

Healthcare Industry - Mergers & Acquisitions (M&A) Outlook

Executive Summary Report

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Report

PREPARED BY
Pukka Partners

ABOUT PUKKA PARTNERS



Pukka Partners provide customized intelligence solutions to C-suite executives and functional growth leaders, with sound expertise in business research, strategy consulting, advisory, business intelligence, and data analytics.

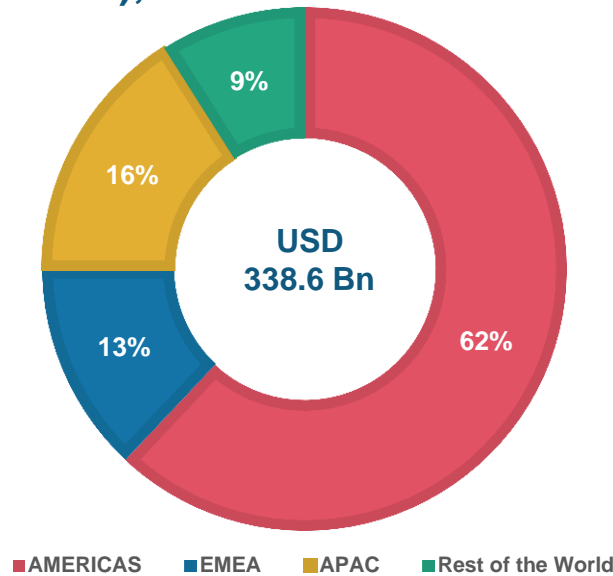
We offer advisory and actionable insights around public policies, investment tracking along with the obstacles faced by investors, innovation and strategy impact monitoring, identification of industry potential, and technology mapping through comprehensive and standardized research methodology and tools.

We deploy our solutions to solve prioritized and critical business challenges by leveraging our in-house expertise as well as continuous engagement with industry thought leaders in the business ecosystem.

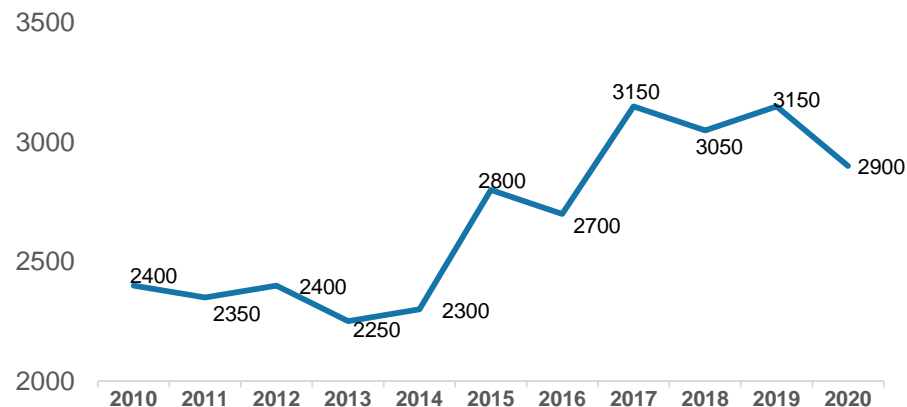
In a short span of time, our consultants have had the opportunity to engage and deliver domain & sector specific tailor-made strategic projects to top executives and functional growth leaders, empowering them to make informed business decisions.

Our success is directly linked to our client's growth and we ensure to exceed it every time we engage with our existing clients and future prospects. We aim to be a knowledge partner for our customers and gradually become their trusted intelligence provider.

