expect to forge partnerships and alliances with digital health companies, multispecialty physician

groups, primary care physician groups, and companies that offer cost-management tools.

Their investment priorities for 2025 include healthcare IT and preventive and chronic care management groups, followed by behavioral health and telehealth (Exhibit 27).

Exhibit 27: Investment priorities for 2025 include healthcare IT and preventive and chronic care management groups



Note: Sum of percentages may not add up to 100 due to rounding off.

Source: KPMG HCLS Investment Survey, November 2024



Healthcare services: More care comes home

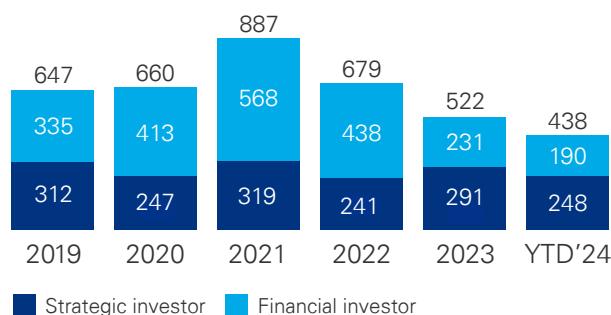
Healthcare services continued to attract strategic and financial buyers in 2024, especially in the second half of the year as inflation and interest rates declined, easing recession fears. Transaction volume remained well below the pace of recent years, however, partly in response to changing reimbursement schedules and a trend toward providing more healthcare services outside hospital settings (Exhibit 28).

For this report, the healthcare services category includes independent and employed physicians; risk-bearing and other providers throughout the care continuum other than hospitals, such as long-term acute and postacute care providers; rehabilitation centers and skilled nursing facilities; ambulatory surgery centers (ASCs); and urgent care and other retail facilities.

We expect M&A to continue at roughly the same pace in 2025 as bid-and-ask spreads narrow—the rich multiples of 2021 are fading into the rearview mirror. In a sign of what may be on the horizon, McKesson, Cardinal,

and Cencora, the three largest drug distributors, began stepping up in 2024 to acquire specialty physician practices and other assets, helping to unlock IPOs and public exits.

Exhibit 28: Deal volume reached a six-year low



Notes: Biopharma data sourced from Informa and Pitchbook while all other LS sub-sectors' data has been sourced from Capital IQ and Pitchbook; Healthcare data has been sourced from Capital IQ, Refinitiv, and Pitchbook; Annual biopharma deal outlook publication does not include M&A deal activity with financial investors and includes other non-M&A deals such as strategic R&D collaborations, outputs will thus differ to this publication; YTD'2024 as of December 19, 2024



How physician practices fared in 2024

Deals in this broad sector vary widely by size and rationale, from capability-building to network expansion. Some transactions in 2024 were among the smallest in the healthcare space, such as individual physician practices, and others were among the largest. Cardinal Health, for example, announced in September that it would acquire Integrated Oncology Network, a physician-led network of more than 50 sites in 10 states, for \$1.1 billion. In November, Cardinal announced that it would acquire a majority stake in GI Alliance, the country's leading gastroenterology management services organization, for about \$2.8 billion, along with the Advanced Diabetes Supply Group, a leading provider

of diabetic medical supplies, for about \$1.1 billion. Cardinal's CEO said the deals would help the company continue to improve "operating performance and financial flexibility."

Big players are becoming more customer-centric and forging new partnerships. Cencora aims to help customers navigate the complex healthcare environment while optimizing its supply chain and looking for biopharma breakthroughs. On November 6, the company invested \$4.6 billion plus a potential \$500 million in incentive payments in an 85-percent stake in Retina Consultants of America, which conducts clinical trials and counts 2 million patient visits annually in 23 states.

McKesson's strategy, to improve "health outcomes for all," includes initiatives such as providing essential pharmacy services to underserved communities and embracing technology and innovation, such as digital enablement to improve efficiencies across the business.

Physician practice strategic buyers once again made up the lion's share of deal volume. The FTC held up some PE rollups of physician practices, and some integrations have been rocky and time-consuming—especially with challenging reimbursement rates and higher labor costs and interest rates—reducing anticipated payouts and discouraging parties on both sides. Given the challenges of managing and growing physician practices efficiently, due diligence increasingly includes reviews of technology systems and management platforms.

Specialties that appealed to many PE investors just a couple of years ago, such as cardiology, ophthalmology, and optometry, saw less activity in 2024. The average PE hold time for practices now exceeds six years, which is forcing some investors to either raise incremental value or cut bait.

We expect some financial investors to find opportunities in 2025, however, in part because so many doctors find running a private practice frustrating. They do not like paperwork, complying with complex and shifting regulations, or negotiating with insurers; 94 percent of physicians surveyed⁹⁶ by Morning Consult for the American Hospital Association in 2023 said that it has become more financially and administratively difficult to operate a practice.

Survey respondents expect the most appealing specialties for investment over the next two years to include behavioral health, cardiology, and oncology, trailed by gastroenterology, neurology, and primary care.

We continue to see activity in general dentistry, whose appeal to investors includes sticky patient bases and the ability to sell through to ancillaries such as orthodontics, periodontics, and endodontics. Warburg Pincus, recognizing opportunities in the space, announced that it would invest \$525 million in November in MB2 Dental,

a leading dental partnership organization, in its next growth phase.

Acute, postacute, and long-term care deal activity cooled in traditional Medicare home health due to low reimbursements. More acquirers began looking at self-pay and private-pay unskilled home care and personal care in franchise or company-owned models. Optum, an arm of UnitedHealth Group, announced in June 2023 that it would acquire Amedisys, a home health and hospice provider, for example, for \$3.3 billion. The Department of Justice (DOJ) sued to block the deal in November 2024, illustrating one of the regulatory challenges of deal-making that may ease in the new administration. The DOJ asserts that the deal would harm patients, insurers, and nurses by reducing competition in home health and hospice.

In April, CMS finalized rule changes in home and community-based services (HCBS) for Medicaid patients. Among the most important is the "80/20" rule that will require HCBS agencies to spend at least 80 percent of Medicaid payments for homemaker, home health aide, and personal care services to compensate direct care workers. Providers have concerns about the rule's specific allocations to worker compensation and bogging down providers and Medicaid agencies with burdensome reporting requirements.

In long-term care M&A, 2024 was a busy year, in part because many smaller institutions in some states cannot make ends meet with rising costs and low reimbursements. Many acquirers foresee growth in the continuing move from in- to outpatient care, and in powerful demographic forces. The oldest baby boomers will begin turning 80 in 2025, for example, and research suggests that more than half of Americans will have eventually "low to moderate" long-term-care needs—and that more than one in four will have severe needs for more than four years.⁹⁷

Costs rise for rehabilitation and skilled nursing facilities. As expenses rise faster than reimbursements, many smaller rehab and nursing facilities looked for buyers or partners. Other deals are emerging, from

⁹⁶ "Examining the real factors driving physician practice acquisition," American Hospital Association, June 2003

⁹⁷ "What Level of Long-Term Services and Supports Do Retirees Need?," Center for Retirement Research at Boston College, June 2021

portfolio rebalancing efforts. American Health Partners, aiming to focus more on insurance, sold 31 skilled nursing facilities in Tennessee and Alabama to CareTrust REIT for \$500 million. CareTrust also aims to buy four skilled nursing facilities in the Northeast for \$57 million.

Behavioral health activity set to grow. Many investors, including survey respondents, expect substantial growth in behavioral health services in the years ahead (Exhibit 29). More people are becoming aware of mental health issues and seeking help, access to care is improving, and behavioral health disorders are proliferating, especially in substance abuse. Meanwhile, state and federal mental health parity rules mean that more funds will be available for behavioral care—ACA-compliant plans must provide comparable coverage for physical and mental health, for example.

