EVALUESERVE

Global Healthcare Industry

M&A and Capital Market Landscape 2021 Review

Corporate and
Investment Banking
Practice

Global Healthcare Market – 2021

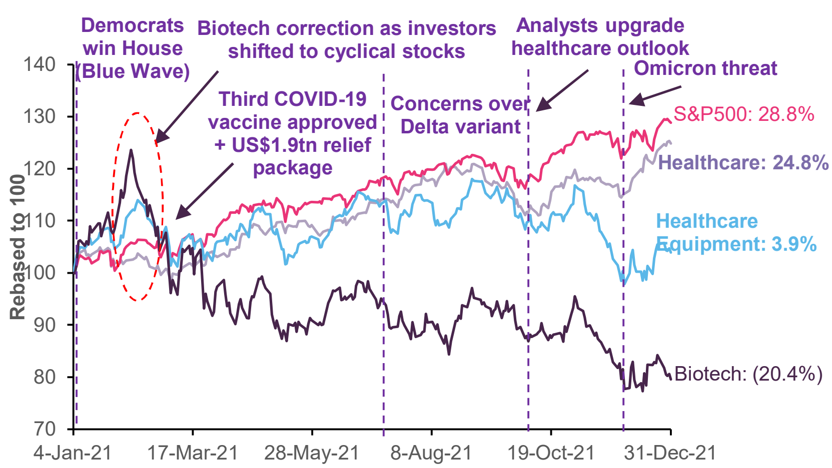
It has been almost two years since the outbreak of COVID-19, but the pandemic still rages on. Vaccine rollout and policy support have continued to witness divergence across regions. The consistent and equitable implementation of tools to control the pandemic continues to be a challenge for governments across the globe. Mass vaccination drives in advanced economies are instilling positive market sentiments with the presumption of stability. However, the recent global emergence of new COVID-19 variants has highlighted the need for an effective global health strategy to reduce the risk of further lethal variants in the future.

The global economy is likely to grow by 5.9% in 2021 and 4.4% in 2022 driven (IMF) by a stronger recovery in the advanced economies where additional fiscal stimulus and a broader vaccination strategy has higher visibility. Nonetheless, "the fault lines opened up by COVID-19 are looking more persistent" with every pocket of resurgence leaving minimal headroom for policy support.

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 outperformed (refer to the graph below) driven by the urgent need for innovative care delivery in new or alternative settings and expedited recovery of demand especially for elective procedures. On the other hand, Biotech heavily underperformed post Q1'21 primarily due to the shifting of focus towards cyclicals and negative sentiments arising as of result of greater regulatory clampdown on transformative deals and drug pricing by the current administration.

US Market Performance (2021)



Source: S&P Dow Jones US market Indices; as of December 31, 2021

The healthcare equipment sector's strong performance till the recent correction was reflective of 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 2022 owing to higher demand for COVID-19 vaccines as well as innovative treatments with the advent of Omicron variants keeping the global markets on the edge.

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 continued to receive windfall gains driven by COVID-19. The prolonged period of uncertainties and the release of positive efficacy data supported the launches of vaccines which had helped in sustaining the investors' demand. However, the current recovery continues to be volatile as the global economy with the possibility of more lethal mutant resistant variant.

