

EVALUESERVE

Global Healthcare Industry

M&A and Capital Market Landscape 2020 Review



Global Healthcare Market – 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.

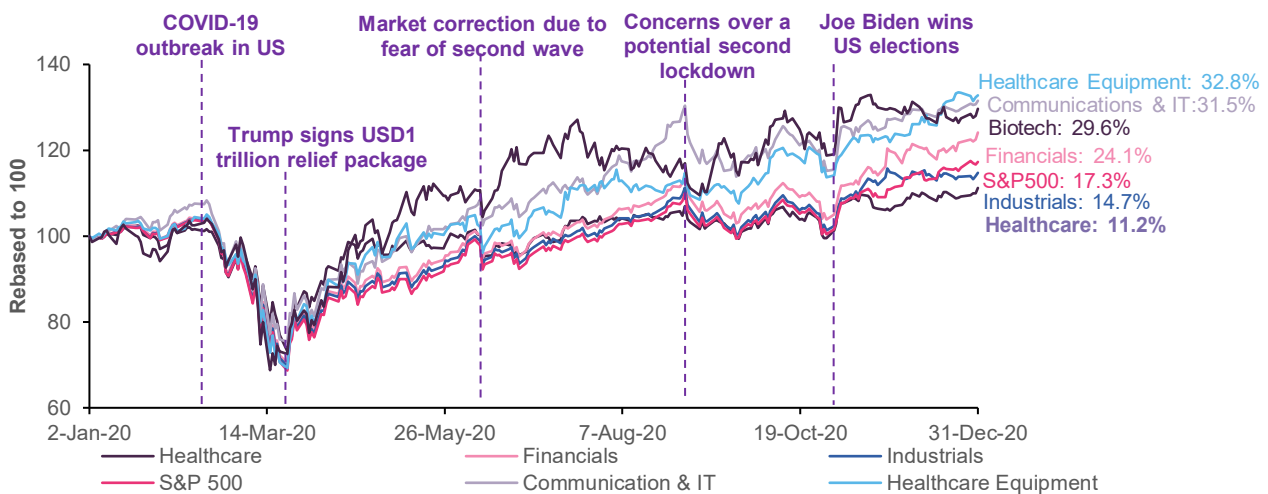
While the roll-out of vaccines by multiple governments is expected to propel financial recovery, the sudden spurt in COVID-19 cases across the globe, along with the emergence of a new virus strain, will likely weigh on the pace of global economic recovery.

According to the World 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’. The IT and communications industry exhibited a strong rally due to the higher adoption of internet-based services and apps. Within the healthcare industry, biotech and healthcare equipment outperformed (refer to US S&P Dow Jones Indices graph below) others due to the urgent need for a vaccine and innovative care delivery in new or alternative settings.

US Market Performance (2020)



Source: S&P Dow Jones US market Indices; COVID-19 onset in the US market started from 20 Feb 2020

	Biotech	Healthcare Equipment	Healthcare	Financials	Industrials	Communication Services & IT	S&P 500
Post COVID-19 Performance	25.4 %	27.2%	10.1%	19.2%	10.5%	22.5%	13.3%

The healthcare industry recovered to its pre-COVID-19 levels, aided by strong investor confidence and the release of positive efficacy data supporting the recent launches of vaccines under emergency authorization. However, the

current recovery is expected to be volatile. The healthcare industry is in the midst of a third wave of COVID-19 cases. Without a proper antidote, the global economy will have to factor in the possibility of further containment measures.

Global Healthcare M&A: An Unprecedented Fightback

M&A in the global healthcare industry was muted at the beginning of 2020, compared with a blockbuster 2019. Investors were primarily forced to hold off on deal making as a result of the onset of the pandemic.