Global Healthcare M&A – Regional market share (USD Bn), 2020

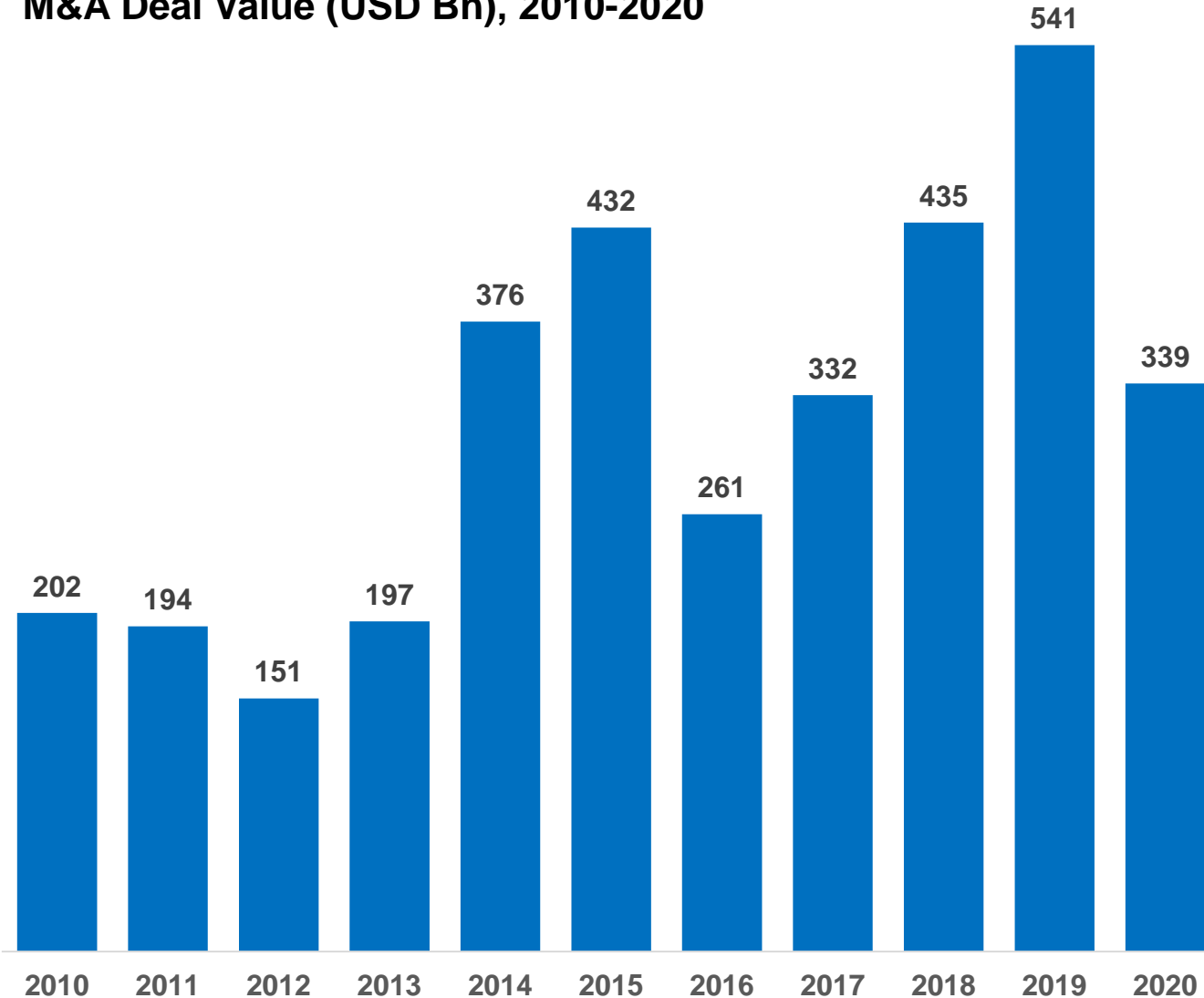


Global Healthcare M&A deal count, 2010-2020



- The global Healthcare M&A market value stood at \$338.6 Bn in 2020. The COVID-19 pandemic has pushed the world in an economic recession that far worse than the financial crisis in 2008–09. Although many economies have been able to sail through the economic uncertainties, the fatigue induced by the pandemic is creating a new set of problems for governments across the globe.
- While the roll-out of vaccines by multiple governments is expected to propel financial recovery, the sudden spurt in COVID-19 cases across the globe, along with the emergence of new virus strains, will likely weigh on the pace of global economic recovery.
- According to the Word Bank, the global economy is likely to shrink by 4.3% in 2020 but will likely rebound to growth of ~4% in 2021. The path to recovery is projected to be "fragile" with "formidable challenges" for policy makers.
- The pandemic showcased the resiliency of the healthcare industry owing to its 'defensive' nature. However, after H1 2020, with the opening up of most economies, the broader market and a majority of the heavily beaten down industries witnessed higher investor confidence on the presumption of 'normalization'.
- Within the healthcare industry, biotech and healthcare equipment outperformed others due to the urgent need for a vaccine and innovative care delivery in new or alternative settings.