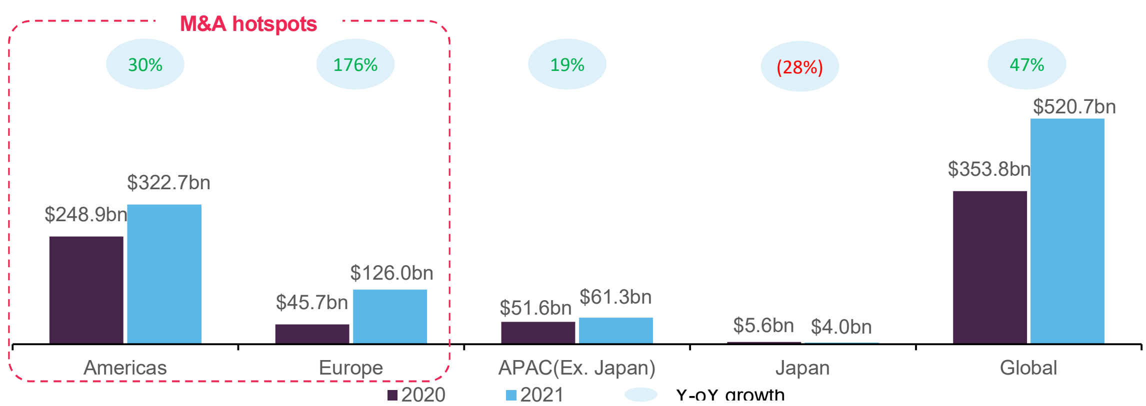
Global Healthcare M&A: Unprecedented Fightback 2.0

The global healthcare market witnessed unprecedented surge of deals in 2021 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 COVID-19.

The pandemic induced impediments which had initially shifted the M&A timelines, has since witnessed a robust global recovery driven by the announcements and closures of several 'big ticket' deals, especially in the U.S. 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:

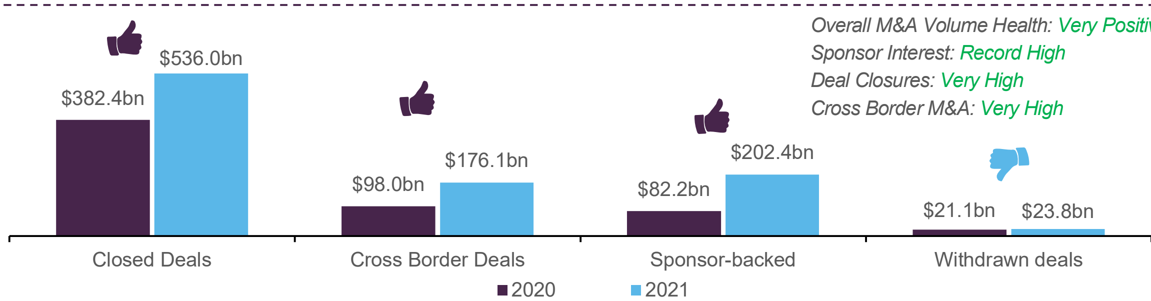
- Unprecedented levels of alliances in the R&D ecosystem as several major biopharma companies collaborated to effectively leverage their resources to stem innovation
- Sponsor deals rebounded exceptionally. Several deals, which were under discussion, were re-initiated and provided well-timed opportunities 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
- MedTech's urgent focus on real-time data
- Rapid paradigm shift towards utilizing data and actionable insights to implement person-centric network strategies

Global Healthcare Regional M&A 2021 (USD bn)



