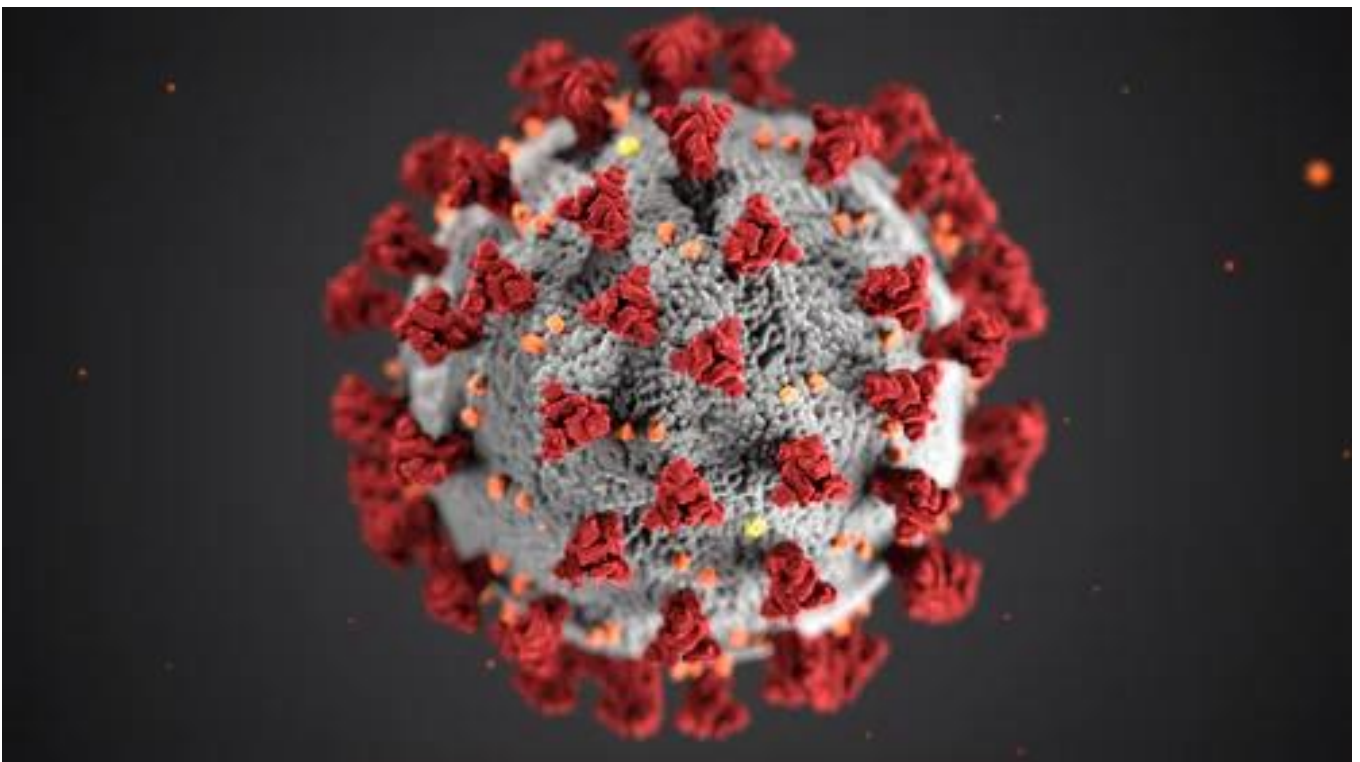


Private Equity & Corporate M&A
Global Healthcare Report
2020



Medi-Tech Insights

Executive Summary

- After a record 2019 with over \$353 billion M&A transaction value in Healthcare, 2020 deal activities and values were deeply impacted by the Covid-19 crisis
- Healthcare M&A deal activity declined by 14% and transaction value declined by a significant 40%
- While Q1-2 2020 were hit the hardest, M&A activity recovered with \$ 150 billion transaction values being announced/completed in Q3-4 2020
- PE deal activity declined significantly, with only 3 deals (PE as buyer) with transaction values over \$ 1 billion
- Healthcare Services remained a favoured sector for PE investors with MedTech/HealthTech emerging as a strong growth area
- Venture Capital investments & exits remained buoyant with record Biotech exits announced/concluded in H2 2020
- North America remained a dominant M&A region & together with Europe, accounted for over 90% of deal activity in healthcare
- Corporate M&A investments declined by 57% in 2020, with few corporates continuing to make strategic/tuck-in acquisitions
- We foresee a return to normal activity in 2021; more competition for healthcare assets & stable-growing valuation multiples
- Investment firms that invest in sector-specific due diligence & can be creative in creating investment/growth angles, will be able to differentiate from competition

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Global Healthcare M&A Activity 2020

Despite the challenging year, Healthcare M&A activity has been fairly resilient in 2020. 3000+ deals were announced in 2020, totaling a transaction value of \$ 215 billion. Healthcare M&A activity has been strong across various sub-sectors with biotechnology/pharma deals especially being resilient throughout the global pandemic. While healthcare sector is largely seen by investors as cyclical-proof, this crisis has been a combined economic & health crisis, presenting a true stress test for many businesses.