M&A Deal Value (USD Bn), 2010-2020

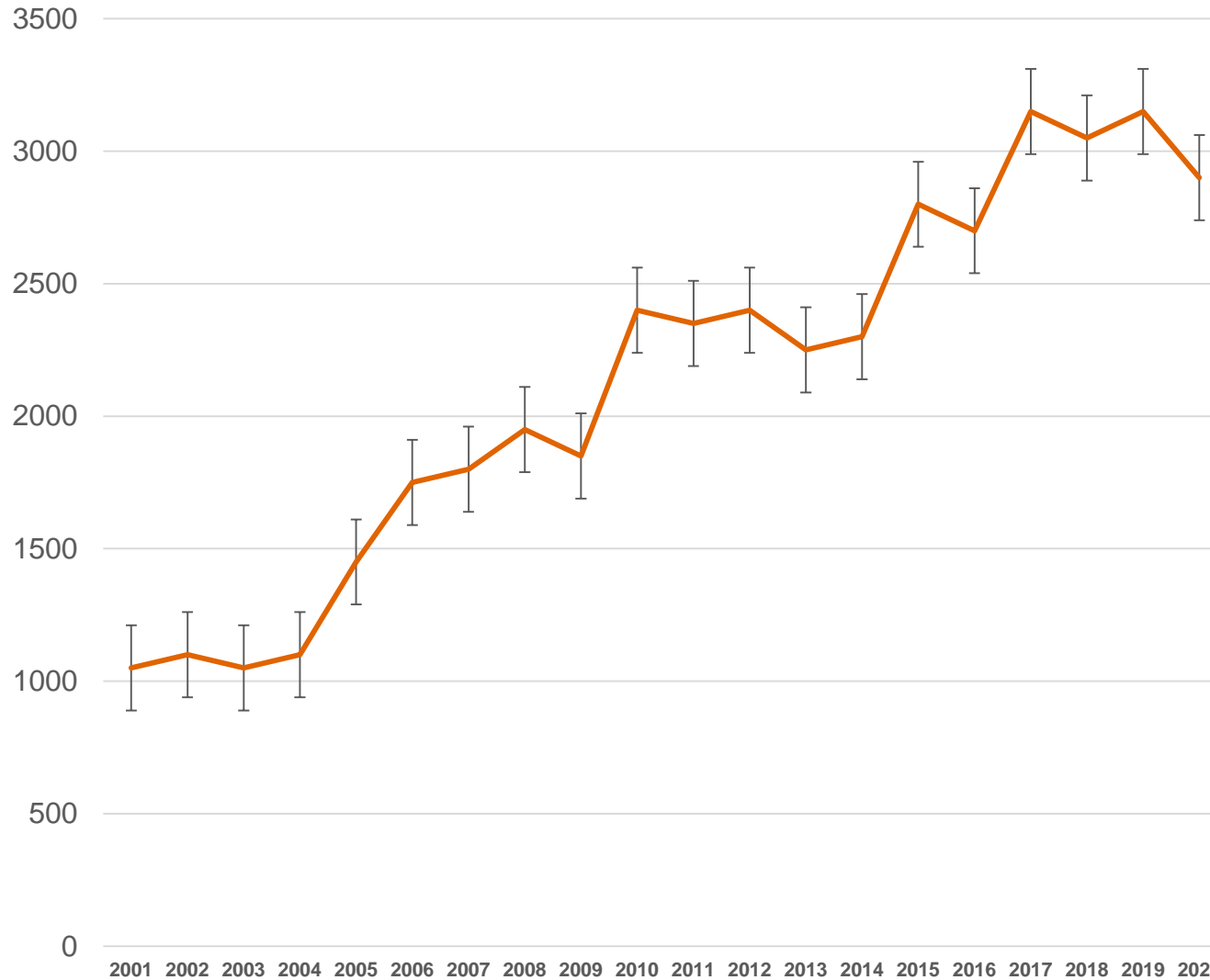


- After a peak 2019, overall healthcare disclosed deal values declined 37% to \$338.6 Bn.
- North America was the most active region, with 1,175 deals accounting for 80% of overall value. Biopharma was the most active sector, logging 998 deals for 67% of total value.
- Covid-19 caused many deals to be put on hold, as elective surgeries were restricted and other consequences rippled throughout healthcare.
- Looking ahead, we anticipate that M&A activity should rebound based on continued macro and healthcare sector-specific growth trends.

Key Big-Ticket M&A Deals in Healthcare (in 2020)