Source: Refinitiv; deals as of December 31, 2021

Global Healthcare M&A Volume Analysis

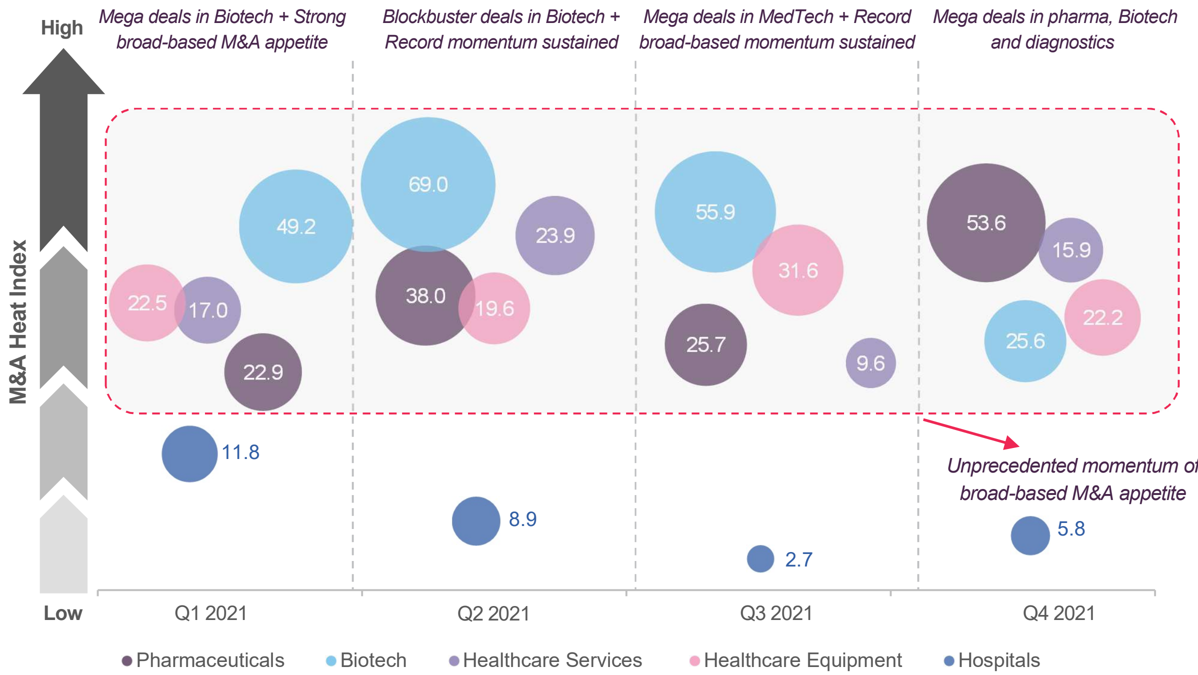


Overall M&A Volume Health: Very Positive
Sponsor Interest: Record High
Deal Closures: Very High
Cross Border M&A: Very High

The record deal activity in 2021 was driven by heightened investor optimism, deployment of cash reserves, successful roll-out of vaccines and the prospects of an accelerated recovery of global economic activity

A deep dive into the key 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 their blockbuster momentum, 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 December 31, 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

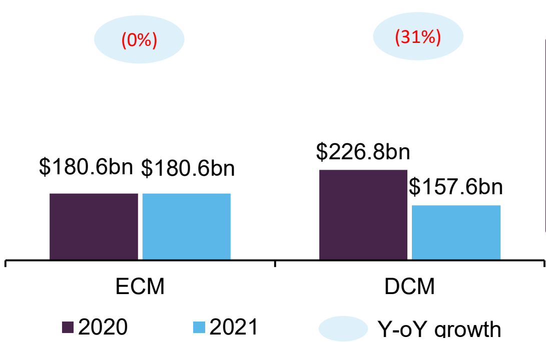
Key 'Mega' M&A Deals in 2021 (USD mn)				
Announ. date	**Acquirer**	**Target**	**Deal value**	**Advisors**
23-Dec-21	Quidel	Ortho Clinical Diagnostics	~8,000	JP Morgan, Goldman Sachs, Citigroup, Perella Weinberg Partners
13-Dec-21	Pfizer	Arena Pharmaceuticals	~6,700	Evercore, Guggenheim Capital, Centerview, BofA
30-Sep-21	Merck	Acceleron Pharma	~11,500	JP Morgan, Goldman Sachs, Centerview, Credit Suisse
02-Sep-21	SOBI	Advent International and GIC	~8,000	Danske Bank, Morgan Stanley, Deutsche Bank, JP Morgan, UBS, Barclays, Evercore and SEB
02-Sep-21	Baxter	Hill-Rom	~10,500	Goldman Sachs, BofA, JP Morgan, Citigroup and Perella Weinberg Partners
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	Aldevron	~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
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
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

Source: Company filings, FactSet as of December 31, 2021

Healthcare Funding – Normalization of 'Cash Runways'

The financial equity and debt capital markets (ECM and DCM) witnessed strong demand during year wherein borrowers 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 DCM expectedly witnessed a slowdown in 2021 post a record-breaking run in 2020, the Syndicated Loans market has turned into a hotspot with record levels of issuances. The recent scrutiny of SPAC IPOs has resulted in a 'cool-off' period in the otherwise red-hot ECM this year. The revival of traditional IPOs and a favorable secondary market has sustained the investors' demand which however, we expect to normalize at current level of 'cash runways'.