Healthcare businesses catering to elective demand have been negatively impacted by the multiple lockdowns & regulations across the globe, but we see a strong recovery happening in various countries where restrictions have been partially lifted. In many respects, this is not a surprise, as most healthcare demand is non-discretionary over the medium term.

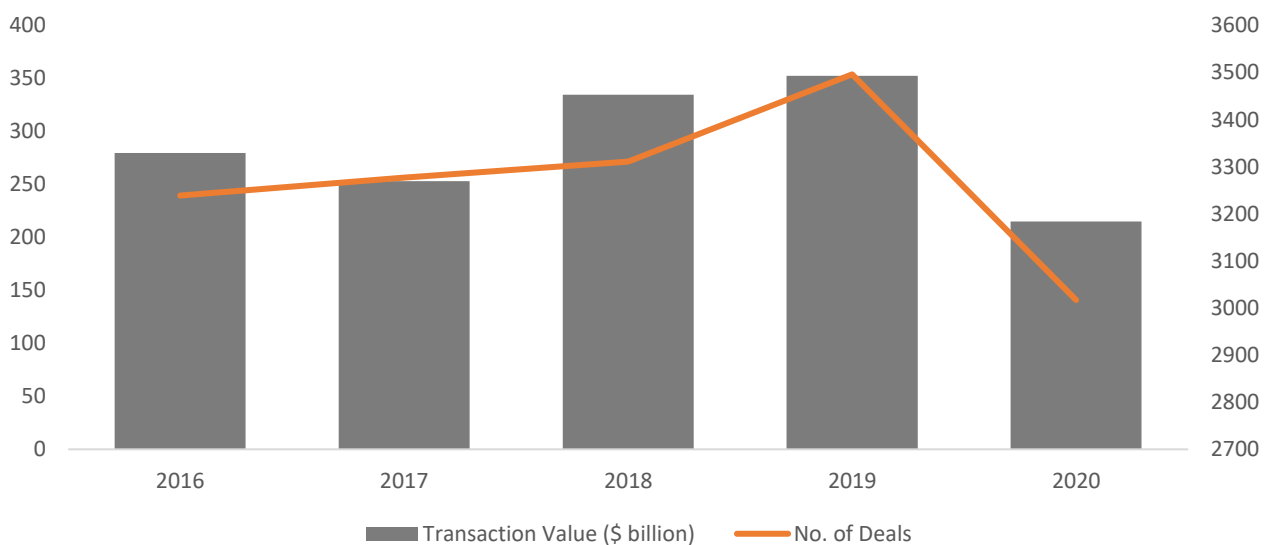
Healthcare M&A has been resilient across the years

2019 was a record year for M&A activity with transaction value of over \$ 353 billion, with close to 3500 deals being announced. 2020 began on a strong note but little did we know what was about to unfold through the year.

“Successful investing is about managing risk, not avoiding it.” – Benjamin Graham

Compared to other sectors, Healthcare M&A activity has fared well throughout 2020, yet the unique nature of this crisis has meant that deal volumes were down only 14% compared to 2019 and transaction value was down by a significant 40%.

Figure 1: Healthcare M&A Trend over a 5 Year Period



M&A transactions exclude spin-offs. IPO/shelf registrations excluded. Only announced/completed transactions considered. For 2020, all transactions till 15-Dec have been taken into account. Transaction value only includes announced values.

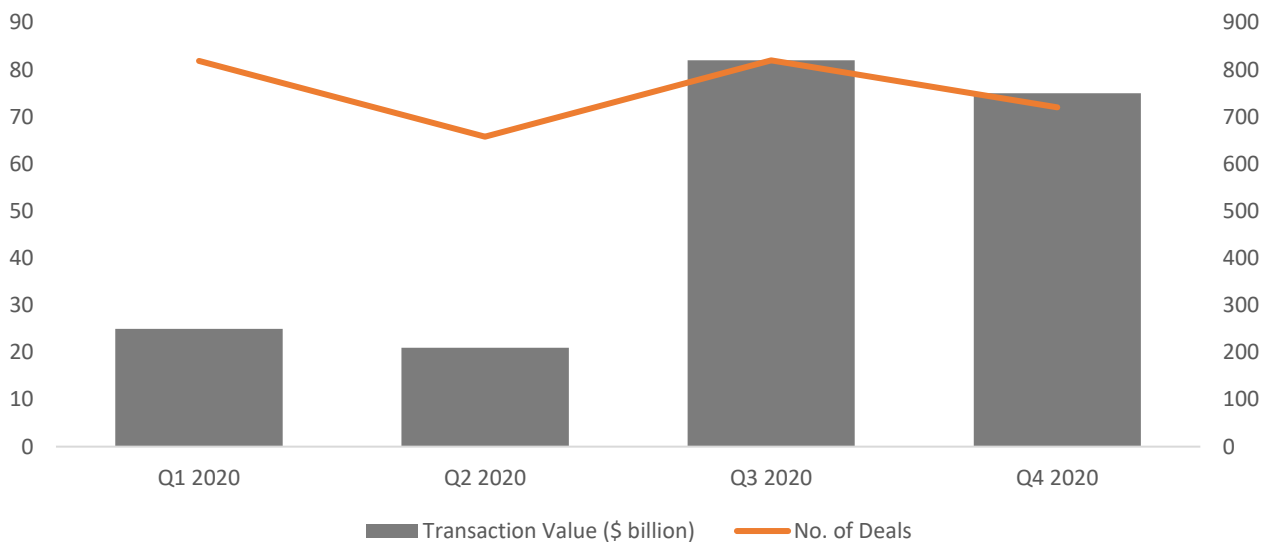
Source: S&P Market Intelligence, Own analysis

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However, if we look at the trend in M&A activity by Quarter, we can be hopeful that we will see a rebound in 2021, pending the rollout of vaccine and gradual return to normal economic activity.