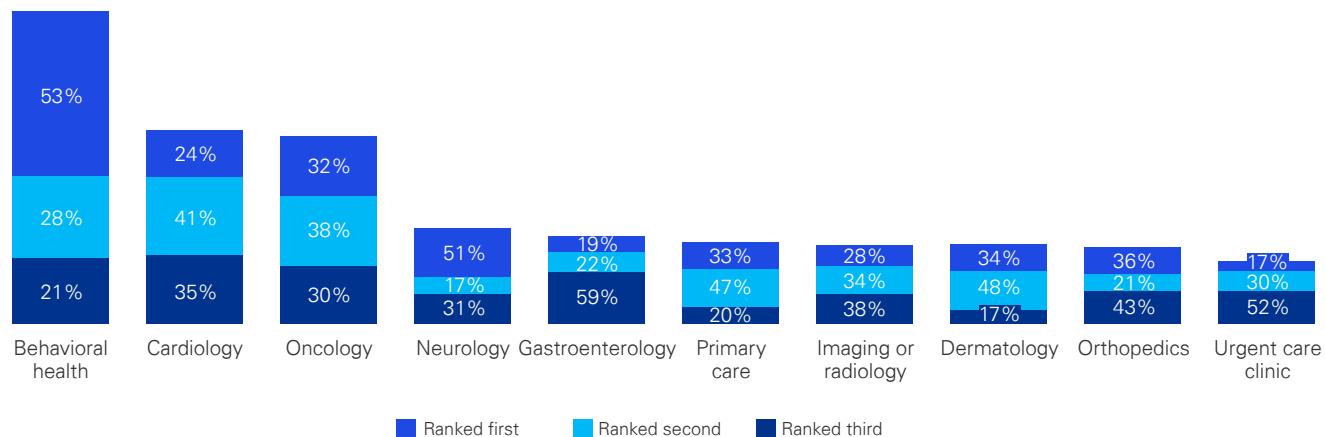
Investor deals in the space in 2024 included CVS Health Ventures' \$45 million investment in Wayspring, a value-based provider of substance use disorder (SUD)

treatment, and a \$35-million Series C funding round for Boulder Care, a provider of digitally based SUD, led by Advance Venture Partners. Tenex Capital Management acquired Behavioral Innovations, one of the largest US providers of autism services, for about \$300 million.

Providers also made deals. Refresh Mental Health, an arm of Optum, acquired CARE Counseling Services, continuing efforts to cut patient wait times. And Kentucky Counseling Center announced that it would acquire Flourish Psychotherapy in Ohio.

Women's Health Access Matters (WHAM) and the KPMG U.S. Foundation have formed a multiyear collaborative to advance research in women's health. This initiative aims to drive research and funding in critical areas such as autoimmune diseases, brain health, cancer, and heart health.

Exhibit 29: Respondents expect the highest levels of investments in behavioral health, cardiology, and oncology in the next two years



Note: Sum of percentages may not add up to 100 due to rounding off. Source: KPMG HCLS Investment Survey, November 2024

Ambulatory surgery interest continues to grow.

Thanks to technological advances, lower costs, and rising demand, far more medical procedures are now being completed in the nation's more than 6,000 ambulatory surgery centers. Research suggests that a third of cardiac procedures will take place at ASCs in

2025, for example. The subsector's revenue and margin growth, driven by transitioning higher-acuity cases to the ASC, appeals to strategic and financial investors alike.

This trend is reflected in Tenet's continued investment in United Surgical Partners International, its ASC unit.

The company acquired 45 new centers in Q1, including Covenant Physician Partners, an ASC company with more than 80 locations in 17 states that had been struggling with debt and high labor costs. It then made eight ASC acquisitions. And in October, it continued executing on its inorganic strategy, acquiring Synergy Orthopedics, the largest dedicated musculoskeletal ASC in San Diego.

Urgent care and other retail healthcare. Many investors and healthcare providers expect patient volume to grow in urgent care centers, in part because many younger people rely on them rather than primary care physicians. University Hospitals in Cleveland, for example, announced in October that it had built its 21st urgent care center in northern Ohio and would expand to 36 by 2026—and move some of its existing urgent care centers from medical buildings into retail locations.

But some of the biggest investors in the space, including Walgreens and Walmart, are taking another look as costs rise faster than reimbursements.

In August, after a \$5.8 billion loss in the second quarter, Walgreens informed the Securities and Exchange Commission that it might sell some or all of VillageMD, its chain of primary care clinics, given

the unit's "substantial ongoing and expected future cash requirement." This was a major shift, especially considering Walgreens' \$8.9-billion acquisition of Summit Health+CityMD in 2023.

In April, Walmart announced it would close its more than 50 retail health centers and Walmart Health Virtual Care five years after launch, saying the business model was not sustainable.

CVS faces financial challenges, including rising costs of care, especially in Medicare Advantage, and lower pharmacy margins, but it is holding fast to its integrated model that helps "deliver lower cost of care, a simpler experience and better outcomes."⁹⁸ Oak Street Health, which it acquired in 2023 for \$10.6 billion, includes 200 healthcare centers in 25 states, and it plans to open 24 new locations by the end of 2024. At the same time, as CVS aims to trim annual costs by \$2 billion, it will discontinue some infusion services and close or sell 29 retail pharmacy locations.

Some analysts and activist investors say the company should break up its pharmacy and insurance businesses—after spending tens of billions of dollars building them to scale to create a one-stop-healthcare shop for consumers.



⁹⁸ "CVS Health Corporation reports third-quarter 2024 results," press release, November 6, 2024



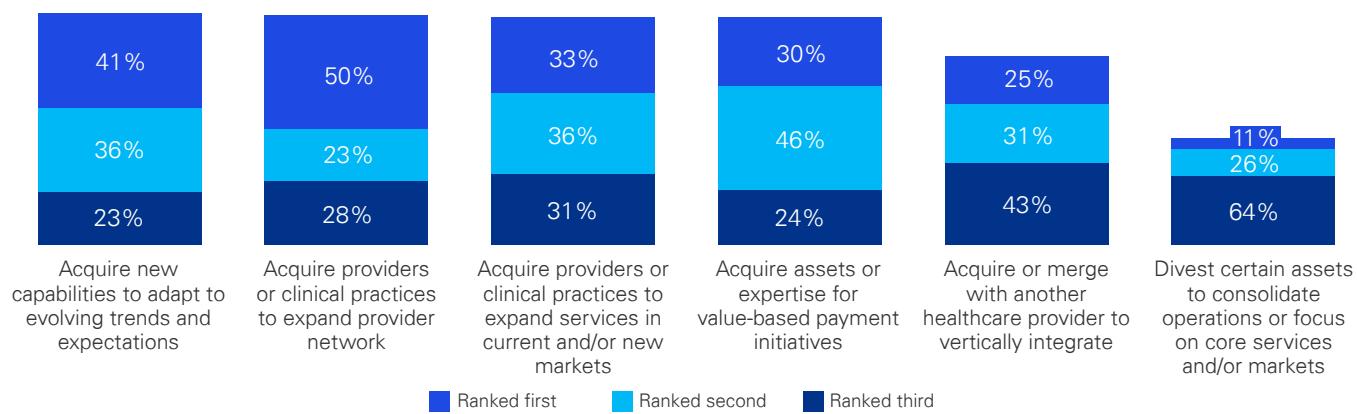
Outlook for M&A in 2025

We expect the pace of dealmaking in healthcare services to continue in 2025 as players seek new efficiencies and profitable growth. While the sector continues to face some uncertainties and headwinds, dealmakers have become accustomed to the current interest rate environment and correlated declines in price-to-earnings multiples. That said, FTC and DOJ scrutiny top the list of concerns for PE to do deals in some of these subsectors, most significantly physician services.

Survey respondents say their 2025 investment priorities in the space will include acquiring new capabilities, providers, or clinical practices (Exhibit 30).

The new administration in Washington is likely to look more favorably on deals, but it might also resist significant reimbursement increases in its efforts to control federal spending.

Exhibit 30: Investment priorities in healthcare services in 2025 will include acquiring new capabilities, providers, or clinical practices to expand markets or provider networks



Note: Sum of percentages may not add up to 100 due to rounding off. Source: KPMG HCLS Investment Survey, November 2024

Tailwinds and headwinds

Tailwinds

Capital availability. Many sponsors are looking for exits as well as opportunities to put cash to work.

Continued move to value-based care. The shift away from fee for service continues in earnest, which

means healthcare services providers can pursue M&As that enhance care coordination and maximize the value of regulatory incentives connected directly to better outcomes using value-based care.

Tailwinds and headwinds

Headwinds

Preferences for remote monitoring and telehealth.