The COVID-19 outbreak and related impediments had initially shifted the timeline of various M&A deals in H1 2020. The difficult funding environment led to the postponement of deals, especially those that required financial support. M&A in the healthcare industry slowed down in Q2 2020, mainly due to global lockdown measures and a distressed deal-making environment. Some of the major roadblocks observed in H1 2020 were as follows:

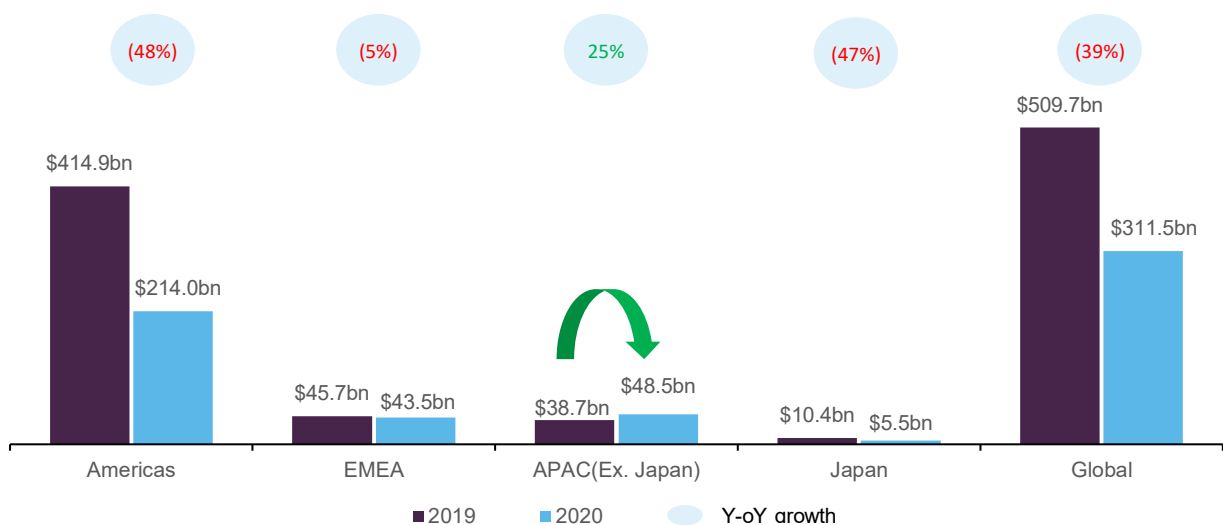
- ✗ Disruptions to planned and ongoing clinical trials, primarily due to the suspension of patient enrolment and delays in initiation. These made it difficult to ascertain the valuation of biopharma companies.
- ✗ Higher focus on capital conservation and lower appetite for high-risk investments that were not immediately EBITDA accretive due to long payback periods and low return on invested capital.

- ✗ Significant supply chain disruptions (China being the epicenter) had affected both operations and access to markets.

However, starting Q3 2020, the industry witnessed an unprecedented recovery driven by the announcements and closures of several big-ticket deals, especially in the US. The below trends reflected an overall improvement in M&A sentiment in H2 2020:

- ✓ Unprecedented levels of alliances in the R&D ecosystem as several major biopharma companies collaborated to effectively leverage their resources.
- ✓ The APAC (excluding Japan) region witnessed the strongest 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.
- ✓ Healthcare service providers focusing on a consumer drive health operating model.

Global Healthcare Regional M&A 2020 (USD bn)