Global Healthcare Capital Markets Activity



Source: Refinitiv; deals as of December 31, 2021; values are in USD

- In the ECM, biopharma and digital health companies continued to lead the way with record levels of IPOs and follow-on deals. However, the market is in a 'cool-off' period owing to a slowdown in SPAC IPOs
- DCM issuances declined post a rapid surge in 2020 as corporates had pre-funded their capital requirements
- Rapid surge in Syndicated Loans market was primarily driven by faster economic recovery, low interest rates, repricing, strong investor demand and refinancing

ECM continues to sustain investors' interest driven by the need for innovation whereas DCM 'normalized' with companies focusing on reviving earnings back to pre-crisis levels and reducing their amount of debt

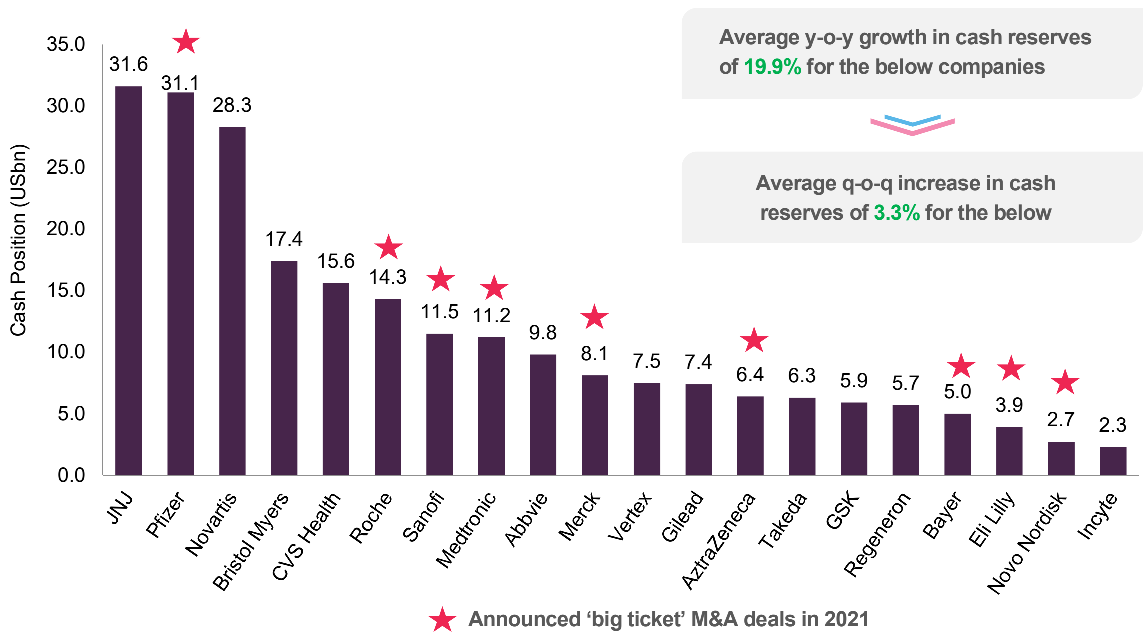
Key Big-Ticket ECM and DCM Deals in 2021

Offer Date	Company	Target's Domicile	Deal Value (USD mn)	Stock Exchange	Deal Type
13-Dec-21	Roche.	Switzerland	~6,000	SIX Swiss	Debt
07-Dec-21	Merck & Co.	US	~8,000	NYSE	Debt
28-Oct-21	Thermo Fischer	US	~5,850	NYSE	Debt
27-Oct-21	Teva	US	~4,000	NYSE	Debt
06-Oct-21	PHC Holding	Japan	~1,800	Tokyo	IPO
29-Jul-21	Humana	US	~3,000	NYSE	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 December 31, 2021