Expanding in-home care options can significantly lower costs for patients—and revenues for many healthcare services providers.

Talent shortages. Given the aging population and rising needs for a range of staff, from experienced practitioners to less-skilled staff, the subsector will continue to face serious talent gaps, especially in some geographies. This dynamic could impact some providers' service delivery and wages, and thus deal viability.

Regulatory pressures. Government rules surrounding issues like prior authorization, merit-based incentive payment systems, and Medicare Advantage chart

audits will continue to weigh down players in this space. Concerns about HHS selection have negatively impacted pharma stocks, which may have cascading effects on retail healthcare and other related businesses.

Rising costs of care and reimbursement pressures.

If labor, drug, and supply costs continue to rise faster than reimbursements, particularly in Medicare Advantage, healthcare service providers could face even more margin pressure, leaving smaller institutions with less and less room to maneuver.

Lack of familiarity with value-based payer

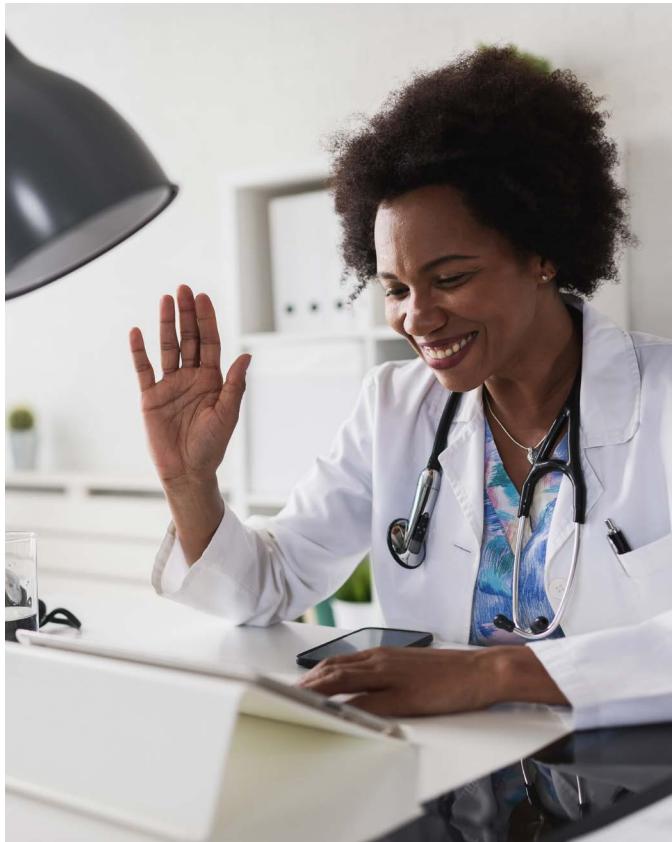
contracting. Survey respondents ranked this challenge second only to the need for new capabilities such as remote monitoring and telehealth.



The takeaway

PE and strategic investors will continue to see many reasons to acquire healthcare services assets: gaining new capabilities or expertise, such as in value-based payments; expanding networks or services within networks; or merging with other providers to gain advantages of scale. Many players will look for divestment opportunities to raise cash and focus on core services or markets, and they may be more likely to accept lower valuations than they would have just a couple of years ago. Most of our survey respondents considering exit strategies said they would prefer to sell to another healthcare service provider, but PE and venture capital investors can be persuasive.

Considering the sum of headwinds and tailwinds, we expect a robust year of dealmaking in mostly smaller to medium-sized transactions, especially to expand provider networks and services, enter new markets, acquire telehealth and other new capabilities, and advance value-based payment initiatives.



Healthcare payers: Portfolio reviews drive more dealmaking

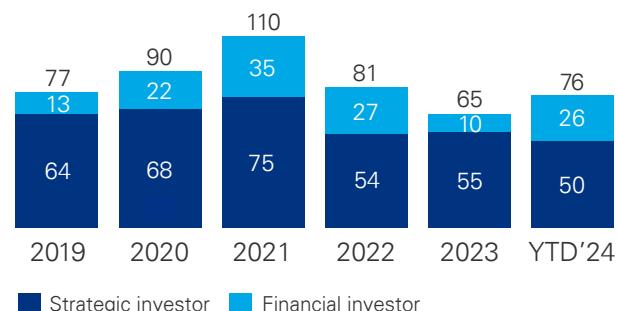
In the highly dynamic payer landscape, companies and investors must constantly adjust strategies to drive profitable growth. In recent years, many payers—defined here as managed care organizations, claims processing and network solution providers, and pharmacy benefit managers—pursued vertical integration across the care continuum. They accomplished this in part by adding provider and pharmacy assets in low-acuity care settings to influence the total cost of care.

The tide is shifting, which helps explain why deal volume remains below prepandemic levels (Exhibit 31). Many large players are now reevaluating which elements of their integrated organizations are generating real value. And owing to challenges in Medicare Advantage and some other lines of business, some health system leaders are wondering whether to divest health plans that help to attract incremental patients but are losing money or will require large capital expenditures in coming years.

Many other portfolio reviews in 2024 focused on pricing and margin pressures in lines of business. Some payers are struggling financially as hospital reimbursement rates rise along with utilization of higher cost of care sites of service, putting pressure on medical loss ratios.

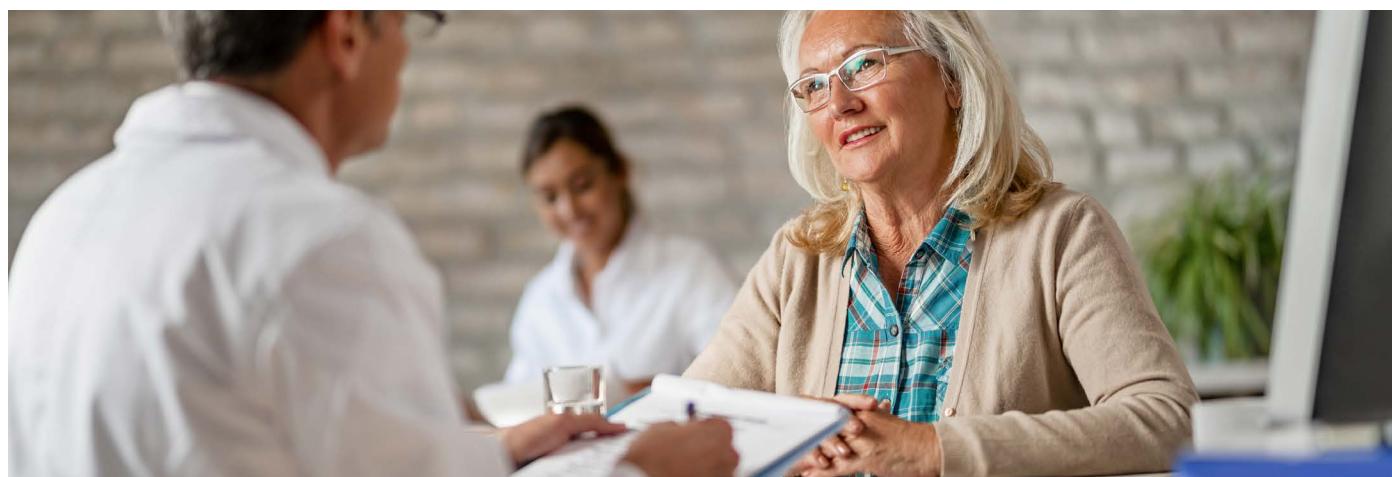
A majority of survey respondents expect enrollments to rise in Medicare, small group and self-insured employers, and individual coverage. They also see disenrollment rising in Medicaid lines of business under the new administration in Washington, mostly because of rising premiums and a need to access more services.

Exhibit 31: Deal volume has yet to return to prepandemic levels



Sources: Capital IQ, a division of Standard and Poor's, and Refinitiv

Notes: HC deals have been sourced from Capital IQ, Refinitiv, and Pitchbook; Strategic investments include deals undertaken by a public/private company with no major private equity backing (PE); Financial investments include platform/add-on deals undertaken by PE firms; Includes deals with only US-based targets; YTD'2024 as of December 19, 2024





How healthcare payers fared in 2024

Payers need to remain flexible to succeed in a marketplace that often sees significant change. For example, the Centers for Medicare & Medicaid Services (CMS) updated its reimbursement models to version 28 in 2023.⁹⁹ We expect new MA capitation rate and risk adjustment methods to lower payments for some patients' care—especially those who are sicker or have more complex conditions, and for some conditions linked to other diagnoses and thus already compensated for. The changes, including adjustments to Stars criteria, will gradually take effect into 2026, affecting capitation rates for per-member-per-month (PMPM) premiums from Medicare, impacting providers, MA payers, and employers, and shifting priorities in coding, compliance, and care management.