Q1/2 2020 were hit the hardest as the pandemic ravaged various countries across the globe, but Q3/4 saw M&A activity picking up, with quite a few mega deals of over \$ 10 billion being announced.

Figure 2: Strong rebound of M&A activity in Q3/4 2020



M&A transactions exclude spin-offs. IPO/shelf registrations excluded. Only announced/completed transactions considered. For 2020, all transactions till 15-Dec have been taken into account. Transaction value only includes announced values.

Source: S&P Market Intelligence, Own analysis

While Pharma & Biotech dominated the 2020 M&A league tables, the Siemens Healthineers' acquisition of Varian Medical Systems represented the Medical Equipment entrant in top 5 deals of 2020.

Figure 3: Top 5 M&A transactions for 2020

Target	Acquirer	Sector	Acquirer Region	Transaction Value (\$ bn)
Alexion Pharmaceuticals	Astra Zeneca	Pharma/Biotech	Europe	39
Immunomedics Inc.	Gilead Life Sciences	Pharma/Biotech	North America	19.9
Varian Medical Systems	Siemens Healthineers	Medical Equipment	North America	16.4
MyoKardia	Bristol Myers Squibb	Pharma/Biotech	North America	12.2
GRAIL	Illumina	Pharma/Biotech	North America	8

Source: S&P Market Intelligence, Own analysis

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Changing Role of PE & VC in Healthcare

Private equity and Venture funds have traditionally been big participants in the M&A activity within the healthcare market.

Private equity funds typically focus on more mature assets where Healthcare Services and MedTech have been areas of focus. Healthcare services include not only provider services like outpatient clinics, hospitals but also areas like CDMO, Pharma communication/regulatory services. In addition to this, PE has been focusing on mature sub-segments within Digital Health in the past 5 years. MedTech now contributes to over 15% of PE portfolio investments & holds ample opportunities for investors.

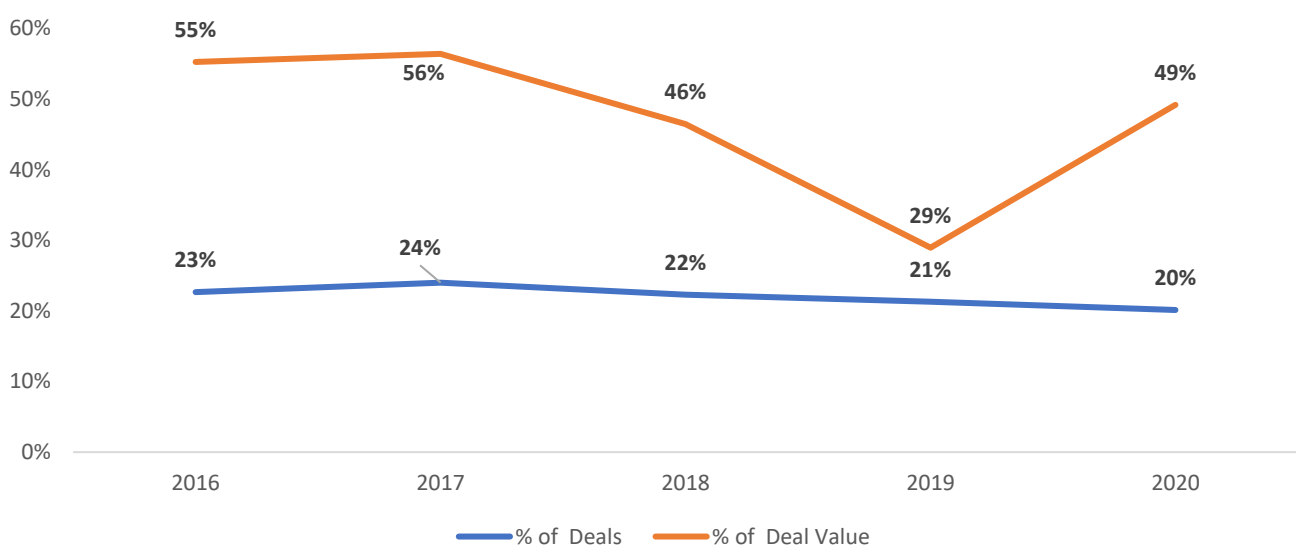
Venture funds have been largely focused on Biotechnology & with some mega-exits in 2020, this trend is likely to continue. Digital Health, specifically telehealth has seen a quantum leap in investments from venture funds with a 39% increase in 2020 Vs 2019.

Investors have been involved in quarter of Healthcare deals historically with the trend continuing in 2020 as well, with some important differences as we will note later in this section. Essentially 2020 has been a year of exits much more than PE investing in mega-deals. VC investment has continued throughout 2020 with Digital Health emerging as a hot area.

