

Global Healthcare Industry

M&A and Capital Market Landscape H1 2021 Update



Global Healthcare Market – 2021

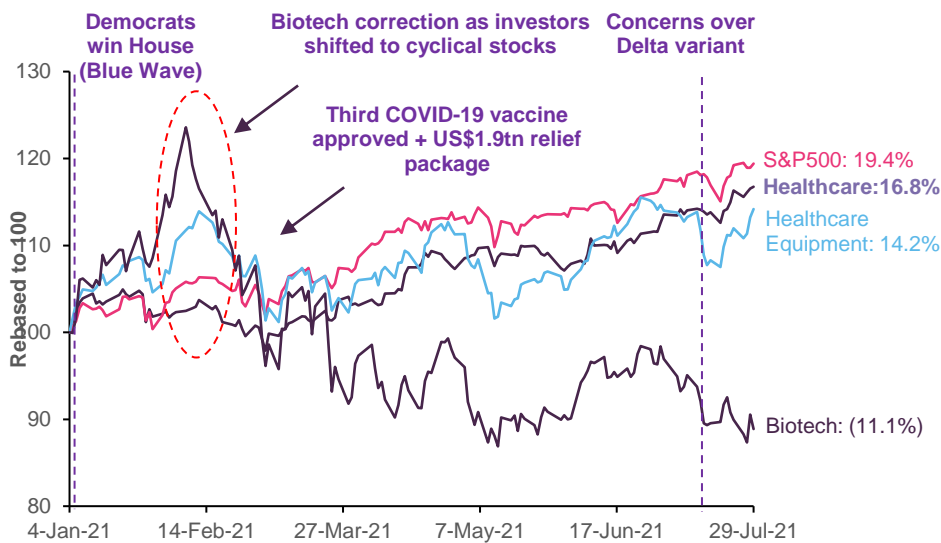
As the fight against COVID-19 continues, economic recovery across economies has been diverging due to differences in the pace of vaccine rollout and policy support. Mass vaccination drives by advanced economies are driving positive market sentiments. However, the resurgence of COVID-19 cases, especially in China and the US, has once again raised the possibilities of emergency lockdowns. The consistent and equitable implementation of tools to control the pandemic is proving to be a challenge for governments across the globe.

According to the IMF, the global economy is likely to grow by 6.0% in 2021 and 4.9% in 2022 driven by a stronger recovery in the advanced economies where additional fiscal stimulus and a broader vaccination strategy has higher visibility.

The resiliency of the healthcare industry has been on display throughout the pandemic with investors continuing to view the sector in terms of its historical position as an ‘go-to’ market, given its proven ability to be structurally stable and offer impressive prospects across the economic cycle.

Within the healthcare industry, healthcare equipment performed strongly especially in Q2’21 (refer to the graph below) driven by the urgent need for innovative care delivery in new or alternative settings and better than expected recovery of demand. On the other hand, Biotech heavily underperformed in H1’21 primarily due to the shifting of focus towards cyclicals and the build-up of negative sentiments as of result of greater regulatory clampdown on transformative deals and drug pricing.

US Market Performance (2021)



The healthcare equipment sector's strong performance continues to reflect an overall rebound aided by better-than-expected quarterly earnings and heightened deal activity.

The broader healthcare sector is expected to be in the spotlight in the near term owing to higher demand for COVID-19 vaccines as well as the innovative treatment with the advent of a Delta variant sending a shock across the global markets

Source: S&P Dow Jones US market Indices; as of July 29, 2021



The healthcare sector could turn out to be a key growth engine for the overall market in the coming days driven by a paradigm shift in investors' ideology of viewing the sector as more than just a 'defensive' strategy

Some of the sub-sectors within the healthcare industry continue to receive windfall gains driven by COVID-19. The prolonged period of uncertainties and the release of positive efficacy data supporting the recent launches

of vaccines have helped in sustaining the investors' demand. However, the current recovery continues to be volatile as the global economy is in the midst of a third wave and the spread of resistant mutations.