As reimbursements get tighter, labor costs are stabilizing but remain high, and some highly effective new treatments are expensive, such as GLP-1 for Type-2 diabetes and a range of infusion drugs for serious illnesses. GenAI and other new technologies promise to raise efficiencies and help keep some costs in check, but automation can also create compliance and privacy challenges in the heavily regulated healthcare sector.

Provider-sponsored health plans, most of them subscale from the outset, may be impacted most by rising costs and tighter reimbursement as large payers raise competitive pressure, and more employers prefer national networks and services to accommodate remote workforces.

Portfolio rebalancing. Payers increasingly recognize that the Medicare Advantage business and commercial health insurance require far different core competencies—and leaders are making fundamental portfolio changes to focus on one or the other. Humana exited the commercial health business in 2023, for example, and Cigna exited Medicare Advantage in 2024.

In March, Elevance Health closed its acquisition of Texas-based Paragon Healthcare for more than \$1 billion. Paragon provides infusion services to more than 35,000 patients at home and in 40 ambulatory infusion centers

in eight states. In October, Elevance announced its intention to acquire CareBridge, which provides value-based care in homes and communities for people with complex and chronic conditions, for \$2.7 billion.

In October, Elevance finalized its deal for Kroger's specialty pharmacy business, which serves patients with chronic illnesses that require complex care. Centene completed its sale of Collaborative Health Systems to Astrana Health. Collaborative Health partners with independent primary care physicians in value-based care models.

In September, Indiana University Health announced it would sell its health plan to Elevance Health's Anthem Blue Cross and Blue Shield this year. IU Health Plans serves 19,000 MA members and 12,000 fully insured commercial members through employers.

Commercial payers. Provider-sponsored health plans, which are relatively small, are most at risk as reimbursements tighten and costs rise, especially with growing competition from large payers and employers' efforts to accommodate remote workforces.

Medicaid expenditures on medical services topped \$850 billion in 2023, up 8.5 percent from 2022, with about 60 percent of it flowing through managed Medicaid care programs.¹⁰⁰ Medicaid enrollment remains above prepandemic levels but declined in 2024 by about 7.5 percent and seems likely to keep falling in 2025, along with total spending growth.¹⁰¹

While Medicare Advantage enrollees can choose plans for a wide array of providers, UnitedHealthcare covered 29 percent of all customers nationwide in 2024, followed by Humana at 18 percent, and Blue Cross Blue Shield at 14 percent—more than 60 percent in all.¹⁰²

A range of deals were announced and made in 2024. Molina Healthcare, a provider of managed services under Medicaid and Medicare and through state insurance marketplaces, announced in July that it would acquire ConnectiCare, a subsidiary of EmblemHealth, for \$350 million—25 percent of expected 2024 premium

⁹⁹ "Medicare Advantage V28: A Primer on What Providers Can Expect," Innovista Health, September 11, 2023

¹⁰⁰ "Medicaid managed care spending in 2023," Health Management Associates, March 7, 2024

¹⁰¹ "50-State Medicaid Budget Survey Examines FY 2025 Policy Landscape," Health Management Associates, November 6, 2024

¹⁰² "Medicare Advantage in 2024: Enrollment Update and Key Trends," KFF, August 8, 2024

revenue. ConnectiCare serves about 140,000 members across marketplace, Medicare, and commercial products.

In August, venture fund Enable Ventures announced a \$13 million investment in Mindset Care, an “AI-enabled enterprise that modernizes the application process for Social Security Disability assistance services that cater to our country’s most economically vulnerable populations, including those with disabilities.”

SG Benefit Providers expanded its portfolio of insurance companies to five and tripled its size in May with the acquisition of Medicare Group USA for over \$5 million.

Third-party administrators (TPAs), which help control costs and customize benefits for employer-sponsored and self-funded medical plans, continue to appeal to strategic and financial investors. The market is highly fragmented and poised for growth because looser restrictions on self-funded plans and the rise of stop-loss insurance make it easier for smaller employers to self-insure. We expect dealmaking to continue as strategic and financial buyers look for opportunities in this space, especially to consolidate operations and gain scale advantages.



Deals in the space included the acquisition in January of London Health Administrators, a TPA that offers employee benefit programs, by Flores & Associates, a Charlotte-based provider of employer-sponsored reimbursement plans and compliance services. In August, PE firms Blackstone and Stone Point Capital completed their deal for joint control of Allied Benefit Systems, the largest independent TPA in the US.

Pharmacy benefit managers (PBMs) will become increasingly important as insurers and employers seek to control prescription drug costs. They can generate revenues by charging administrative fees to insurers, the spread between what they charge insurers and what they pay pharmacies, and by negotiating rebates from drug companies—the largest PBMs control a large-enough share of the market to have meaningful negotiating power. Many are now harnessing new technologies to improve decision-making and patient management, which appeals to many investors.

Deals in the space included the acquisition of Delta Care Rx, a PBM and provider of on-demand pharmacist services, including services tailored to hospice and palliative care, by Stateserv Medical, a provider of durable medical equipment.

“Payviders” may grow faster in the year ahead. The payvider model, in which healthcare payers integrate provider functions, continues to evolve as big players seek to improve the cost and efficiency of healthcare while gaining more control over delivery. UnitedHealth Group, for example, launched a “gold card” program to streamline some prior authorizations, improving the experience for providers and patients alike by reducing administrative delays and maintaining quality and oversight.

Payviders face a complex regulatory and legislative landscape where policymakers are concerned about market dominance and patient privacy. Frictions may ease under the new administration in Washington, but like other providers, payviders will continue to face financial challenges arising from changes in Medicaid coverage, Medicare Advantage utilization, and rising healthcare costs. Payviders such as CVS, which owns Aetna, have had to adjust financial forecasts,

acknowledging the economic strains associated with insuring patients while providing them with care.

As noted in this paper's Hospital and Health Systems subsector analysis, Kaiser Permanente is using its capital and Risant business unit to acquire and fold in payviders in other geographies to gain scale and/or provide access to Kaiser's value-based care platform in additional communities in the US. In April 2023, for example, Risant acquired Geisinger, a provider of value-based care to 1.2 million people in Pennsylvania. In June 2024, Risant announced that it would also acquire Cone Health, which serves half a million people in North Carolina with more than 13,000 employees. These expansions into noncontiguous regions may have helped the dealmakers avoid antitrust concerns.

Some other leading payviders, such as Kaiser Permanente, the University of Pittsburgh Medical Center, Geisinger Health System, and Humana are pursuing vertical integration, acquiring primary and specialty practices, urgent care centers, and companies that offer complementary services. Some are moving toward value-based care models, acquiring practices that provide preventive care and chronic disease management to improve overall outcomes and costs.

Investments in advanced technologies and data analytics capabilities, such as telehealth, electronic health records, and predictive analytics, can help payviders coordinate care, control costs, and manage risk better.

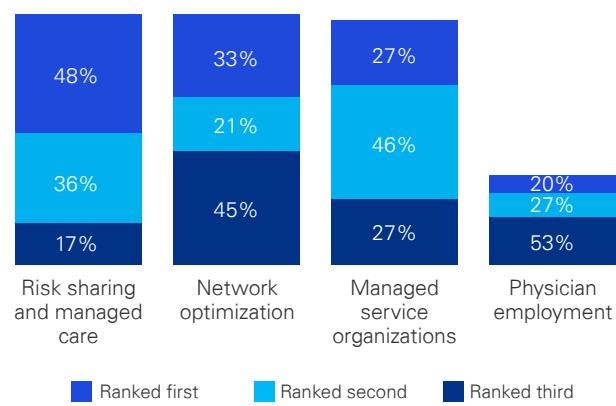


Outlook for M&A in 2025

Strategic investors made the lion's share of deals in 2024, most of them cash acquisitions based on provider collections or earnings. That may change as more investors look to partnerships and joint ventures to achieve growth. We expect deal activity to hold fairly steady in 2025 as companies in the space look for inorganic growth in a more favorable antitrust environment. Financial buyers are likely to remain mostly on the sidelines, given the industry's complexity, competitiveness, and enormous capital requirements.