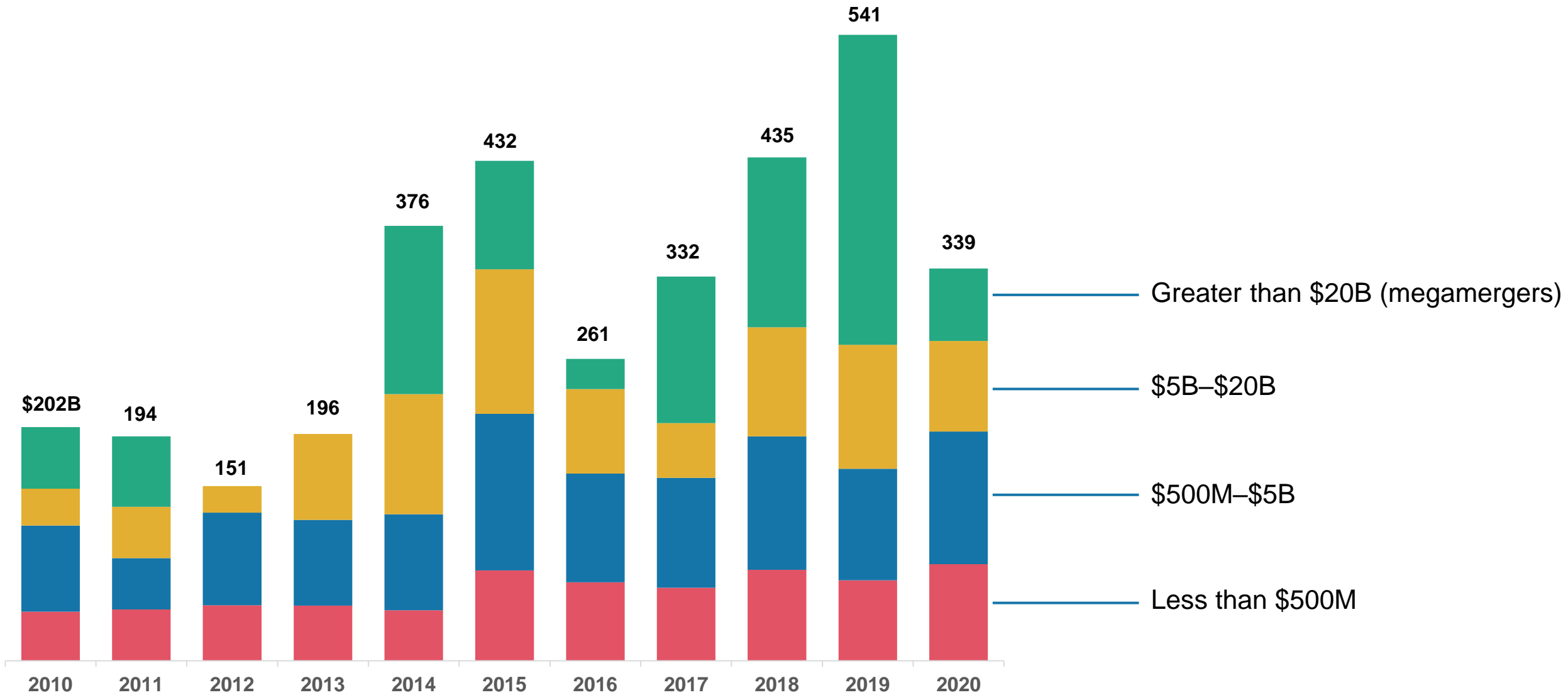
Announcement date	Acquirer	Target	Target's domicile	Deal value (\$ Mn)	Expected timeline
Dec 18, 2020	Philips	BioTelemetry	US	~2,800	Pending
Dec 14, 2020	AztraZeneca	Alexion	US	~39,000	Pending
Dec 14, 2020	EQT	Recipharm	Sweden	~2,100	Pending
Nov 05, 2020	Merck	VelosBio	US	~2,750	Pending
Oct 27, 2020	Exact Sciences	Thrive Earlier Detection	US	2,150	Pending
Oct 05, 2020	Bristol Myers Squibb	Myokardia	US	~13,100	Closed
Sep 21, 2020	Illumina	Grail	US	8,000	Pending
Sep 12, 2020	Gilead Sciences	Immunomedics	US	~21,000	Pending
Aug 19, 2020	Johnson & Johnson	Momenta Pharma	US	~6,500	Closed
Aug 17, 2020	Sanofi	Principia Biopharma	US	~3,700	Closed
Aug 05, 2020	Teladoc	Livongo	US	~18,500	Closed
Aug 01, 2020	Siemens Healthineers	Varian Medical System	US	~16,400	Pending
Jun 11, 2020	Novo Nordisk	Corvidia Therapeutics	US	2,100	Closed
May 8, 2020	Bain Capital	Nichii Gakkan	Japan	1,170	Closed
Mar 2, 2020	Gilead Sciences	Forty Seven	US	4,900	Closed