"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful." — Warren Buffett

Except for 2019, which was characterized by smaller deals & exits, PE & VC have been involved as buyers or sellers in deals contributing to almost 50% of total Transaction value throughout the last 5 years.

Figure 4: PE/VC contributes to over half of total M&A in Healthcare



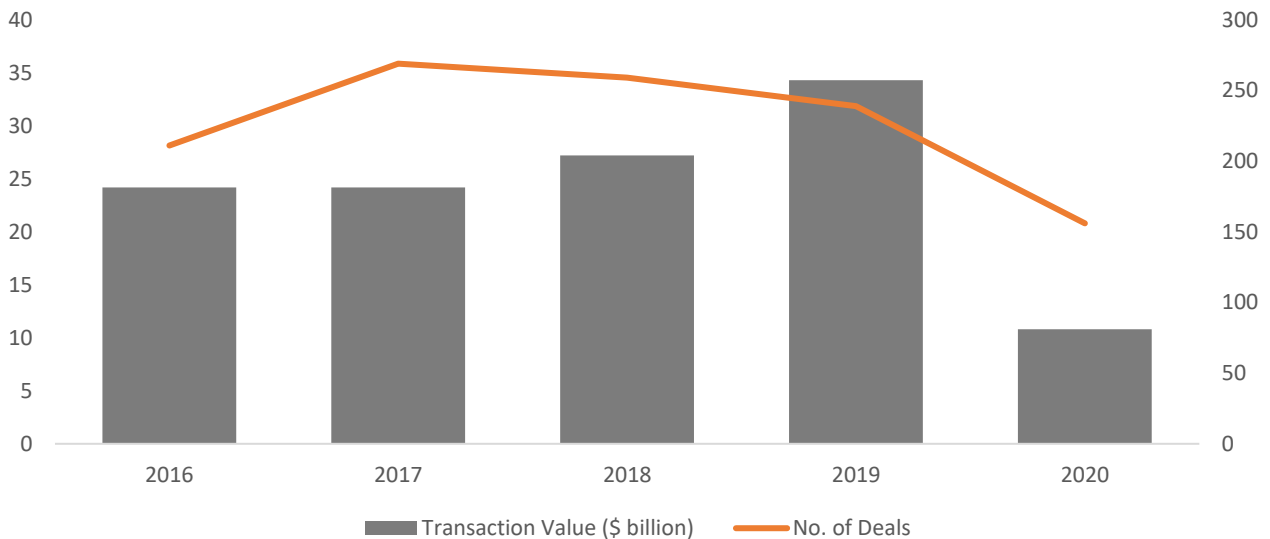
Source: S&P Market Intelligence, Own analysis

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PE activity saw a sharp decline in 2020

Private Equity has been a cautious buyer in 2020 especially with few mega deals being concluded in 2020. In fact, in the Top 10 deals for 2020, we saw only 2 deals where Private Equity was a buyer.

Figure 5: Transaction value involving PE buyouts declined by 68%



Includes PE as buyer/seller for LBO, JV buyouts, going private & corporate divestitures. Only announced/completed transactions considered. For 2020, all transactions till 15-Dec have been taken into account. Transaction value only includes announced values.

Source: S&P Market Intelligence, Own analysis

Interestingly, Europe & Asia saw larger deals being executed by PE as buyers compared to the usual dominance of North America in M&A activity. Yet again, Healthcare Services & Pharma/Biotech led the mega-deals league tables.

Figure 6: Notable transactions with PE/PE-backed Company as Buyer in 2020

Target	Acquirer	Sector	Target Region	Transaction Value (\$ bn)
Recipharm AB	EQT Partners	Pharma/Biotech	Europe	3.0
American Renal Associates	Nautic Partners/ Innovative Renal Care	Healthcare Services	North America	1.3
NicchiiGakkan co. Ltd.	Bain Capital	Healthcare Services	Asia	1.2
BTG International	CharterHouse Capital/Partners Group /Serb Group SAS	Pharma/Biotech	Europe	0.8
Healthcare software business of DXC Technology	Ardian Private Equity/Dedalus s.p.a	HealthTech	Europe	0.52

Source: S&P Market Intelligence, Own analysis

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2020 was characterized by large Venture Capital exits

The pandemic didn't dampen the enthusiasm of venture investors with continued fund raising & investment activity by venture funds. Biotechnology & Digital Health were stand-out sub-sectors in new investments by venture funds globally.

We can expect this trend to continue, supported by the mega exits in 2020, especially in the area of Biotechnology. Towards the end of 2020, we also saw frantic IPO activity including emergence of SPACs as a potential exit route for healthcare investors.