Global Healthcare M&A: Unprecedented Fightback 2.0

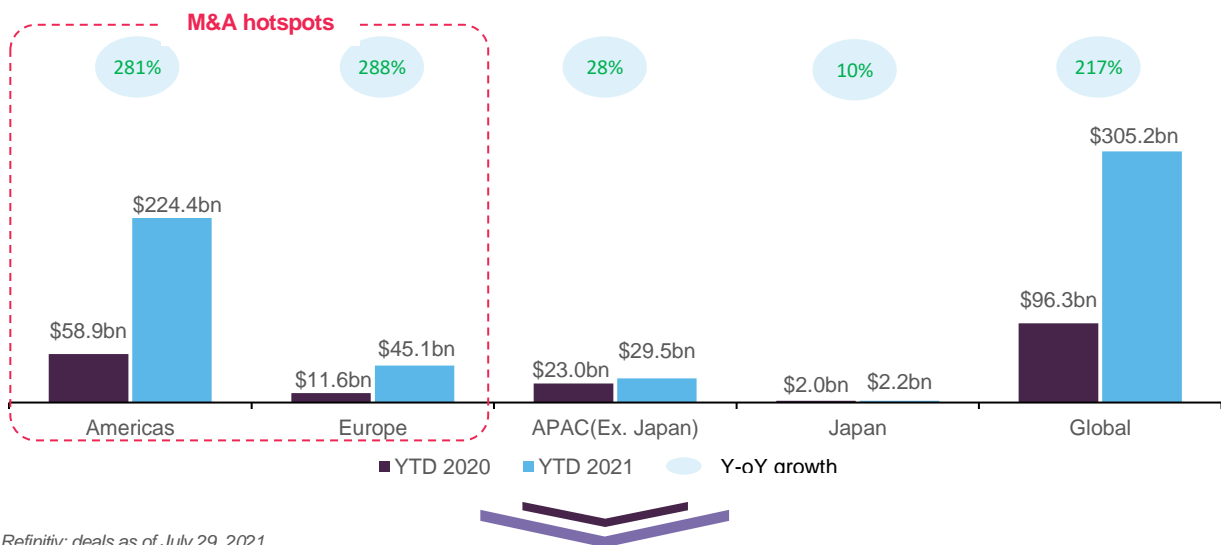
The extraordinary surge of deals witnessed globally at the start of the year has gained further momentum in Q2'20 as dealmakers strived to stay ahead of the deal curve. A y-o-y comparison shows a record growth aided by a muted H1'20 during which investors were forced to hold off on deal-making because of the onset of the COVID-19 pandemic.

The pandemic and related impediments had initially shifted the timeline of various M&A deals. However, since then the industry has witnessed a robust global recovery driven by the announcements and closures of several 'big ticket' deals, especially in the US and EMEA. The ability to identify, negotiate and realize value from increasingly complex partnerships and alternative collaboration models has become an important competitive advantage. The following

trends have resulted in an overall improvement in M&A sentiments in the industry vs 2020:

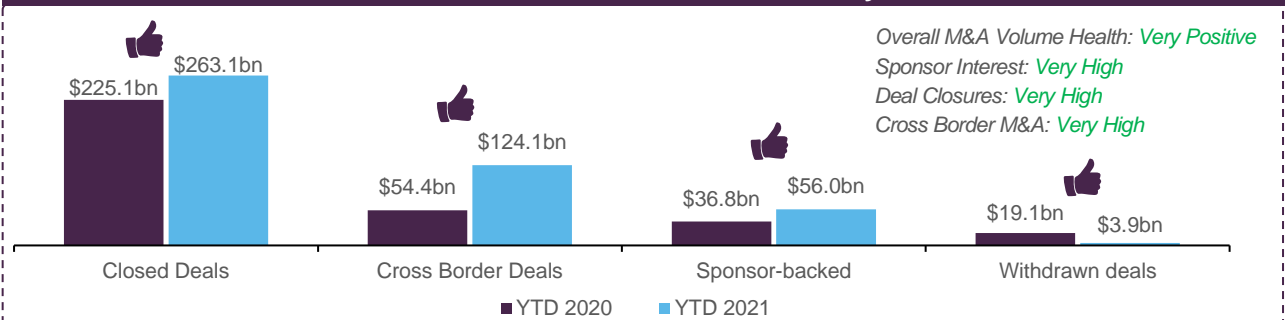
- 👍 Sponsor deals rebounded exceptionally. Several deals, which were under discussion, were re-initiated and provided well-timed opportunities for investment banks.
- 👍 Unprecedented levels of alliances in the R&D ecosystem as several major biopharma companies collaborated to effectively leverage their resources to stem innovation.
- 👍 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.
- 👍 MedTech's urgent focus on real-time data.