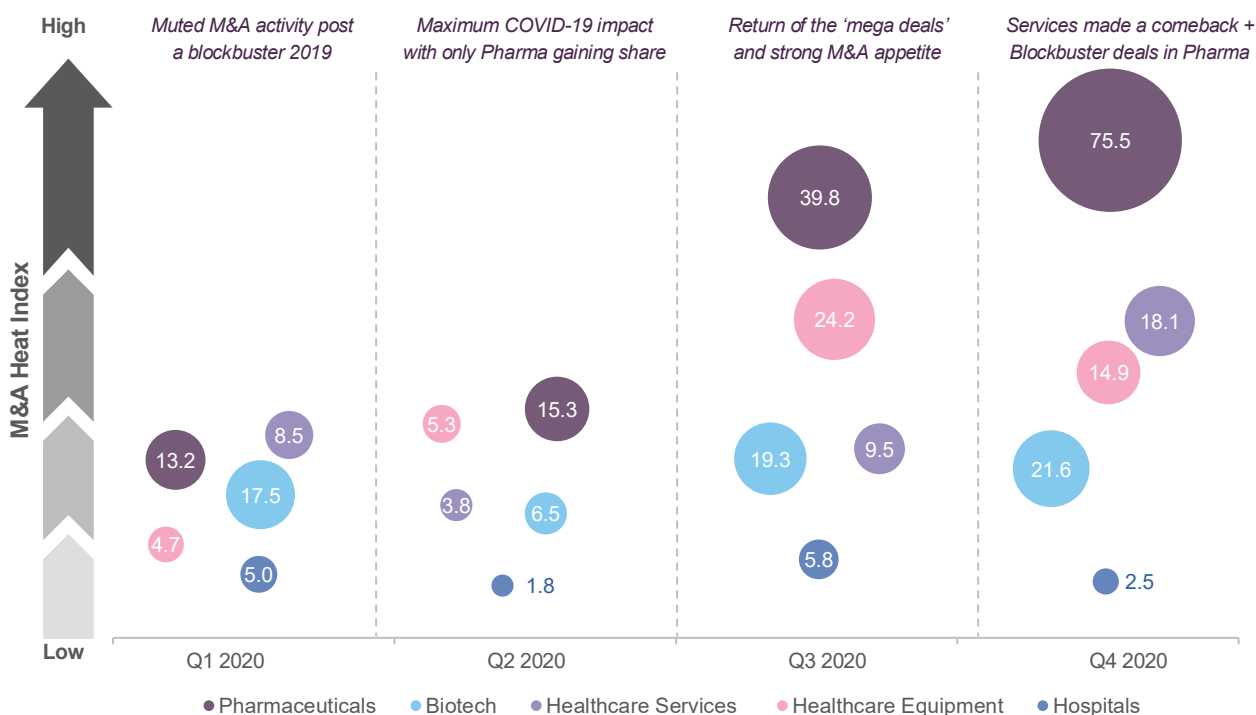


Source: Refinitiv; deals as of Dec 31, 2020

The healthcare services and equipment markets witnessed a strong recovery, as patients started to move back to traditional healthcare settings. The 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 garner strong investor interest, as they continue to generate more evidence on efficacy and roll out their authorized vaccines in a phased manner.

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



Source: Refinitiv as of Dec 31, 2020; M&A Heat Index is based on the equal weightage of average deal size and number of deals during each quarter; bubbles represent overall deal activity in USD billion during the respective quarter



Key Big-Ticket M&A Deals in Healthcare

Announcement date	Acquirer	Target	Target's domicile	Deal value (USD 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	Recipham	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

Source: Company filings as of Dec 31, 2020

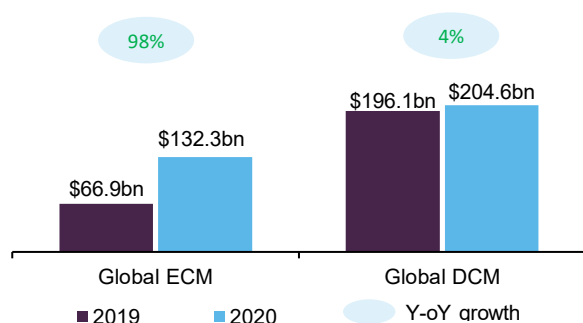
● Mega deals (>USD5 bn)

Healthcare Funding – Reached Peak ‘Cash Runways’

Despite several short-term challenges (discussed in our [previous update](#)), the healthcare industry will likely continue to witness a sustained increase in M&A activity heading into 2021. Many governments and their respective central banks rolled out financial relief packages to ‘cushion’ the impact of COVID-19. This ensured sufficient liquidity in the financial markets. The growing strength in financial markets was further evident in the massive uptrend in activities in equity and debt capital

markets (ECM and DCM), wherein investors consistently recognized and added value to ‘fortress balance sheets.’ With the opening up of capital markets, borrowers sought opportunities to refinance and extend debt maturities in the present low-interest-rate environment. Lenders, on the other hand, continued to look for opportunities to generate higher yields, with refinancing emerging as the major avenue for the deployment of their ‘eager’ capital.