*As of Dec 31, 2020

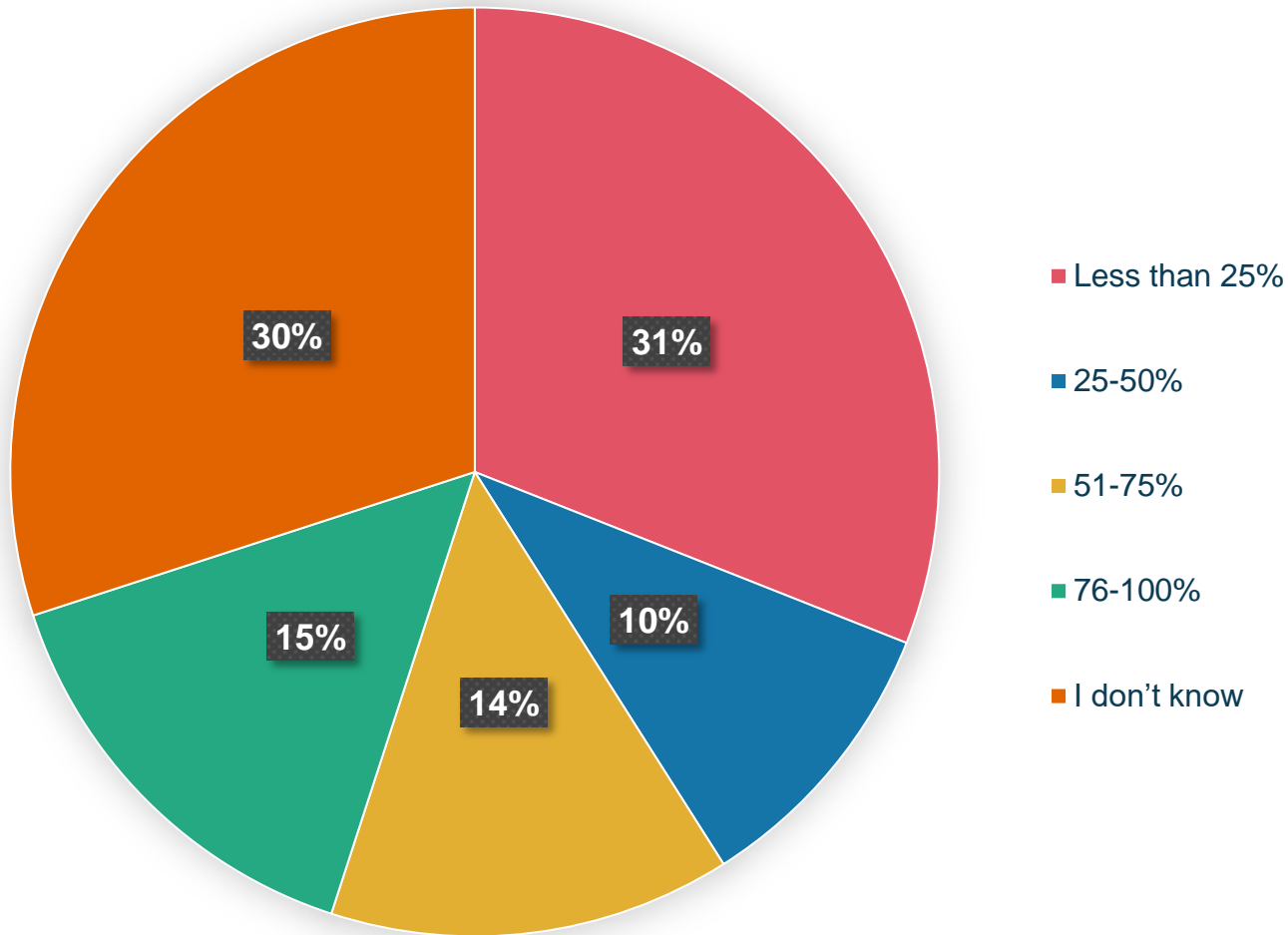


- After peaking in 2019, healthcare corporate M&A disclosed deal volume declined, albeit by a more modest 9%, to 2,845 deals.
- Deals greater than \$5 Bn accounted for 42% of total value.
- The drop in the number of megamergers (over \$20 Bn) meant that value was less concentrated than in prior years.
- Meanwhile, deals valued under \$5 Bn accounted for the remaining 58% of value, the greatest proportion since 2016. Deals of this size have traditionally been the most competitive with private equity sponsors, indicating that corporate entities mounted greater competition with sponsors than in 2019.

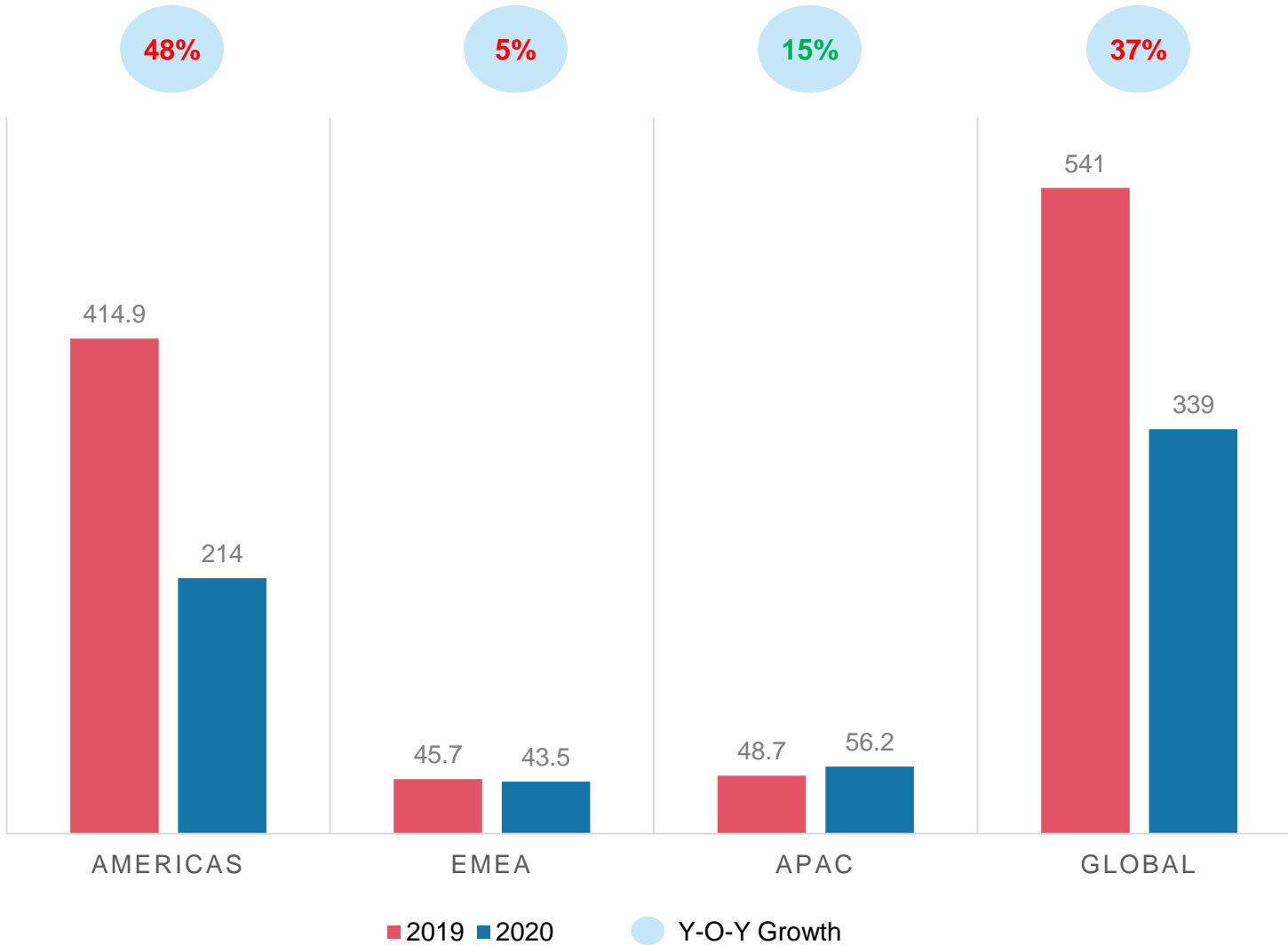
Corporate Healthcare M&A Deal Value, USD Bn (2010-2020)