Global Healthcare Regional M&A YTD 2021 (USD bn)



Source: Refinitiv; deals as of July 29, 2021

Global Healthcare M&A Volume Analysis

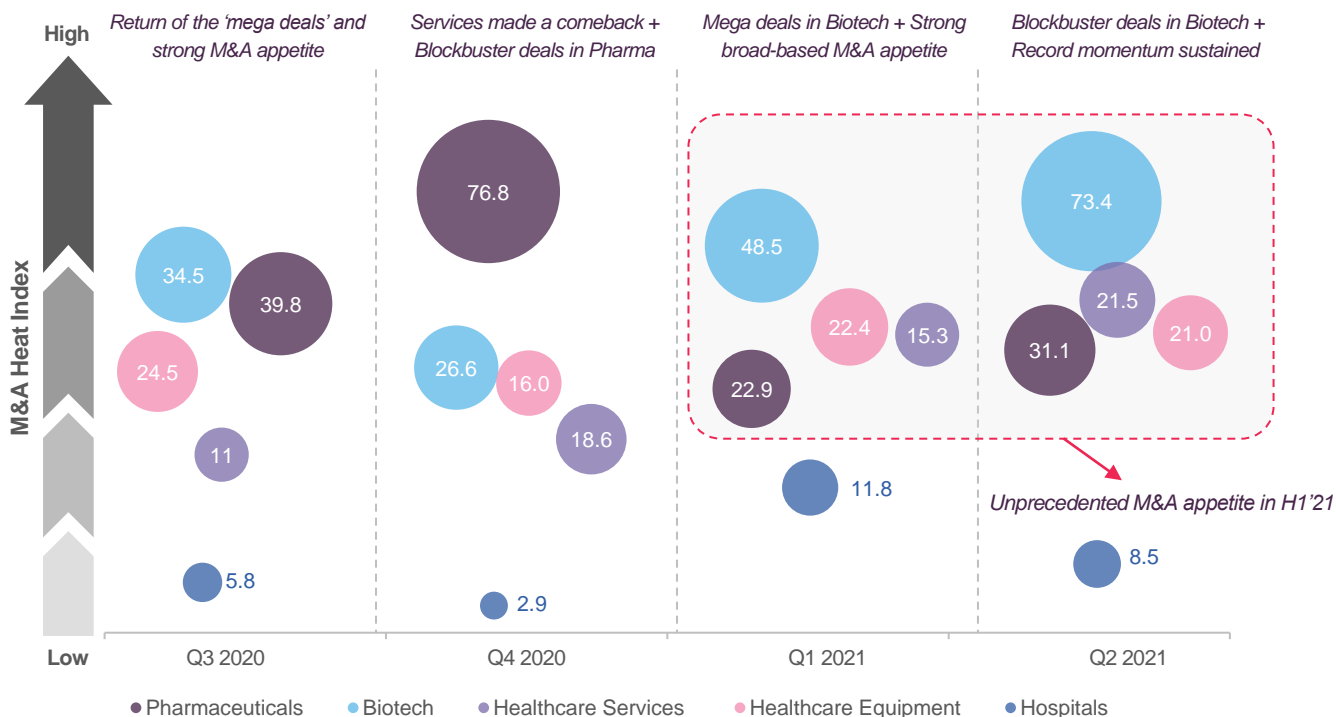


The deal activity in first half of 2021 has been driven by heightened investor optimism, deployment of cash reserves, vaccine rollout ahead of expectations and accelerated recovery of global economic activity

A deep dive into the sub-sectors reveal just how broad-based the deal activity has been. The healthcare services and equipment markets continued their strong recovery, as patients started to move back to traditional healthcare settings. Telemedicine has been an M&A

hotspot, as COVID-19 has catalyzed the rapid regulatory and reimbursement shifts favoring the sector. Pharma and biotech continued to garner strong investor interest, as they generated more evidence on 'efficacy' and rolled out their authorized vaccines in a phased manner.