Global Healthcare ECM and DCM Activity



Source: Refinitiv; deals as of Dec 31, 2020

- ✓ Some issuers, especially those with good credit ratings, capitalized on prevailing low-value coupons to strengthen their balance sheets.
- ✓ In the ECM, biopharma and digital health companies lead the way with record levels of IPOs and follow-on deals. The rising number of deals can be attributed to an increase in the number of roadshows and wall-crossing events
- ✓ Robust order books and after-market performances signified strong investor engagement in the industry.

Key Big-Ticket ECM and DCM Deals in Healthcare

Offer Date	Company	Target's Domicile	Deal Value (USD mn)	Stock Exchange	Deal Type
Dec 11, 2020	Community Health	US	~1,050	NYSE	Debt
Oct 26, 2020	Mirati Therapeutics	US	~1,000	Nasdaq	Follow-on
Sep 29, 2020	Medtronic	Ireland	~7,500	NYSE	Debt
Sep 14, 2020	Seagen	US	~1,000	Nasdaq	PIPE
Sep 10, 2020	Fresenius Medical Care	Germany	~1,000	Luxembourg	Debt
Sep 02, 2020	Siemens Healthineers	Germany	~3,200	Frankfurt	Follow-on
Sep 01, 2020	Tenet Healthcare	US	~2,500	NYSE	Debt
Aug 20, 2020	Johnson and Johnson	US	7,500	NYSE	Debt
Jul 12, 2020	BeiGene	China	~2,000	Nasdaq	Follow-on
Jul 9, 2020	Takeda Pharmaceutical	Japan	11,100	Tokyo	Debt
Jul 1, 2020	Hikma Pharmaceuticals	UK	500	LSE	Debt
Jul 1, 2020	Bayer	Germany	~6,800	Luxembourg	Debt
Jun 24, 2020	Merck & Co	US	4,500	NYSE	Debt
Jun 22, 2020	Upjohn (Pfizer)	US	11,500	–	Debt
Jun 19, 2020	SK Biopharmaceuticals	South Korea	~800	Korea Stock Exchange	IPO
Jun 16, 2020	Royalty Pharma	US	~2,500	Nasdaq	IPO
Jun 12, 2020	Catalent	US	~550	NYSE	Follow-on
May 28, 2020	Argenx	US	530	Nasdaq	Follow-on
May 13, 2020	MyoKardia	US	551	Nasdaq	Follow-on