Figure 7: Largest Venture Capital Exits in 2020 (excluding IPOs)

Target	Acquirer	Sector	VC Seller	Transaction Value (\$ bn)
Immunomedics Inc.	Gilead Life Sciences	Pharma/Biotech	Orbimed Advisors, RA Capital, Foresite Capital, HBM Healthcare	19.9
MyoKardia Inc.	Bristol Myers Squibb	Pharma/Biotech	Third Rock Ventures	12.2
GRAIL Inc.	Illumina	Pharma/Biotech	Sutter Hill Ventures, Sequoia, McKesson Ventures, Hillhouse Capital, Tencent Holdings	8.0
Forty-Seven Inc.	Gilead Life Sciences	Pharma/Biotech	Sutter Hill Ventures, Lightspeed ventures, Blackstone Life Sciences	4.6
Asklepios BioPharmaceutical Inc.	Bayer Aktiengesellschaft	Pharma/Biotech	TPG Capital, Vida Venture Advisors	4.0

Source: S&P Market Intelligence, Own analysis

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Deep Dive into Healthcare Sub-Sectors

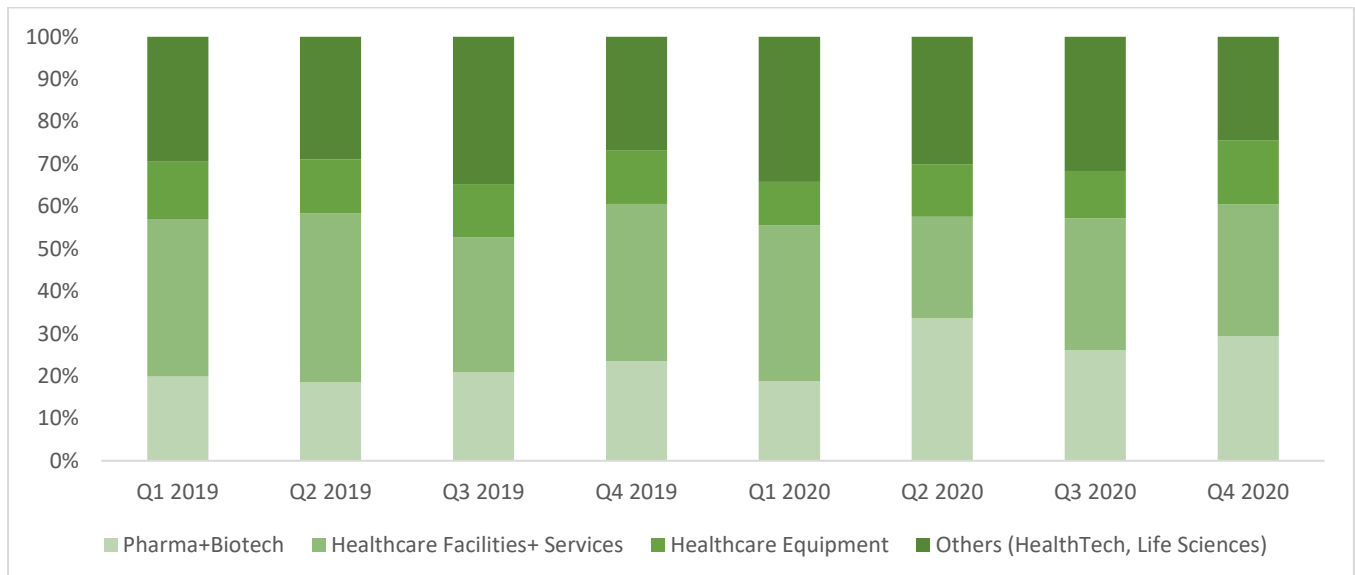
M&A activity by number of deals is well diversified across sub-sectors

Pharma/Biotech and Healthcare Services represent well over half of total M&A deals in Healthcare. In Q2 2020, at the initial peak of the pandemic across many countries, we can see that while Pharma/Biotech activity actually increased, number of deals in Healthcare Services decreased.

This is understandable given the severe impact of the crisis on care providers. As per estimates of American Hospital Association, hospitals in U.S alone suffered \$ 300+ billion of financial losses in 2020 due to the pandemic. Certain outpatient clinics/services like dentistry, ophthalmology, dermatology have suffered through multiple lockdowns & constraints on operating capacity.

Healthcare Equipment, including MedTech, has seen continued activity with corporates like Medtronic, Olympus Corporation etc. pursuing offensive M&A during the pandemic.

Figure 8: Percentage of Deal Activity by Healthcare sub-Sector



M&A transactions exclude spin-offs. IPO/shelf registrations excluded. Only announced/completed transactions considered. For 2020, all transactions till 15-Dec have been taken into account. Transaction value only includes announced values.

Source: S&P Market Intelligence, Own analysis

2020 also saw HealthTech, notably areas like telemedicine, e-enabled clinical services, emerge strongly as investor favourites, especially during Q2-3.

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The growing dominance of Pharma/Biotech