Survey respondents see risk-sharing, managed care, and network optimization as keys to driving growth, with primary care and behavioral health assets holding top spots for overall care delivery alignment (Exhibit 32).

Exhibit 32: Respondents rank risk-sharing, managed care, and network optimization as the best care delivery alignment options to support growth



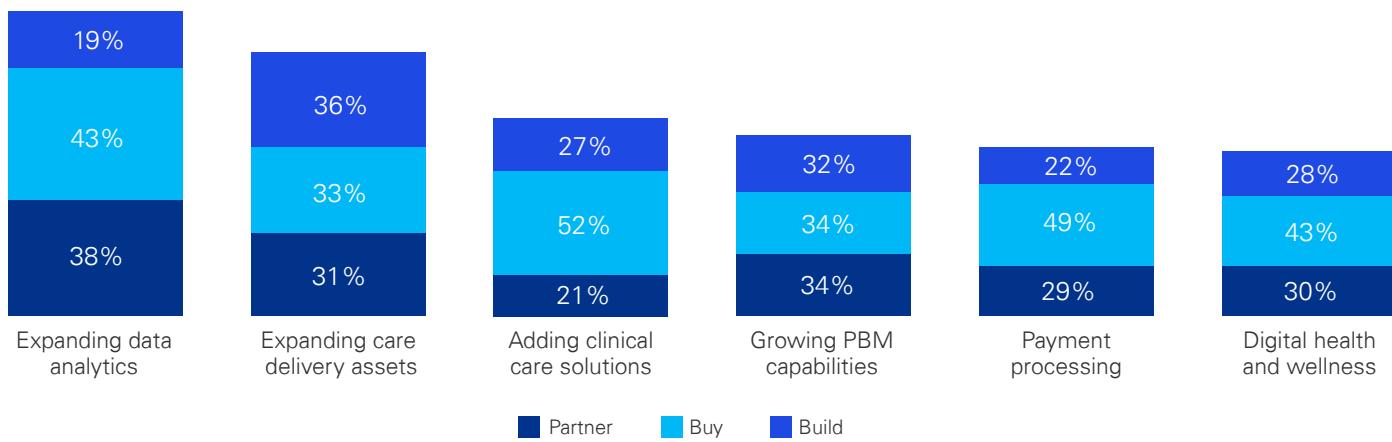
Note: Sum of percentages may not add up to 100 due to rounding off.

Source: KPMG HCLS Investment Survey, November 2024

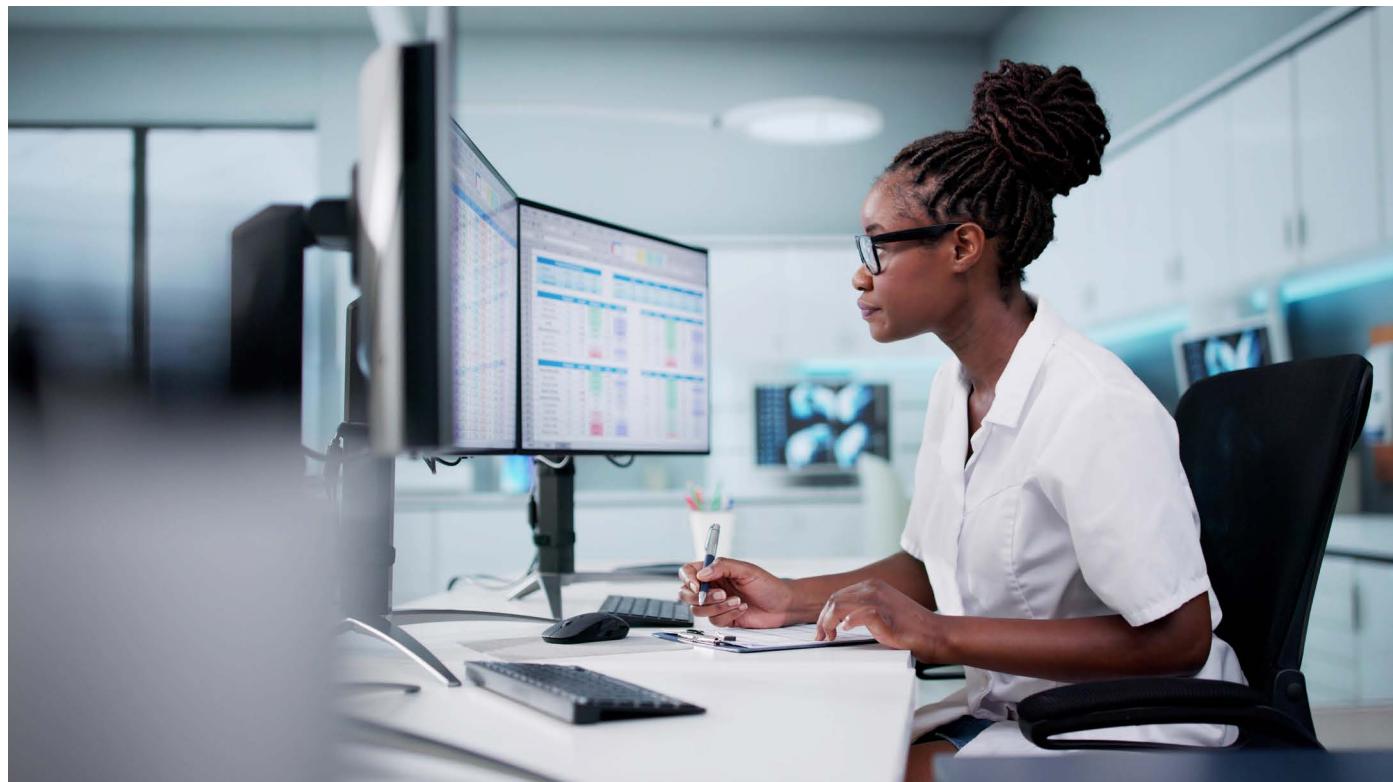
In the pharmacy care services spectrum, most respondents expect to invest heavily in specialty pharmacy rather than rare disease or gene therapy. In data and tech services, most respondents intend to pursue utilization management and care coordination; in payment processing services, they consider RCM a priority.

Survey respondents who expect to invest in 2025 are roughly evenly divided on whether they will build, buy, or partner to gain capabilities in vital areas such as data analytics, pharmacy benefit management, or payment processing, or expand care delivery assets or clinical AI solutions (Exhibit 33).

Exhibit 33: Payers aim to build, buy, and partner to gain capabilities and drive growth



Note: Sum of percentages may not add up to 100 due to rounding off. Source: KPMG HCLS Investment Survey, November 2024



Tailwinds and headwinds

Tailwinds

We expect no recession. And, as baby boomers age and live longer, more people will want and need more healthcare services.

Easing antitrust concerns. The new administration will likely approve more large deals to help payers gain scale and operate additional assets more efficiently.

The drive toward value-based care. One way many players in the payer space can and will continue to address this need is through acquisitions. Smart mergers could expand their abilities to make progress in this area, especially when it comes to addressing issues around chronic diseases.

New technologies. Advances in tech will help payers find lasting cost savings. Digital advances will help address myriad issues, from the coordination of care to telehealth.

Headwinds

Talent attraction and retention. This issue will remain challenging for many technical roles, nursing, customer service, and even entry-level roles.

Challenging new tech. While new technologies will help payers operate more effectively and efficiently, the complex nature of these systems and their costs will pose some daunting challenges. Payers will continue to explore automation to control administrative costs.