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



Source: Refinitiv as of June 30, 2021; 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 2021 (USD mn)

Announ. date	Acquirer	Target	Deal value	Advisors
27-Jul-21	Amgen	Teneobio	~2,500	Goldman Sachs
26-Jul-21	PerkinElmer	BioLegend	~5,250	Goldman Sachs, JP Morgan
02-Jul-21	EQT	Parexel	~8,500	Evercore, Goldman Sachs, Jefferies
17-Jun-21	Danaher	Alvepron	~9,600	Morgan Stanley, Goldman Sachs
30-Apr-21	Nestle	Bountiful	~5,750	Evercore, Morgan Stanley, JP Morgan, Goldman Sachs
27-Apr-21	Humana	Kindred at Home (60%)	~5,700	Guggenheim Capital, Barclays, Goldman Sachs
15-Apr-21	Thermo Fischer	PPD	~20,900	Goldman Sachs, JP Morgan, Morgan Stanley Barclays
15-Mar-21	Roche	GenMark Diagnostics	~1,800	JP Morgan and Citibank
04-Mar-21	Amgen	Five Prime Therapeutics	~1,900	Lazard and Goldman Sachs
24-Feb-21	ICON	PRA Health Sciences	~12,000	UBS, Merrill Lynch, Pierce, Fenner & Smith, Citigroup and Centerview
03-Feb-21	Jazz Pharmaceuticals	GW Pharmaceuticals	~7,200	Goldman Sachs, Centerview, Guggenheim Capital, Evercore, BofA and JP Morgan
01-Feb-21	Horizon Therapeutics	Viela Bio	~2,700	Goldman Sachs, Citigroup, Morgan Stanley
12-Jan-21	Steris	Cantel Medical	~4,600	Centerview and Guggenheim Capital
06-Jan-21	AmerisourceBergen	WBA (Alliance Healthcare)	~6,500	Centerview and JP Morgan
06-Jan-21	UnitedHealth Group	Change Healthcare	~13,000	Barclays, Goldman Sachs, Merrill Lynch, Pierce and Fenner & Smith
04-Jan-21	Centene	Magellan Health	~2,200	Guggenheim Capital, Goldman Sachs, JP Morgan, Allen & Co. and Barclays

Source: Company filings, FactSet as of July 29, 2021

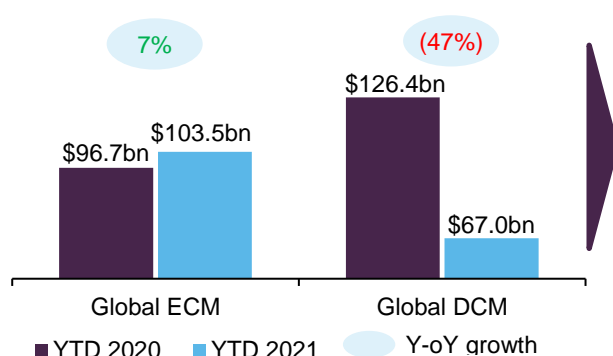
● Mega deals (>USD 5,000 mn)

Healthcare Funding – Reached Peaked ‘Cash Runways’

With the roll-out of financial relief packages to ‘cushion’ the impact of COVID-19, financial markets witnessed a record surge in activities in the equity and debt capital markets (ECM and DCM). Borrowers have since continued to seek opportunities to refinance and extend debt maturities in the present low-interest-rate environment thereby building ‘fortress balance sheets’. Lenders, on the other hand, have

focused on generating higher yields, with refinancing emerging as the major avenue for the deployment of their ‘eager’ capital. Though corporate debt issuance expectedly witnessed a slowdown in H1’21 post a record-breaking run last year, the unprecedented surge in SPAC IPOs aided by the revival of traditional IPOs and a favorable secondary market has fueled the record levels witnessed in the ECM this year.

Global Healthcare ECM and DCM Activity



Source: Refinitiv; deals as of July 29, 2021; values are in USD

- 👍 In the ECM, biopharma and digital health companies continue to 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 favorable valuations.
- 👍 Robust order books and after-market performances continue to signify strong investor engagement in the industry.
- 👎 DCM issuances declined post a rapid surge in 2020 as corporates had pre-funded their capital requirements.



ECM continues to garner investors’ interest driven by the need for innovation whereas DCM declined with companies focusing on reviving earnings back to pre-crisis levels and reducing their amount of debt from 2020