Source: Company filings, Factset as of Dec 31, 2020

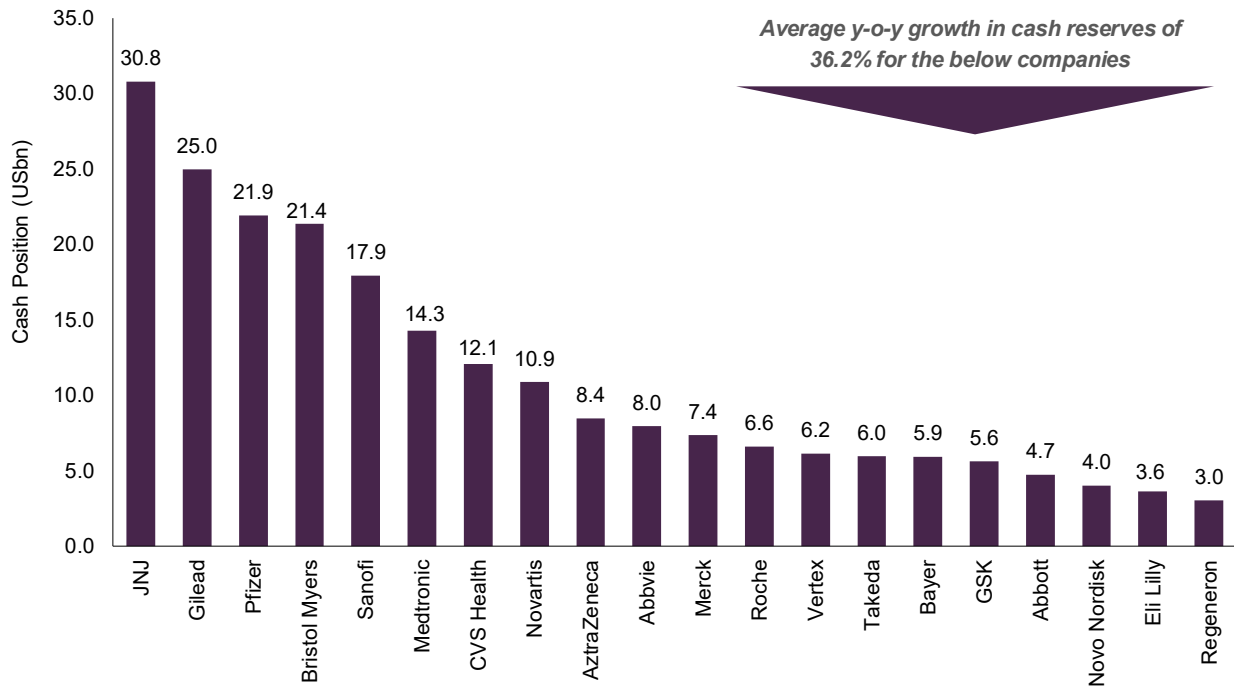
● Mega deals (>USD5 bn)

While M&A deal activity in the pharma, medical devices, and biotech markets had plummeted in the first half of the year, the surge in 'big ticket' deals in the second half signaled renewed hope. Major healthcare providers undertook financing

rounds and now have plenty of dry powder. They are looking to close deals to enhance their portfolios and expand market share, despite the ongoing uncertainties surrounding COVID-19 and the political landscape, especially in the US.



Key Healthcare Consolidators: Dry Powder Ready for Deployment



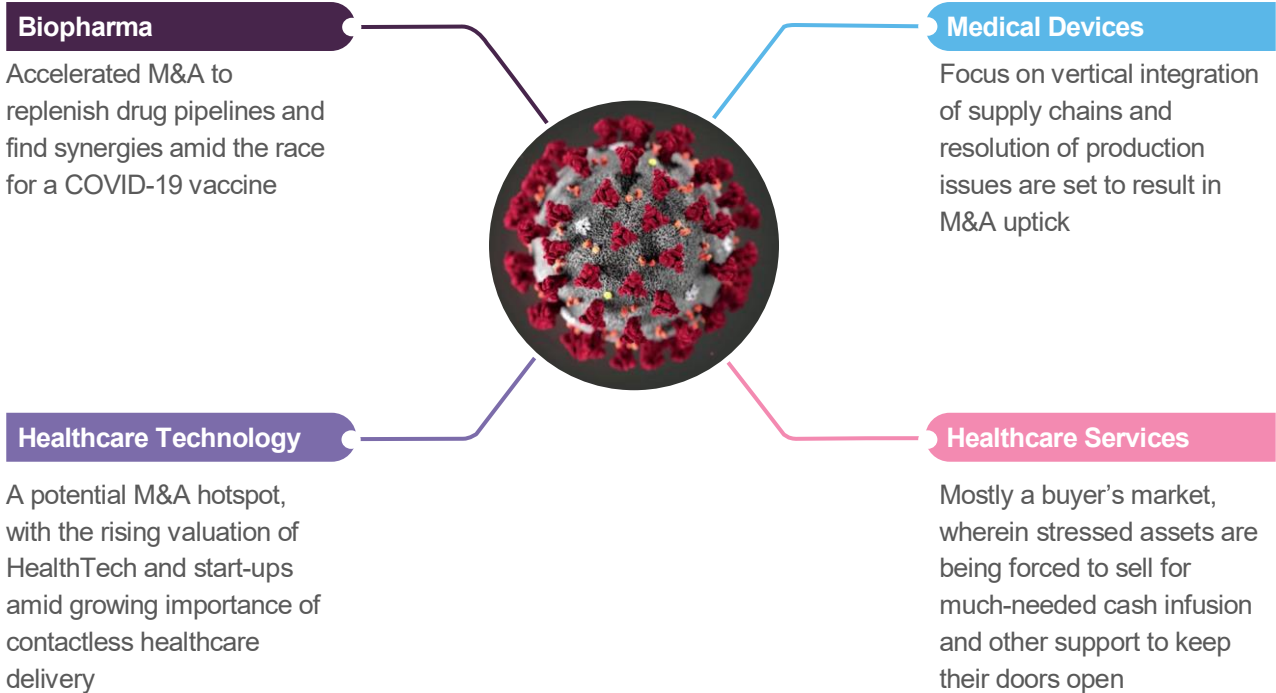
Source: Company filings, Factset as of Dec 31, 2020