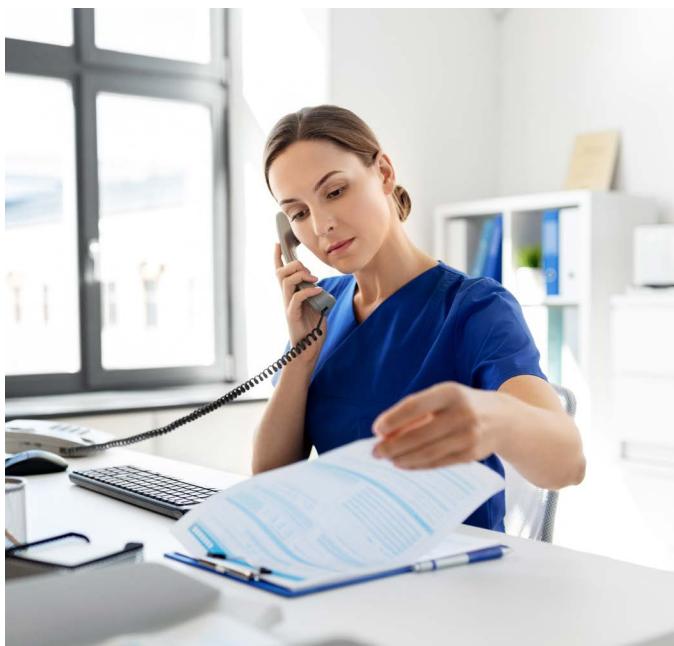
Novel, effective, and expensive treatments. Demand is rising for groundbreaking but expensive treatments for a wide range of conditions, from obesity to cancer. Some cost \$15,000 a year, others more than \$1 million, driving changes in healthcare costs and payer economics.

Medicare Advantage reimbursement. Unless the new administration enacts additional or more constructive Medicare reimbursements, we expect payments to continue to lag behind the rising unit provider reimbursements and the increased utilization of care.



The takeaway

Changing dynamics in the payer landscape will continue to drive transactions. These will likely include some megadeals, as players in the subsector look to acquire new offerings and capabilities they cannot build fast enough in-house, enter new markets, and divest lower-performing assets. Strategic buyers will continue to dominate dealmaking, given the complexity of the space.



Healthcare IT: Investors hungry for quality

Major healthcare industry challenges, including rising demands for care, rising costs, shrinking margins, and staffing shortages, are creating significant opportunities in healthcare information technology (HCIT) and tech-enabled services.

Strategic buyers and PE firms maintained a keen interest in the subsector in 2024 (Exhibit 34), with more than half of survey respondents indicating their total deal value in 2024 exceeded expectations.

While valuations remain under pressure, acquirers continue to look for companies harnessing AI and other technologies to improve revenue cycle management (RCM), handle process-heavy clinical and financial workflows, streamline data exchange across healthcare systems, free caregivers to spend more time with patients, and provide predictive insights.

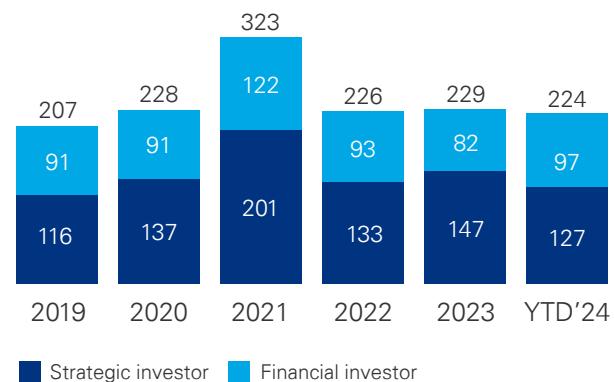
Some investors are targeting skilled and fast-growing managed services providers serving the middle market. Others are thinking even bigger, seeking out AI pioneers and those that can improve payer-provider data interoperability—which two-thirds of our survey respondents cite as the biggest challenge in the space. At least two-thirds of respondents also expect the marketplace to be disrupted by AI, ML, natural language processing, or HIPAA-compliant voice and chatbot applications.

We expect more acquirers to look for companies that can help optimize the patient experience, especially as patients become less loyal and begin shopping around for the most effective, efficient, and affordable care. While portals are proliferating, other customer experience components such as text-to-pay are appealing to patients and thus to acquirers.

Other market drivers included pharma IT and real-world evidence, cybersecurity, specialized consulting services, and care delivery enabling services.

Innovations in remote patient monitoring (RPM) also attracted interest in 2024, including wearable health technology and the Internet of Things. GenAI has only begun to impact RPM, suggesting that dealmaking and consolidation in that space could rise significantly in the years ahead. Overall, we remain optimistic on HCIT dealmaking as valuations are holding for high-quality assets in specific areas.

Exhibit 34: Deal volume remained steady



Notes: HC deals have been sourced from Capital IQ, Refinitiv, and Pitchbook; Strategic investments include deals undertaken by a public/private company with no major private equity backing (PE); Financial investments include platform/add-on deals undertaken by PE firms; Includes deals with only US-based targets; YTD'2024 as of December 19, 2024



How healthcare IT fared in 2024

Deal volume in HCIT has remained relatively steady over the last couple of years compared to declines in some other subsectors. The share of strategic and financial transactions also remained steady, including PE platform investments and tuck-in acquisitions by PE-backed companies. While HCIT deal volumes were generally in line with the last two years, valuations have pulled back from recent peaks.

That said, values are holding for high-quality assets such as public HCIT companies addressing core workflows, particularly for life science and payer organizations.

Survey results also suggest that some acquirers believe lower overall valuations may present opportunities, confirming what we see in the marketplace: that certain buyers aggressively pursue assets that others perceive as having suboptimal earnings profiles, capital structures, or market positions. Meanwhile, increases in median pre-money valuation across investment stages suggest that larger companies are seeking capital, and that multiples are starting to rebound.

Some of the most attractive targets in the HCIT space offer technologies or services that address inefficiencies in RCM such as prior authorization, given the highly

fragmented mission-critical nature of this business. Many investors are also looking for companies that serve medical specialties such as laboratory and behavioral health that are underserved by traditional RCM vendors. Healthcare providers continue to struggle with reimbursement because of high denial rates, payer issues, and staffing shortages.

A large share of deal volume in the space in 2024 was in three areas: RCM, clinical trials technology, and electronic medical records (EMR). While some diagnostic-related HCIT advances are on the horizon, most deals in 2024 were aimed at raising efficiencies in workflows, documentation, and patient communication.

Automation also continues to attract investors' attention, as it can help players streamline operations and enable employees to accomplish more. Meanwhile, the hype around AI is still so intense that some companies are rebranding existing processes and offerings with AI, natural language processing, or ML labels. Technology is such an important foundation of many companies' value-creation potential today that many acquirers now look closely at targets' tech platforms—down to the source code—during due diligence, aiming to separate routine approaches from true innovation.

While AI is helping many healthcare companies increase efficiencies in RCM¹⁰³ and other areas, human oversight is still required for accuracy and compliance in a heavily regulated industry. AI is only as good as the data it is trained on, which means its biases can yield inaccurate or unfair outcomes—especially when it makes decisions in a “black box.” Data breaches, meanwhile, can have severe financial and reputational consequences. Culture and mindsets also drive adoption: no technology has any value unless people are willing and know how to use it.

The more than 200 M&A deals in HCIT subsectors in 2024 included a wide array of sizes, rationales, and players. In electronic medical and health records, including practice management software, PE transactions included the sale of Cotiviti, a healthcare data and tech company, to Veritas Capital and KKR. KKR



¹⁰³ "How Will AI Improve on Revenue Cycle Management for Healthcare in 2025?" Health IT Answers, December 5, 2024

and Veritas will take equal ownership stakes and invest in new product development, commercial expansion, and technology. Cotiviti provides advanced technology and data analytics to improve payment accuracy, quality of care, risk adjustment, and consumer engagement.

Some of the biggest deals were in decision support, especially RCM platforms. Healthcare payments company Waystar Health, for example, launched its IPO in May—the first HCIT IPO since the pandemic—aiming to raise about \$1 billion to pay down its debt.

TowerBrook Capital Partners and Clayton, Dubilier & Rice are acquiring R1 RCM and taking it private in a deal valued at \$8.9 billion. CorroHealth finalized its acquisition of RCM company Xtend Healthcare from Navient for \$365 million in cash.

Northlane Capital Partners in April sold its equity interest in VMG Health to Incline Equity Partners. VMG helps healthcare providers, PE firms, and investment banks navigate compliance risk and develop strategies involving healthcare providers, health plans, and value-based care arrangements.