Key Big-Ticket ECM and DCM Deals in 2021

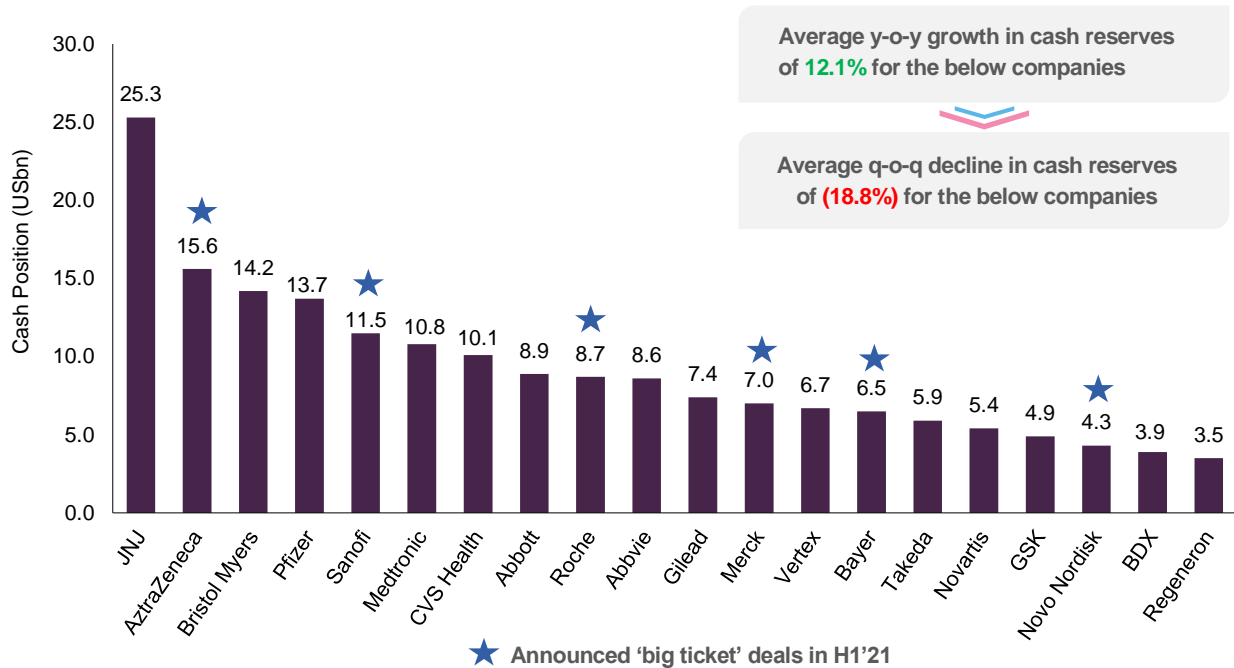
Offer Date	Company	Target's Domicile	Deal Value (USD mn)	Stock Exchange	Deal Type
07-Jul-21	Avantor Funding	US	~1,100	NYSE	Debt
23-Jun-21	Aveanna Healthcare	US	~1,060	Nasdaq	Debt
27-May-21	Novo Nordisk	Denmark	~1,600	Euronext Dublin	Debt
26-May-21	AstraZeneca	UK	~8,000	LSE / NYSE	Debt
15-Apr-21	Novant Health	US	~1,500	NYSE	Debt
14-Apr-21	Agilon Health	US	~1,072	NYSE	IPO
08-Apr-21	Organon	US	~4,500	NYSE	Debt
25-Mar-21	Ramsay Sante	France	~2,000	Euronext Paris	Debt
17-Mar-21	Anthem	US	~3,500	NYSE	Debt
08-Mar-21	SK Bioscience	Korea	~1,300	KOSDAQ	IPO
03-Mar-21	Oscar Health	US	~1,400	NYSE	IPO
01-Mar-21	Cigna	US	~4,300	XETRA	Debt
10-Feb-21	Centene	US	~2,200	NYSE	Debt
27-Jan-21	Ortho Clinical Diagnostics	US	~1,300	NASDAQ	IPO
07-Jan-21	Bayer	Germany	~4,900	XETRA	Debt

Source: Company filings, FactSet as of July 29, 2021

The resurgence of 'big ticket' deals in the pharma, medical devices, and biotech markets has continued in H1 2021. The impetus from the capital markets had resulted in major healthcare providers undertaking financing rounds and

accumulating plenty of dry powder. They are currently looking to close out deals to enhance their portfolios and expand market share, despite the ongoing uncertainties surrounding COVID-19 and the ever-changing political landscape.