Percentage of Saving Realized



- Some M&A transactions are able to reduce costs, although this can take several years.
- Survey results showed that many transactions realized some of their projected cost-structure efficiencies.
- When asked how much of their originally projected cost efficiencies were achieved, approximately 40% of respondents said they achieved 25% or more of their goals.
- 70% of survey respondents said they achieved at least some of their transaction's projected cost structure efficiencies.
- For those who achieved their financial goals, most admitted that it took longer than two years for improvement efforts and investments to pay off.

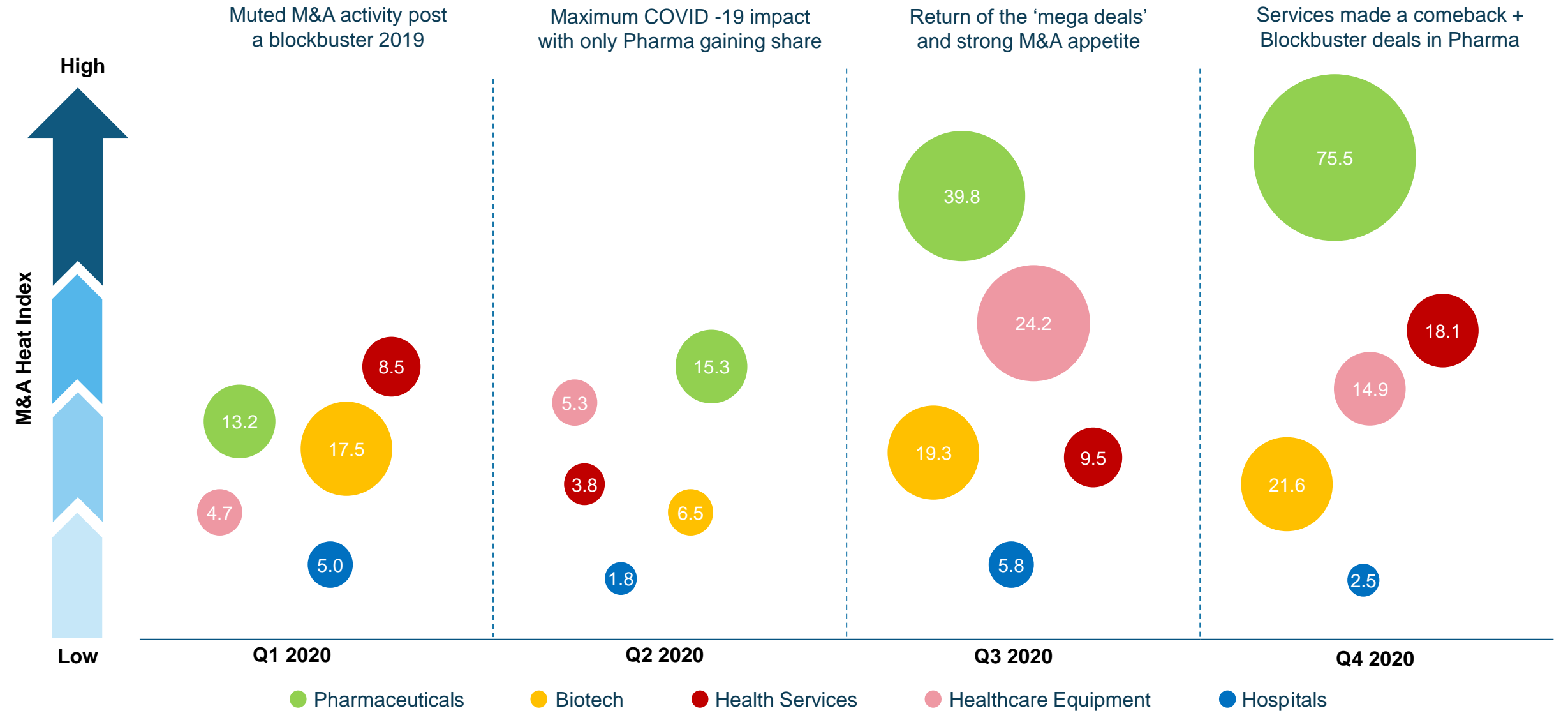


The below trends reflected an overall improvement in M&A sentiment in H2 2020:

- North America was the most active region, with 1,175 deals accounting for 80% of overall value.
- Unprecedented levels of alliances in the R&D ecosystem as several major biopharma companies collaborated to effectively leverage their resources.
- The APAC region witnessed strong signs of recovery in deal activity. Several deals, which were under discussion, were re-initiated and provided well-timed opportunities for investment banks.
- Independent hospitals and smaller systems have started to explore partnerships to ensure uninterrupted services.