Process management company Provana expanded its RCM footprint with the recent acquisition of five RCM companies: Account Matters, CIS, To the Point Billing Solutions, ACI Therapy Billing, and Central Iowa Medical Billing. Accel-KKR acquired RCM company VisiQuate.

In billing and payments deals, Med-Metrix acquired Healthcare Receivable Specialists, a company providing a suite of technology-enabled eligibility management services. Medusind Solutions, a portfolio company of Alpine Investors, in August acquired Billing Solutions, a billing and practice management firm serving behavioral health, particularly substance use disorder treatment. New Mountain Capital completed the merger of three payment integrity companies: Rawlings Group, Apixio's payment integrity business, and Varis. EnableComp acquired denials management company ANI Healthcare Solutions. Mubadala, an investment company in Abu Dhabi, in November acquired a minority stake in Zelis, a healthcare payment firm in the US whose majority owners are Parthenon and Bain Capital.

Digital health and wellness, including telemedicine and mobile health, drew investor attention. After extraordinary growth during the pandemic, many digital health solutions are now struggling in the employer market, presenting opportunities for platforms that can identify, acquire, and integrate the most effective solutions to significantly improve employee engagement. Three examples just from the month of June were:

- Altaris took Sharecare, a benefits and care navigation platform, private for \$518 million.
- H.I.G. Growth Partners purchased Mobile Health, a benefits and care navigation platform.
- SAIGroup purchased GetWellNetwork, a patient engagement and experience platform, from Pamplona Capital Management.

Advisory services also appealed to some acquirers.

In August, Blackstone announced that it would buy a majority stake in Chartis Group, which advises healthcare providers, payers, investors, and technology and retail companies, from Audax Private Equity. Bloomberg reported that the deal could value Chartis at \$1.4 billion.





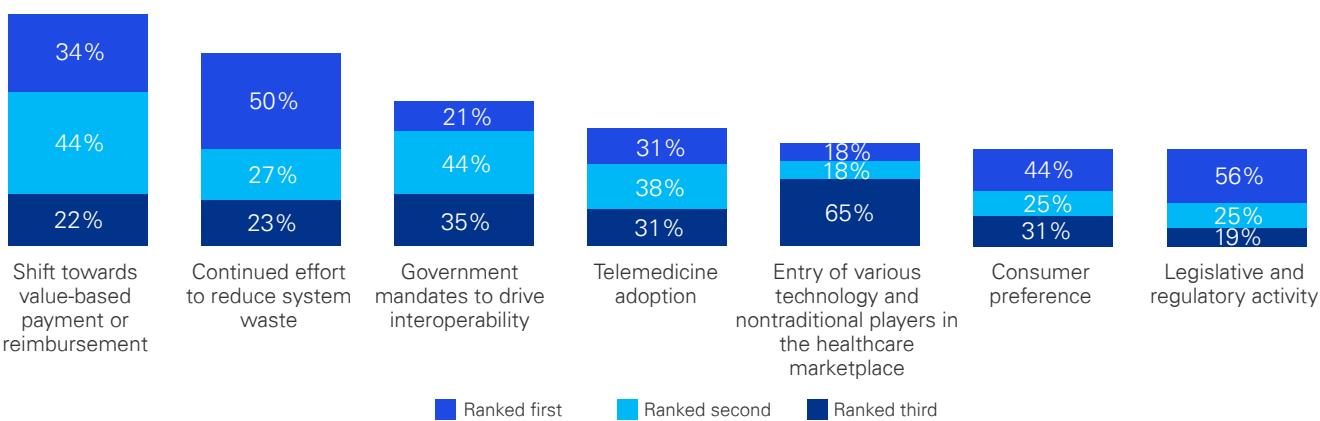
Outlook for M&A in 2025

The overall M&A outlook in HCIT is positive. Valuations remain strong for high-quality assets, PE firms need to put hundreds of billions of dollars to work, interest rates appear to be stabilizing, and unemployment remains exceptionally low, meaning that more Americans will have healthcare coverage and the means to pay out-

of-pocket costs. The new administration in Washington could possibly look more favorably on dealmaking.

Nothing dramatic appears to be changing in what acquirers want from HCIT: mainly better efficiencies and help managing the move to value-based care (Exhibit 35).

Exhibit 35: Large majorities of respondents expect demand for HCIT and analytics to be driven by the shift to value-based care and efficiency improvements



Note: Sum of percentages may not add up to 100 due to rounding off.

Source: KPMG HCLS Investment Survey, November 2024

For example, industry leaders hope to cut the “costs to collect” in half, from 3 percent to 7 percent of revenue to 1 percent or 2 percent. Automated RCM technology can now be licensed for around \$5,000 a year, about a tenth of the cost of collections services just a few years ago. It can scan all payer contracts and requirements, learn from past claims denials and approvals, and scan medical records to pull the appropriate information. More RCM will be outsourced in response to rapid innovation, rising claim complexity, and difficulties finding the right expertise.

While payers have few incentives to expedite prior authorization—still one of the biggest pain points in healthcare—many anticipate new requirements for payers to create a more efficient digital process. Companies that can make advances in this area will draw intense interest.

We expect acquirers to continue to focus on these areas into at least the first and second quarters of 2025 (Exhibit 36). Several mid-sized EMR systems could come up for sale. Just a few players dominate in the EMR market, suggesting potential for consolidation.

Most EMR providers will prioritize specialties based on provider revenue and the competitive landscape. Surgical specialties are still highly attractive, for example, along with other treatment areas where PE firms are consolidating practices. We expect new HCIT offerings in behavioral health, long-term care, and skilled nursing, where many current players are underfunded.

Some industry experts expect many EMR companies to go away or sunset in the next few years as they cannot keep up with technology debt or regulatory requirements. We expect a shakeout in ambulatory markets to leave just two or three larger players in each

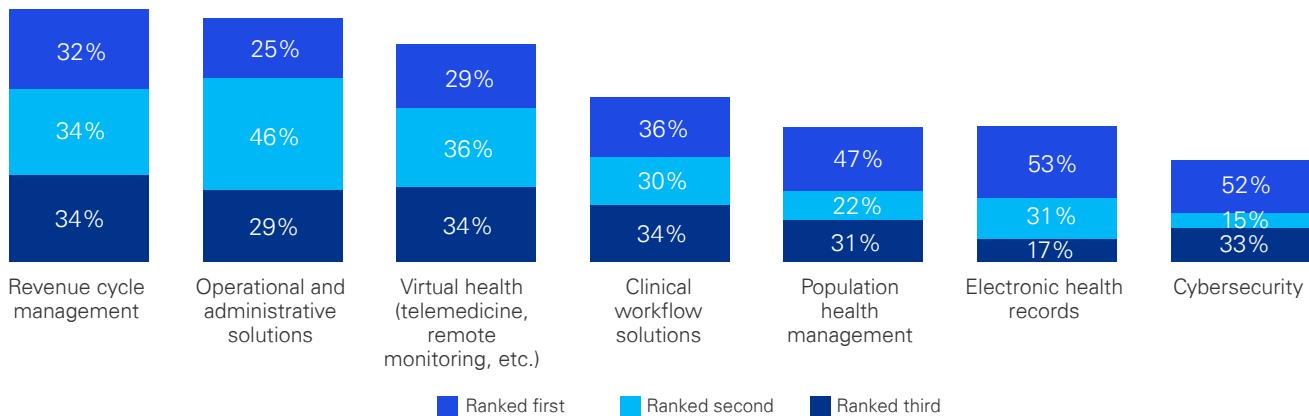
therapeutic area, from dermatology to oncology. It will likely become harder to manage EMR functionality by state if one state requires that certain information be redacted, such as about gender care.