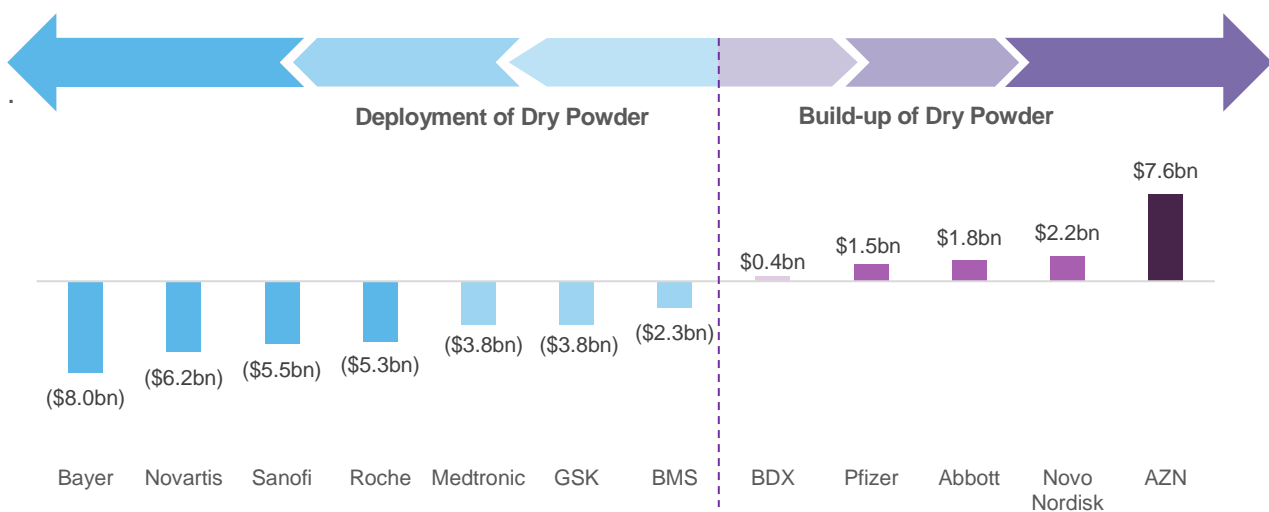
Key Healthcare Consolidators: Dry Powder Ready for Further Deployment



Source: Company filings, FactSet as of June 30, 2021; AstraZeneca's cash balance includes amount raised for Alexion's acquisition (completed on July 21, 2021)

There is growing evidence (below chart) which indicate that majority of the key consolidators have already started to deploy their dry powder post identification of key assets in Q2'21. While others, who still have some headroom relating to their leverage positions, have continued to shore

up their balance sheets at a steady pace with the likely presumption of potential M&As. However, given the recent slowdown in financing it seems that these consolidators have reached peaked cash runaways and are just few steps away from deploying their reserves further.



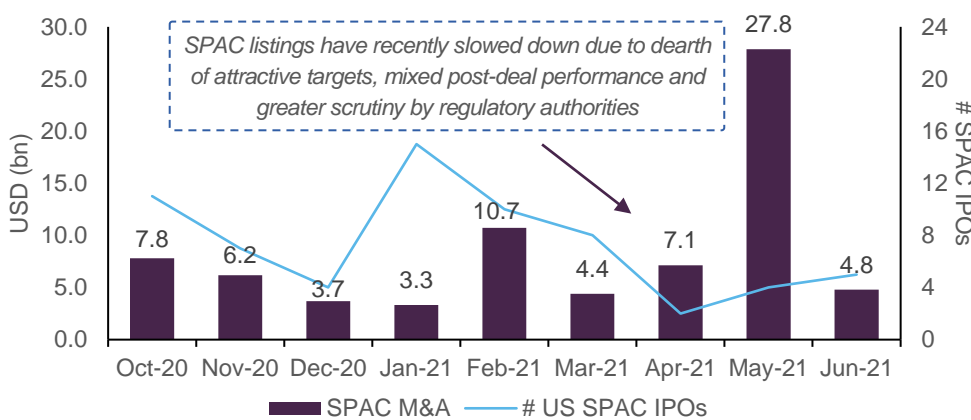
Source: Company filings, FactSet as of June 30, 2021; figures represent changes in cash position since March 31, 2021, in USD; AstraZeneca's cash build includes amount raised for Alexion's acquisition which was completed on July 21, 2021

Healthcare SPACs: Spotlight on Consummation of Deals

The record surge in Special Purpose Acquisition Companies (SPACs) activity from last year had continued its momentum in Q1'21. However, the heightened regulatory scrutiny had to a certain extent 'put the brakes' on these vehicles in Q2'21 in terms of IPOs. In April, the Securities Exchange Commission (SEC) in the US had announced that they were coming up with a new guidance relating to the issuance of warrants to the investors. This along with concerns around

transparency and disclosures, mixed post-deal performance and potential overcrowding had resulted in growing investors' doubts about SPACs' ability to deliver high-quality companies. However, recent trends do suggest a recovery in IPOs and consummation of deals at a record pace. According to the NYSE, last year there were 50 SPACs that went public with Healthcare being their target sector. This positions 2021 as a potential blockbuster year for SPAC M&A.