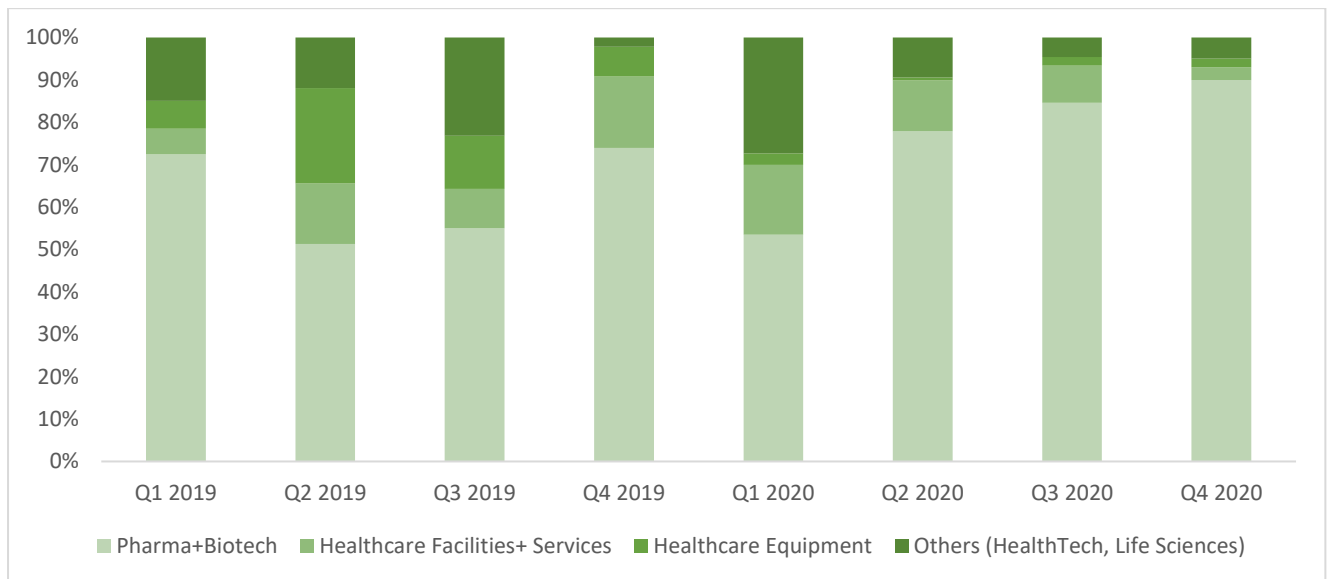
Pharma/Biotech deals continue to contribute 80%+ of total transaction value

“Plus ça change, plus c'est la même chose - Jean- Baptiste Karr

(Translated as “The more things change, the more they remain the same”)

The historical predominance of Pharma/Biotech in the healthcare investing landscape has gotten even more stronger during 2020. In fact, in Q4 2020, a few large deals ensured that Pharma/Biotech deals were 90% of the total M&A transaction value.

Figure 9: Increasing dominance of Pharma/Biotech in Transaction Values



M&A transactions exclude spin-offs. IPO/shelf registrations excluded. Only announced/completed transactions considered. For 2020, all transactions till 15-Dec have been taken into account. Transaction value only includes announced values.

Source: S&P Market Intelligence, Own analysis

This again, is not a surprise, given that the Pharma sector has emerged unscathed from the pandemic with few verticals such as infectious disease products, vaccines receiving a boost as a result of the pandemic.

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Growing interest in HealthTech & MedTech

Earlier we had noted some of the key Pharma/Biotech deals; below we look at some of the key deals in Medical Equipment/Health Technology, where PE/VC were involved, either as a buyer or seller.

Figure 10: MedTech/HealthTech deals involving PE/VC

Target	Acquirer	Sector	PE/VC involved	Transaction Value (\$ bn)
InTouch Technologies	TelaDoc Health	HealthTech	Galen Partners, Beringea LLC	1.03
Key Surgical	Steris Corporation	Medical Equipment	Waterstreet Healthcare Partners	0.85
Z-Medica	Teleflex Corporation	Medical Equipment	DW Healthcare Partners, Linden LLC	0.52
Healthcare software business of DXC Technology	Dedalus s.p.a	HealthTech	Ardian Private Equity	0.52
Intact Vascular Inc	Philips	Medical Equipment	NEA Associates, Versana, InCube	0.36
Veran Medical Technologies	Olympus Corporation	Medical Equipment	Advantage Capital Partners, Versant, River Cities Capital	0.34

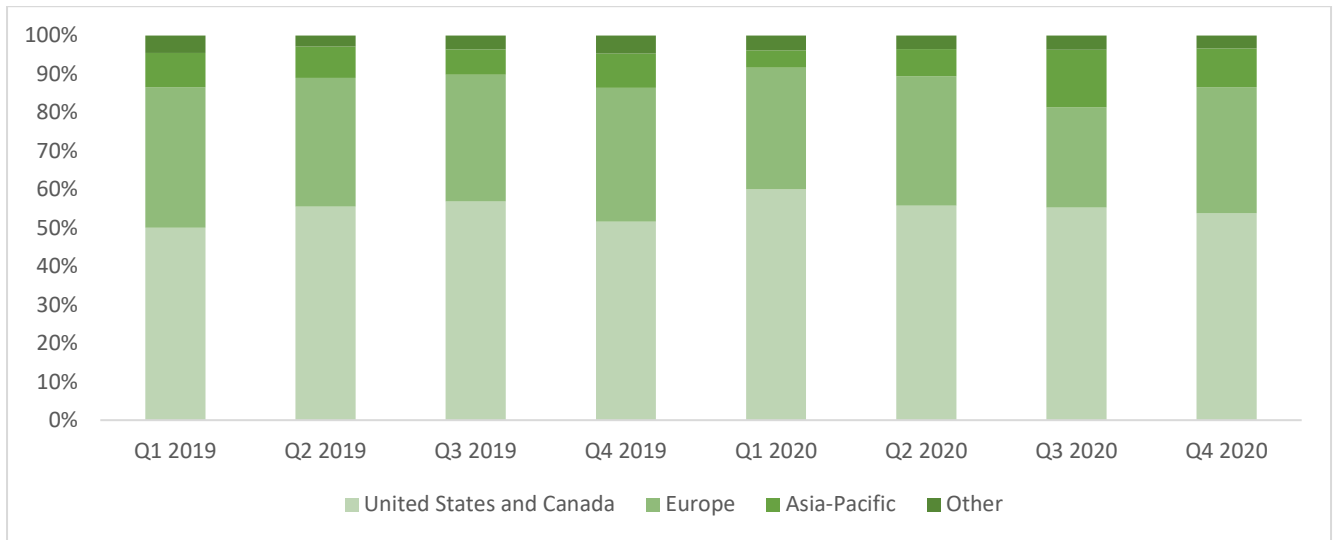
Source: S&P Market Intelligence, Own analysis