Outlook 2021: Light at the End of the Tunnel is Brighter

Most healthcare companies have weathered the COVID-19-induced financial distress. We are starting to see recovery in the industry as we acclimate to the changing environment. COVID-19 has highlighted the importance of scale and resilience of a business portfolio. It has also changed how governments and healthcare companies look at healthcare supply chains, regulatory approval, and technology. We continue to foresee the following key M&A trends to drive deal-making heading into 2021:

- 1. Earn-outs or contingent payments to bridge valuation gaps:** Considering the current uncertainties in financial forecasting and asset valuation, we believe companies will increasingly depend on earn-outs to bridge differences.
- 2. Estimated high buying capacity of USD2.5 tr among private equity firms:** The capital position of private equity firms is likely to create opportunities for them to assess and capture resilient healthcare assets. In 2019, the disclosed value of private equity M&A deals in the healthcare industry stood at a record USD78.9 bn (as per Bain Capital).
- 3. Attractive valuations continue to drive multiple buy-out discussions:** We expect the hospital segment to witness multiple buy-out activities wherein government support has been insufficient to sustain these companies over an extended pandemic period. We also expect the M&A push to be broad-based across major healthcare sub-sectors, as innovation gets rewarded by investors. These include companies which are directly involved in addressing the spread of COVID-19, like those focused on diagnostics and vaccine development, as well as consolidation among medical devices manufacturers, which had been severely impacted by recent restrictions on elective procedures.
- 4. Alternative avenues of deal-making on the rise:** Minority stakes, joint ventures, strategic alliances, and mergers with SPACs are expected to continue to gain popularity in 2021.
- 5. Vaccine developers set to gain market share:** Successful vaccine developers are expected to earn a windfall of excess cash and market positioning given enormous demand for their products. These companies will be in position to reshape the competitive landscape of the pharmaceutical industry. Additionally, the companies which have utilized the new mRNA technology to develop their vaccines will have earned an important first mover advantage in the innovation process of applying mRNA to other therapeutic areas.
- 6. Environmental, Social and Governance (ESG) factors set to take center stage:** The COVID-19 pandemic has shown that ESG is key to crisis-resilient long-term value creation. Companies with dynamic business culture were more resilient during the shutdowns given their ability to absorb the 'shock'. As a result, deal makers are expected to place greater emphasis on ESG criteria while screening out assets and determining valuations.

Key M&A Trends across Sub-sectors in 2021



Global dealmakers still have a lot to cope with in 2021, with the advent of a third wave of COVID-19 cases, increasing foreign direct investment (FDI) restrictions imposed by governments globally, uncertainties around the economic policies in the US, and the ongoing Brexit negotiations.

However, considering the importance of the healthcare industry's role in the current pandemic, we believe many new companies (such as Infrastructure Funds and large technology companies) will enter this space to

diversify their business portfolio. Based on industry data and emerging trends / market sentiments, we continue to remain positive about M&A activities as companies continue to seek deals to strategically re-position themselves.

We continue to strongly believe that the attractive valuation, robust demand supported by supply chain normalization, and the M&A firepower of strategics and sponsors will help in sustaining the recent acceleration in M&A activity in 2021.