Healthcare SPAC Activity: Merger Clock Continues to Tick Louder



Digital Health and Biotech companies continue to be under SPACs' crosshair given their ability to garner high valuations in the current volatile market. Evidence also suggest that SPACs have been closing out deals in record time in recent quarters though financing has lost some of its luster

Source: SpacInsider and Refinitiv; deals as of June 30, 2021



A healthy trend of SPAC IPOs and broad availability of pharma innovation is expected to sustain the current Healthcare SPAC M&A activity for the remainder of 2021 though a slowdown is on the cards

According to SPAC Track, there are currently around 70 SPACs that are actively screening for target companies across the healthcare and life sciences industries. Hence, it is expected that more healthcare startups might choose to go

public through this exit pathway throughout 2021. Though it might be too early to differentiate SPACs based on market returns, the following factors are expected to shape the market demand for the remainder of the year.



Key Growth Drivers

- 👍 Faster access to the market: in weeks or a few months vs the 12-18 months for an IPO
- 👍 Simpler and less costly due diligence processes due to regulatory lenience
- 👍 Investors have the right to vote against an acquisition with the possibility of retaining upside by keeping warrants even if selling the stocks
- 👍 Larger pool of investors and higher liquidity than in traditional private equity investments

Key Market Restraints

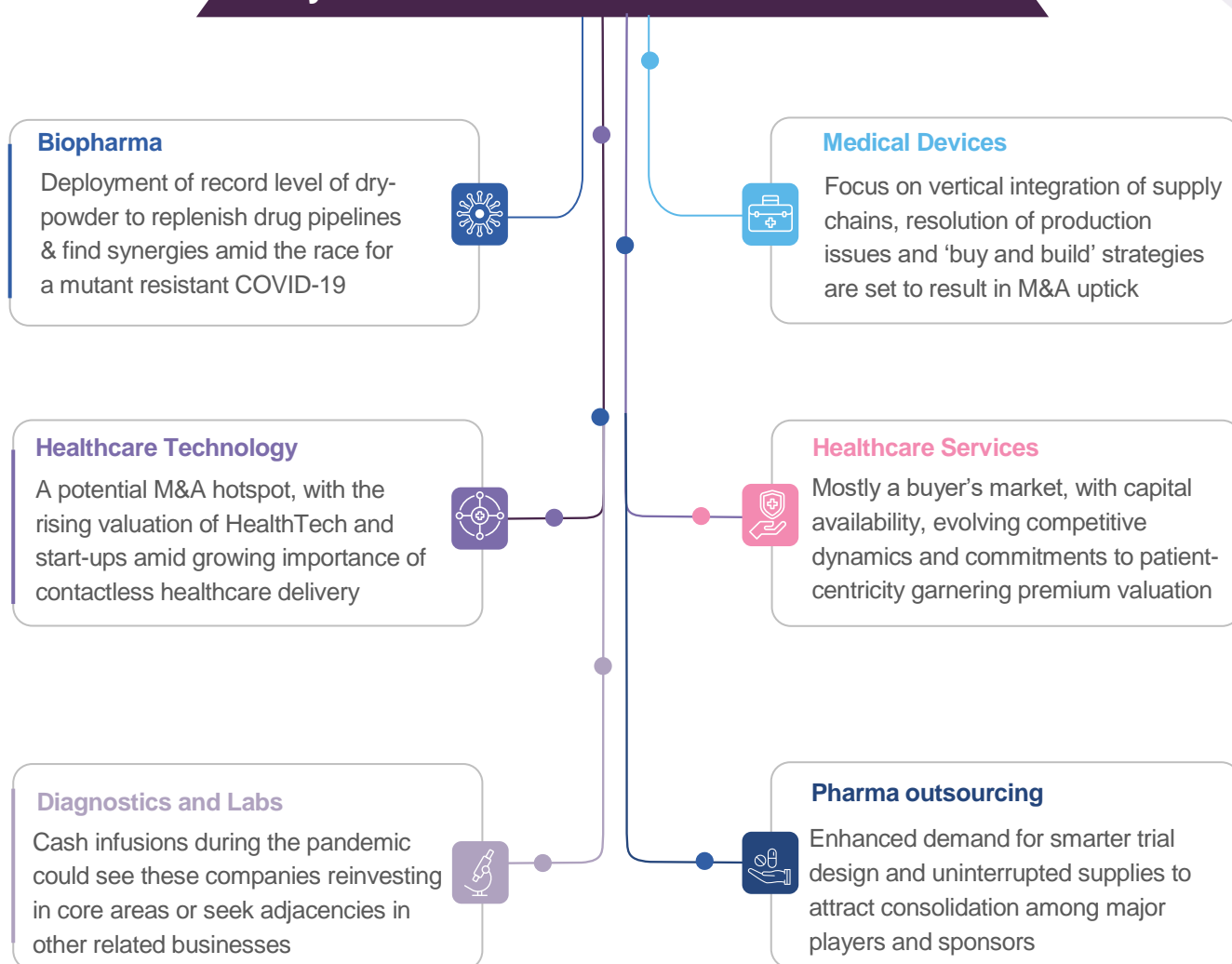
- 👎 Overcrowding is expected to result in lack of attractive private healthcare companies
- 👎 High uncertainty about the business being acquired and high dependence on sponsor skills
- 👎 Reduction in market volatility to make SPACs less attractive compared to traditional IPOs
- 👎 Poor performance and heightened regulatory scrutiny have forced investors to tread cautiously