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Geographic Focus

Deal activity in North America typically comprises 45-50% of total deals with Europe bringing in another 25-30%. Asia deal activity continues to grow with majority of the deals focused on Healthcare Services (hospitals, clinics) supplemented by HealthTech interest in recent years.

Figure 10: 50% of the deals have a North America geographic focus

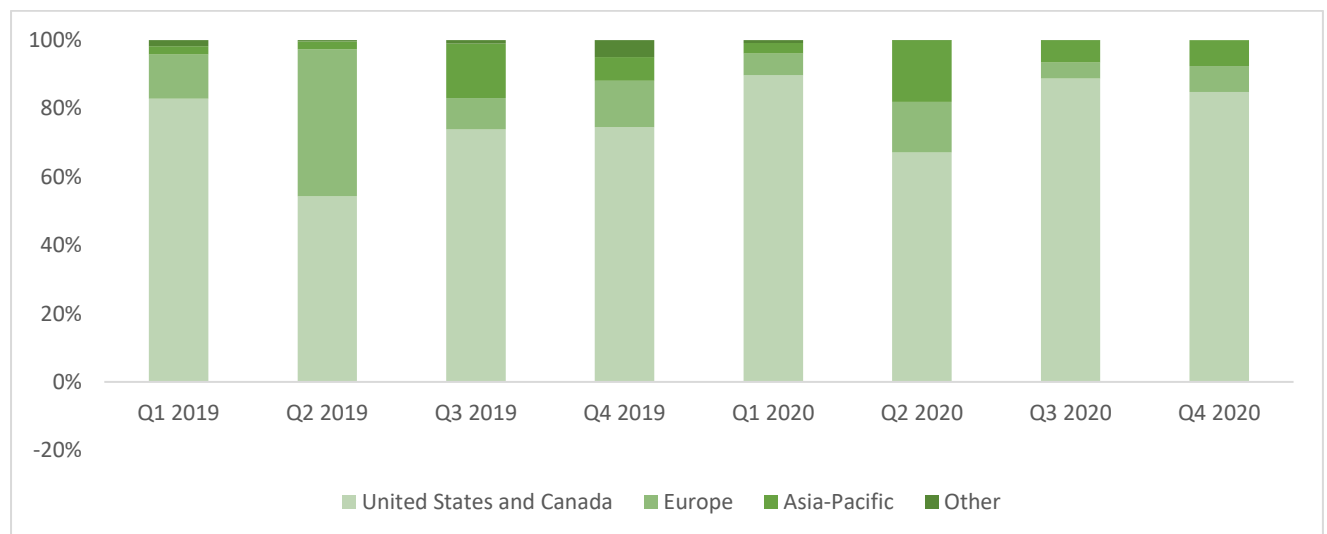


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Source: S&P Market Intelligence, Own analysis

We see that North America contributes to over 80% of the transaction value in any given year. This was also true for 2020; even more than in 2019.

Figure 10: Vast majority of transaction value is focused in North America



M&A transactions exclude spin-offs. IPO/shelf registrations excluded. Only announced/completed transactions considered. For 2020, all transactions till 15-Dec have been taken into account. Transaction value only includes announced values.

Source: S&P Market Intelligence, Own analysis

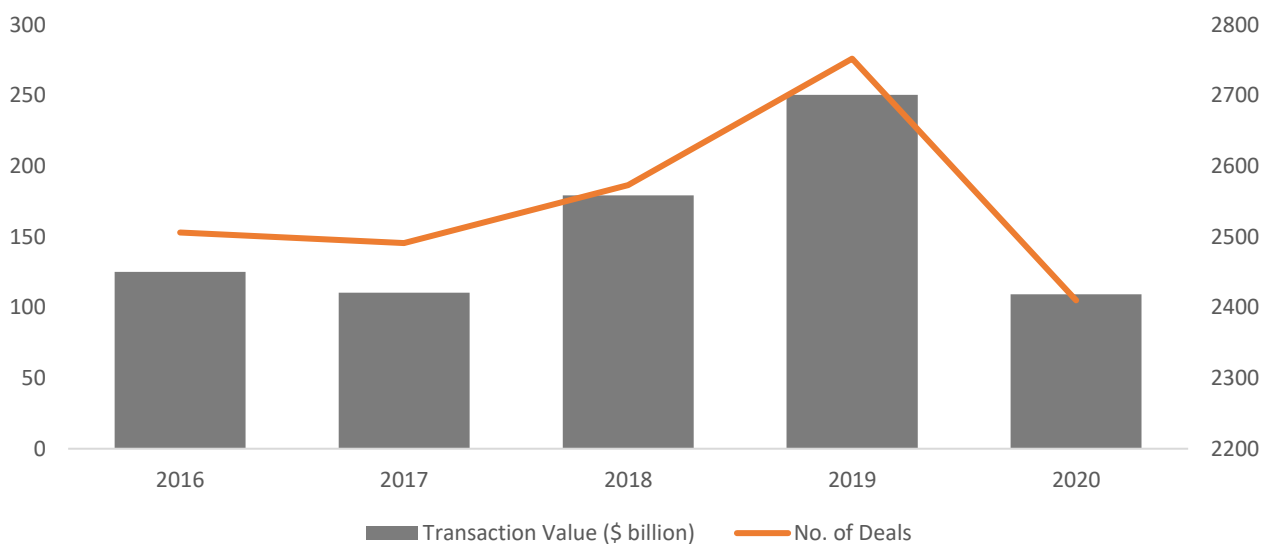
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Corporate M&A Activity