The new administration in Washington appears to be serious about cutting healthcare costs. We expect rising demand for cost containment and perhaps new requirements for capitation and value-based care. Offerings in HCIT could help providers focus on outcomes and stitch networks together for better care

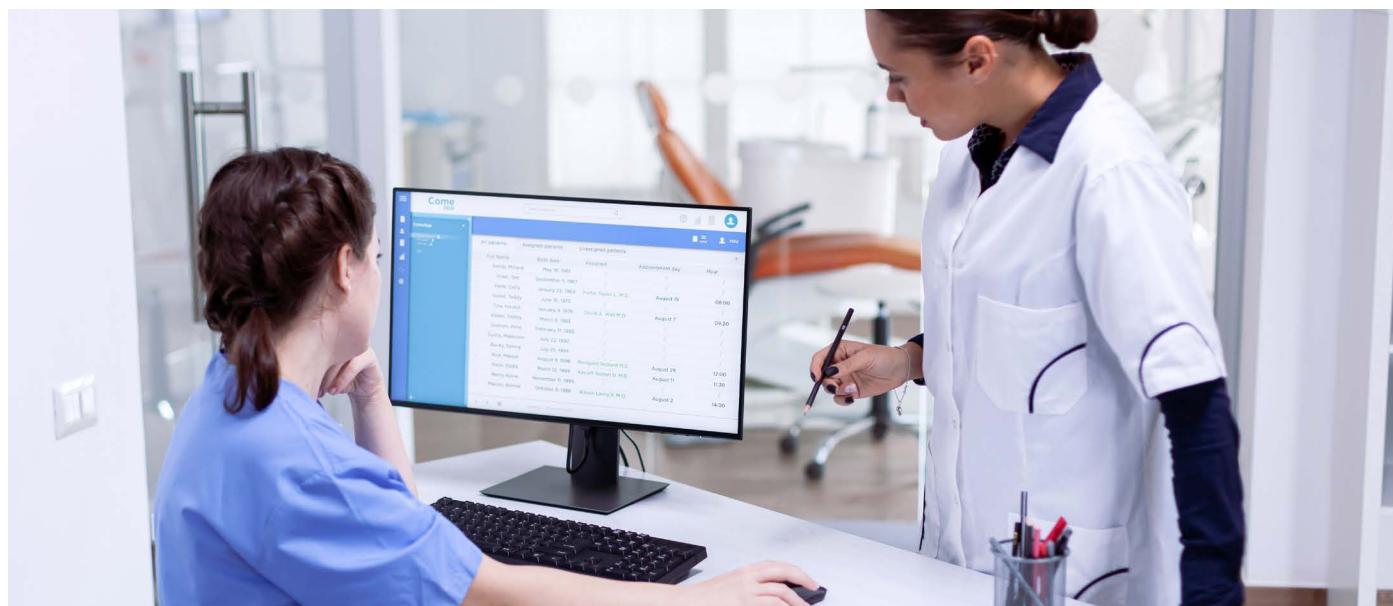
coordination. Companies such as Innovacer, Arcadia, Lightbeam, Healthcatalyst, and Oracle offer solutions that could help integrate siloed organizations. An uptick in telemedicine is likely as more providers return to virtual care, improving efficiencies.

We expect IPOs to accelerate with today's strong equity market and lower interest rates, likely led by software as a service and financial technology.¹⁰⁴

Exhibit 36: Respondents expect revenue cycle management and operations and administrative solutions to attract the most investment



Note: Sum of percentages may not add up to 100 due to rounding off. Source: KPMG HCLS Investment Survey, November 2024



¹⁰⁴ "5 VCs on the election and digital health investing," ModernHealthcare.com, October 1, 2024



Tailwinds and headwinds

Tailwinds

Continuing digital revolution. Advances in HCIT will continue to accelerate, revealing new dealmaking opportunities.

Available capital. PE firms continue to sit on more than \$2 trillion of dry powder. As macroeconomic conditions continue to improve, the HCIT deal market could rapidly heat up.

Demographics. As the population gets older and lives longer, chronic disease burdens will rise, along with demand for healthcare and high-tech solutions, including even more advances in RPM.

Growing shortages of front- and back-office healthcare staff. Companies will tap HCIT, including GenAI, to handle administrative tasks and help workers accomplish more.

Rising healthcare costs and larger funding gaps. Healthcare providers will increasingly need new HCIT solutions to manage financial and human resources more wisely.

The move towards value-based care. Many practices are doing more under one roof, such as lab and imaging work, putting them in a better position to provide value-based care. They will need more holistic technology to manage workflows in these ancillary areas.

Headwinds

Regulations on emerging tech. The new administration in Washington may have a more favorable view of dealmaking, but regulation and oversight will remain, especially to protect privacy. This could slow the advance of revolutionary healthcare technology. The most effective dealmakers in this space will always find a balance between innovation and regulation.

The complexity and fragmentation of state-level regulation makes some tools less universal. Some states may pursue more regulation if the new administration eases some federal rules or decides not to enforce them.

Ongoing staffing challenges. The scarcity of workers who can develop and implement HCIT advances will likely get worse. Dealmakers would be wise to study the talent market and identify the areas that are most and least likely to cause bottlenecks in taking new HCIT to market.

Cybersecurity. Rising and well-founded concerns about digital security could slow the flow of new HCIT solutions. As bad actors become more sophisticated, a “black swan” event could have devastating effects on the space.



The takeaway

The revolution in this industry has only just begun.

The number and kinds of advances in HCIT will continue to accelerate, driven by demand and the growing abundance of real-world data, including unstructured protected health information. More processes are now digital, and the shift to cloud continues, with less on-premises infrastructure and more software as a service.

We expect a steady flow of new growth and acquisition opportunities.

Technologies in healthcare and other realms are relentlessly overtaking outdated systems, processes, and mindsets, unlocking step-change improvements that will drive dealmaking. We expect HCIT deal volume to grow and some megadeals to be made in 2025.

Conclusion

Continuing many of the trends we have observed in the previous postpandemic years, 2024 brought persistent challenges to dealmakers across the HCLS landscape. Yet even as the overall level of M&A remained subdued, companies in healthcare and life sciences kept their focus resolutely on the future of their industries and forged crucial acquisitions, partnerships, and creative financing arrangements to position themselves for what may be ahead.

Seventy-six percent of respondents to our survey said they planned to increase their dealmaking in 2025. The familiar challenges of competing for a limited number of desirable target companies and forecasting the performance of potential acquisitions still loom, but most respondents expressed optimism that economic and industry conditions would improve, helping them find targets that can unlock value for their businesses. Their “smart optimism” we highlighted in 2024 is expected to continue into 2025, but they are de-risking their deals and their businesses with smart diligence: detailed, thorough attention to every aspect of the deal and its integration to come.

Our research for this report focused on key trends and opportunities for investors in healthcare and life sciences, who continue to face uncertainty about what awaits them in 2025 and beyond. Questions remain about the economy, the focus of the incoming Trump administration, and emerging regulations for AI and other technologies crucial to their operations. In addition, concerns about the valuations of acquisition targets and a shortage of talent in key positions have the potential to cloud their outlook for 2025. Yet as the new year begins, we expect companies in all HCLS subsectors to focus on the future with vision and diligence, leading to informed, strategic moves to strengthen themselves for an environment of rapid innovation and exceptional promise.



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KPMG LLP is one of the largest providers of professional services—strategy, advisory, transactions, audit, and tax—to the healthcare and life sciences industry globally with more than 6,000 industry-specific partners and professionals. The KPMG Healthcare and Life Sciences Strategy practice specializes in advising corporate, private equity, and public organizations across all phases of the M&A lifecycle, from deal strategy to diligence to post-close value creation.

Our integrated, multidisciplinary approach provides clients with critical insights into value opportunities—and obstacles to value—at deal speed. Further, KPMG has a proprietary set of tools and methodologies to deliver data-driven insights,

all sector specific and developed by leaders who have spent their careers in healthcare and life sciences.

Our dedicated healthcare and life sciences M&A teams have extensive experience in mergers, acquisitions, affiliations, JVs, and partnerships across all segments and subsectors of the healthcare and life sciences industry. We understand the regulatory, commercial, operational, and accounting complexities unique to the industry and provide a client-centric, integrated suite of services across the deal lifecycle to assist our clients in achieving business results. For more information about our Healthcare and Life Sciences practice, please [click here](#).

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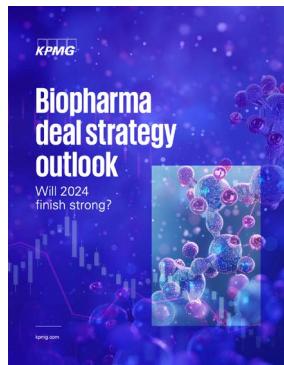
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