Outlook 2021: Focus on Resilience and Transformation

The prolonged nature of the pandemic has highlighted the importance of scale and resilience of a business portfolio. Companies and investment firms have rushed to get ahead of the potential changes in healthcare delivery. Even though valuations remain high and a seller's market endures, demand for quality assets and sellers' willingness to sell them are accelerating deals. Many buyers are re-assessing where they fit in the value chain and whether M&A would be right step forward. In the light of these developments, we foresee the following key M&A trends to define the overall deal-making for the remainder of 2021:

- 1. Innovations continue to be rewarded:** We continue to foresee any incremental M&A push to be broad-based across major healthcare sub-sectors, as innovation gets rewarded by investors. These include companies that 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 were severely impacted by restrictions on elective procedures last year.
- 2. Estimated dry powder of ~USD2.0tr among private equity firms:** The strong capital position of private equity firms continues to create opportunities for them to assess and capture resilient healthcare assets. In H1'21, the disclosed value of private equity M&A deals in the healthcare industry stood at a record c.USD56bn, up 51% y-o-y (as per Refinitiv).
- 3. Alternative avenues of deal-making continue to be on the rise:** Minority stakes, joint ventures, strategic alliances, and mergers with SPACs are expected to continue to gain traction in 2021 amid prolonged uncertainties.
- 4. 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 able 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.
- 5. 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 cultures were more resilient during the shutdowns given their ability to absorb the 'shock'. As a result, deal makers are expected to continue to place greater emphasis on ESG criteria while screening out assets and determining valuations.
- 6. Scarcity of attractive assets may serve as a 'deal-breaker':** The unprecedented surge in deals in the last three quarters backed by a 'liquidity flush' may result in an overheated market towards the latter part of the year. Investment banks might find it tougher to negotiate terms between the parties due to a lack of available white space.
- 7. Greater scrutiny on biopharma M&As going forward:** Governments and antitrust enforcers across the globe are teaming up to rethink their approach toward pharmaceutical merger review. This is expected to curb transactions that are responsible for raising prices or dampening innovation in the sector.
- 8. Heightened shareholder activism:** While activist investors played the waiting game for much of 2020, they have remained active behind the scenes by utilizing their time to raise funds and prepare for a busy 2021. As the dust starts to settle, activist investors are in a strong position to identify and target companies ripe for activist involvement.

Key M&A Trends across Sub-sectors in 2021



We expect cross-sector deals to become more prominent as existing players and new entrants alike push for ecosystem strength throughout the healthcare value chain. Prime focus will be to remain agile and push for innovative business models and optimization of corporate portfolios. Global dealmakers are still not out of the woods with in 2021, with the advent of a fourth 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 continue to foresee many new

companies (such as Infrastructure Funds, FMCG and large technology companies) entering this space to diversify their business portfolio. These companies armed with marketing expertise, global footprint and strong balance sheets could change the healthcare sector's landscape in the days to come.

If the first half of the year is anything to go by then we are amid one of the most robust and broad-based M&A markets witnessed in the last few decades. Hence, we continue to believe that the digitalization, 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 for the remainder of 2021.

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Over 6 years of experience in working as part of an investment banking offshore teams with a focus on the healthcare industry

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