In line with the overall trend in M&A activity, Corporate-backed M&A also saw a decline in both number of deals & value of transactions. In 2020, a total of 2400 deals were announced/completed totaling \$ 109 billion of transaction value. In number of deals, this meant a 12% decline vs. 2019. While transaction value dropped by a significant 57%, this was highly influenced by one transaction in 2019 (\$ 81 billion acquisition of Allergan by Abbvie).

Overall a trend that continued in 2020 was that of large corporates preferring to make multiple bolt-on acquisitions or technology acquisitions with only a handful of mega-deals in the Pharma/Biotech sector.

Figure 11: Corporate M&A trend



We have noted earlier, some of the big Pharma/Biotech deals where Big Pharma made strategic acquisitions of Biotech companies in order to gain access to new technologies and/or to boost their pipeline for existing/new disease areas like oncology, rare diseases etc. Here are some notable deals excluding Pharma/Biotech sector:

Target	Acquirer	Sector	Target Region	Transaction Value (\$ bn)
Varian Medical Systems	Siemens Healthineers	Medical Equipment	North America	16.4
New Hanover Medical Centre	Novant Health	Healthcare Services	North America	1.5
45 Ambulatory Surgery Centres	United Surgical Partners/Tenet Healthcare	Healthcare Services	North America	1.1
Decision Resources Inc	Clarivate Analytics	Healthcare Services	North America	0.96
CarePort Health	Wellsky Corporation	Healthcare Technology	North America	1.35

Source: S&P Market Intelligence, Own analysis

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Outlook for 2021

“I figured something out. The future is unpredictable.” – John Green

While the future may be unpredictable, we can venture some predictions based on what we know about current trends and historical analysis of the healthcare investing world.

Here are our Top 5 trends for 2021:

1. Deal activity will rebound compared to 2020 but full recovery may not happen till H2 2021

We expect the first half of 2021 to remain volatile. However, PE funds that need to deploy capital will start reconciling with the new environment and execute deals that they have tracked for some time. We expect a number of PE-backed and owner-led businesses to come to market in Q1 2021.

2. Deal multiples are likely to remain similar in 2021; potentially even increase for resilient assets

Unlike earlier economics crises, deal multiples for healthcare assets have held through the pandemic & in some cases have even increased. We expect this trend to continue as high quality businesses that have shown resilience through the Covid-19 crisis will command higher valuations. In this context, it becomes even more relevant for PE firms to have proprietary research & growth strategies for deals.

3. New PE investors will launch investments in healthcare sector & develop cross-industry themes (ex. Technology + Healthcare)

A number of new funds have been raised in 2020 & almost all of them are eyeing healthcare & technology sectors. We expect competition for healthcare assets to increase in 2021 & new investors are likely to focus on these sectors as they have been relatively unscathed through the crisis. We recommend new investors to spend time researching the nuances & intricacies of the healthcare industry.

4. Venture Capital investments will continue in Biotech/Pharma but we may not see same level of exits as in 2021

Venture capital has also seen high level of fund raising in 2020 and thus we can expect investments to continue in Biotech companies. Digital Health investing seems to have stabilized but at much higher levels than before. SPACs could provide an alternative exit route for venture-backed biotech companies in 2021.

5. Corporate M&A activity will remain at same levels as in 2020

Corporate M&A activity declined in 2020. As recovery takes shape and the financials of large companies reverts to pre-crisis levels, we can expect a cautious return to big-deal-making. Strategic technology acquisitions are likely to continue into 2021.

In summary, we can expect a positive recovery in 2021 with more deal activity in healthcare. But, as always, the PE funds that are well prepared with their research & investment angle will be able to differentiate from competition and offer better returns for their investors.

“In today’s complex and fast-moving world, what we need even more than foresight or hindsight is insight.” – Anonymous

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About us

Medi-Tech Insights is a healthcare-focused business research & insights firm. We are a partner to the world's leading Private Equity & Venture Capital firms along with Fortune 500 Corporates. We help our clients by deeply researching their sector, performing due diligence on companies & generating new ideas. We leverage our proprietary knowledge of the healthcare sector & our global industry expert network in bringing unique, actionable insights for our clients.

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- Comprehensive Sector Reviews
- Proprietary Deal Generation
- Portfolio Value Creation
- Competitive Intelligence
- Commercial Excellence

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