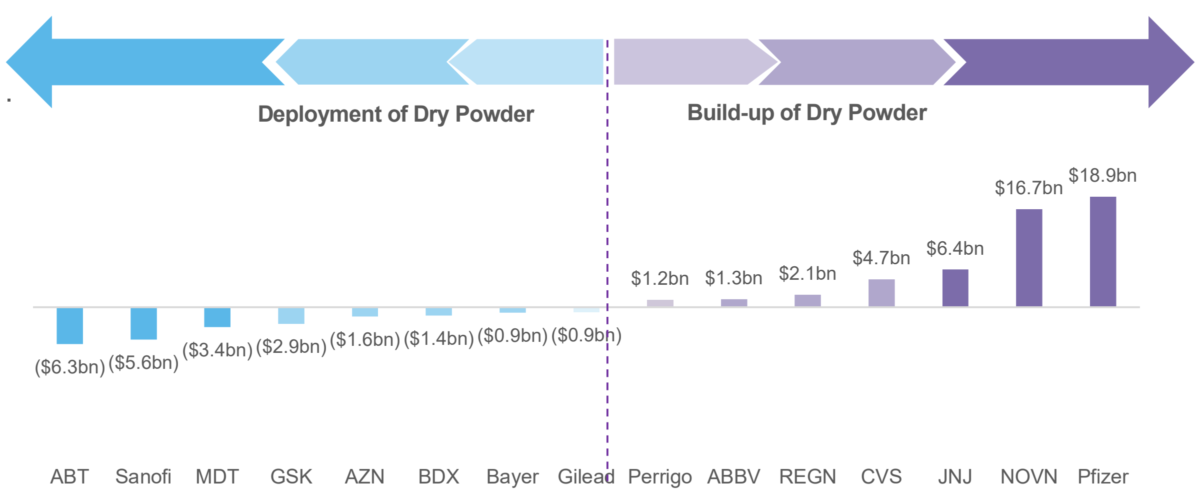
The impetus from the capital markets over the course of the past year had resulted in major healthcare providers undertaking multiple financing rounds and accumulating plenty of dry powder. They are actively 'shopping' for potential targets and aiming to close out deals in order to enhance their portfolios and expand market share, despite the ongoing uncertainties surrounding COVID-19, economic recovery and the ever-changing political landscape.

Key Healthcare Consolidators: Dry Powder Ready for Further Deployment



Source: Company filings, FactSet as of December 31, 2021

The below chart provides strong evidence of the fact that majority of the key consolidators had deployed some of their dry powder post identification of key assets in 2021. While others, who still had 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 in 2022.

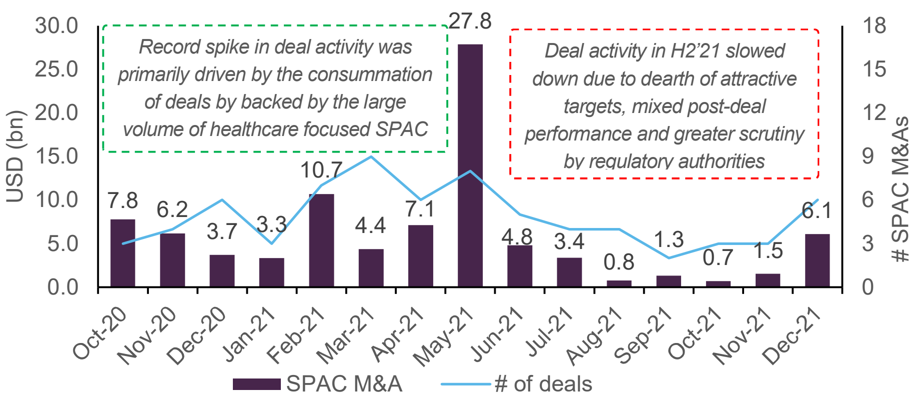


Source: Company filings, FactSet as of December 31, 2021; figures represent changes in cash position since December 31, 2020, in USD