The healthcare services and equipment markets witnessed a strong recovery, as patients started to move back to traditional healthcare settings. Demand for telemedicine has risen rapidly, as COVID-19 has catalyzed the rapid regulatory and reimbursement shifts favoring the sector. Pharma and biotech continue to gain strong investor interest, as they continue to generate more evidence on efficacy and roll out their vaccines in a phased manner.

Global Healthcare Sub-Sector M&A 2020 (USD Bn)

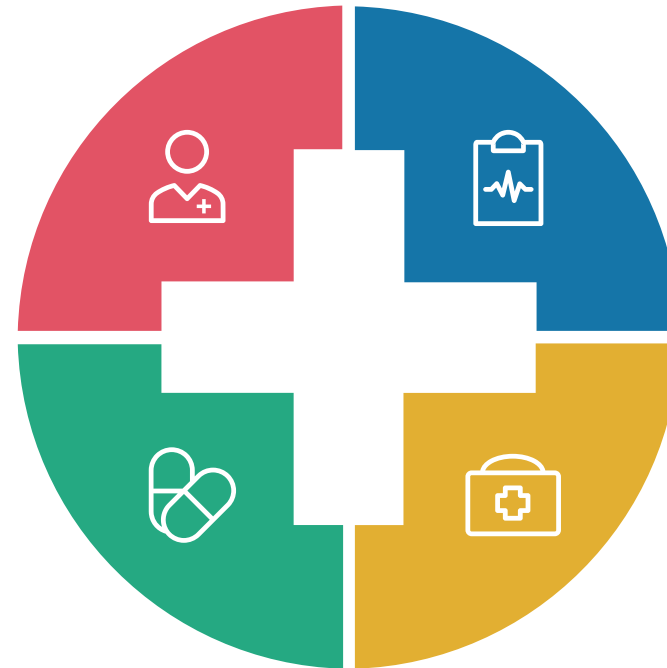


Biopharma

Accelerated M&A to replenish drug pipelines and find synergies amid the race for a COVID-19 vaccine

Healthcare Technology

A potential M&A hotspot, with the rising valuation of HealthTech and start-ups amid growing importance of contactless healthcare delivery



Medical Devices

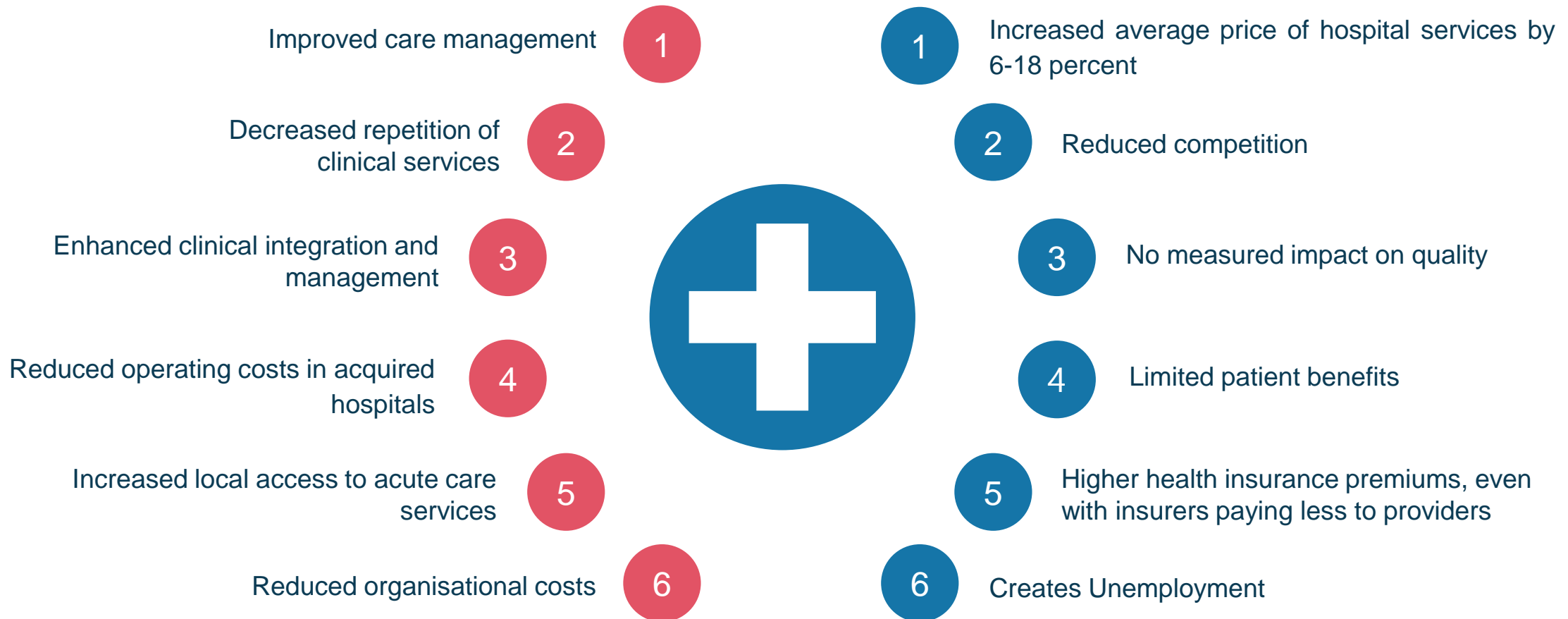
Focus on vertical integration of supply chains and resolution of production issues are set to result in M&A uptick