Healthcare SPACs: Reality Check with Rising Redemptions

The record surge in Special Purpose Acquisition Companies (SPACs) activity from post the onset of Covid-19 had continued its momentum in the 2021. However, the heightened regulatory scrutiny had to a certain extent 'put the brakes' on SPACs activity from Q2'21 onwards. In April, the Securities Exchange Commission (SEC) in the U.S. had announced that they were coming up with a set of new guidance relating to the issuance of warrants to the investors. This along with concerns around transparency and disclosures, mixed post-deal performance, rising redemptions during De-SPAC and potential overcrowding has resulted in growing investors' doubts about SPACs' ability to deliver high-quality companies. However, the Healthcare sector has been the second most active for De-SPAC deals volume in 2021. Data for Q4'21 also saw some uptick in SPAC IPOs suggesting a healthy M&A path heading into 2022.

Healthcare SPAC M&A Activity: Merger Clock Continues to Tick Louder in 2022



Digital Health and Biotech companies continued to be SPACs' magnets given their ability to garner high valuations. Evidence suggested that SPACs closed out deals in record time in 2021 though volume of financing has taken a back seat on the wake of greater investors' scrutiny

Source: Refinitiv; deals as of December 31, 2021

The broad availability of pharma innovation and digital health's growing applicability is expected to sustain the current Healthcare SPAC M&A activity in 2022 though in a more 'normalized' market

According to S&P Global Market Intelligence data, around 107 SPACs listed parts of the healthcare industry as their intended target went public in 2021. In the months of November and December alone there were 23 Healthcare focused IPOs. Hence, it is expected that more healthcare startups might choose to go public through this exit pathway throughout 2022. Though it might be too early to differentiate SPACs based on market returns, the following factors continues to shape the market demand and supply in 2022.

Key Growth Drivers

- Faster access to the market: in weeks or a few months vs the 12-18 months for an IPO
- Certainty of knowing the valuation and pricing resulting better negotiations and deal structuring
- Opportunity to put forward a more complicated equity story aided by the ability to use projections especially in the case for high-growth healthcare companies
- Larger pool of investors and higher liquidity than in traditional private equity investments

Key Market Restraints

- Overcrowding has resulted in lack of attractive private healthcare companies
- High uncertainty about the business being acquired given shrinking valuations post De-SPAC
- Reduction in market volatility has taken the shine off SPACs' attractiveness vs traditional IPOs
- Poor performance and heightened regulatory scrutiny have forced investors to tread cautiously

Outlook 2022: Focus on Resilience and Transformation

With the spotlight been on enhancing scale and resilience of business portfolios, companies and investment firms have rushed to get ahead of the potential changes in healthcare delivery. Even though valuations remain sky-high and a sellers' market endures, demand for quality assets and sellers' willingness to sell them are accelerating deals. Buyers are also re-assessing where they fit in the value chain and whether M&A would be the right step forward. In the light of these developments, we foresee the following key M&A trends to define the overall deal-making for 2022:

1. **Innovation continues 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 during the start of the pandemic.
2. **Estimated dry powder of ~USD1.3tr 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 USD56bn, up 51% y-o-y (as per Refinitiv).
3. **Alternative avenues of deal-making continue to make a difference:** Minority stakes, joint ventures, strategic alliances, and De-SPACs are expected to continue sustain their current momentum in 2022 amid prolonged market recovery.
4. **Vaccine developers continue to gain market share:** Successful vaccine developers will continue 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. **The advent of an "ESG premium" is expected to directly impact due diligence:** The pandemic has shown that Environmental, Social and Governance (ESG) factors are 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 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 in Q4'21 while heading into 2022. Investment banks might find it tougher to negotiate terms between the parties due to a lack of available white space.
7. **Scrutiny on the rise for biopharma M&As:** 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:** Aided by market volatility and increasing valuation multiples activist investors found major success in 2021. As the dust starts to settle, activist investors are in a strong position to identify and target companies ripe for activist involvement with focus on extracting value and generating 'alpha' returns.