Healthcare Services

Mostly a buyer's market, wherein stressed assets are being forced to sell for much-needed cash infusion and other support to keep their doors open

Advantages

Disadvantages





Germany



United States



United Kingdom



France



India

1. The US and the UK remain primary centers of global deal making. The US consistently ranks in the top spot, both for overall deal making and for cross-border, and the UK is regularly in the top three. The US has been the global leader in the growth of Healthcare companies for several decades, and the UK a leader in Europe. So, no surprise that companies may look to acquire assets in both countries in the next 12 months.
2. Germany and France are at the heart of the Eurozone economic networks and leaders in healthcare technology manufacturing. With the companies and assets available that will be in demand as companies automate their enterprises, both countries will likely see much interest in these sectors.
3. For the first time in five years, India is ranked in the top five. The country has long been touted as a boom market for cross-border M&A, but that has not been fully realized. However, if companies look for growth and opportunity outside of the markets they have relied on for the past decade, they will take an active interest in investing in India.

Reframing your future for the post-pandemic world Planning for success beyond COVID-19 should be built around key insights showcased in this Barometer. Disruptive forces won't fade with the pandemic, and executives should focus on a number of key considerations today that could enable a better future.

- 1) Make your strategy fit for the post-pandemic real world — smart thinking that can be implemented in practice, not just theory.
- 2) Don't focus on just the now — make decisions focused on creating long-term value — human, financial, societal and consumer.
- 3) Understand your future consumer and what's important to them.
- 4) Look after your talent; otherwise, someone else will.
- 5) Ensure you fully understand your return on investment(ROI), especially with digital and technology.
- 6) Make bold moves — act fast to take advantage of opportunities.
- 7) Ensure you have the capital required to fund your reshaped strategy.
- 8) Be clear about your corporate purpose and how to communicate to stakeholders, employees and society.
- 9) Build-out your ecosystems beyond the usual suspects — consider cooperation with competitors.
- 10) Don't sit on the M&A sideline — active acquirers may outperform.

The healthcare industry was marked by both mega consolidations and deal breakups in 2020. Healthcare organizations strongly believe that consolidations will continue to be a significant trend in the healthcare sector – despite the pandemic. In fact, when asked to describe their organization’s M&A plans for the next 12 to 18 months, 69% of healthcare leaders said their organization will be exploring or completing deals underway. Another 68% even expect their M&A activity to increase over the next three years. Leaders highlight improving care delivery efficiencies (63%), improving clinical integration (59%), enhancing clinical talent (50%) and expanding into new care delivery areas (45%) among their top drivers to consolidate.

Globally, M&A activity in virtual healthcare services has been soaring. In 2020, Teladoc acquired Livongo for \$18.5 Bn, merging two of the largest publicly traded virtual care companies. Thirty Madison raised \$47 Mn from partners such as Johnson & Johnson; Humana invested \$100 Mn into Heal and telehealth start-up Ro raised \$200 Mn. Investors are eyeing telehealth as one possible solution to a growing need to manage chronic conditions, which currently comprise more than 75 % of all healthcare costs.

The coronavirus is also accelerating other motivations for M&A. Hospitals facing economic pressures, particularly smaller, independent hospitals that may have already been searching for a lifeline before the pandemic, may be even more inclined to seek partners. Experts also tell us they expect much more investment and acquisitions in alternative types of care as efforts grow to invest in new digital technology and point-of-care solutions. And as telemedicine use soars, particularly for vulnerable populations, deals can unleash advancements in areas like video visits, digital and mobile care platforms, at-home services, and advanced home care models.

Despite existing barriers, senior executives are optimistic that consolidation – when done right – can deliver substantial benefits to patients, payers and providers. Healthcare organizations believe “lower costs for providers” is a key benefit, followed by “better value for patients” and “better care for patients”. One thing remains clear: healthcare leaders who can adjust to reduced risk tolerance, increased investor scrutiny, and a greater focus on alignment, mission and governance are most likely to succeed in today’s healthcare M&A environment.

— **THANK YOU** —

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