2019 ANNUAL HEALTH CARE & LIFE SCIENCES SPOTLIGHT
M&A trends and private equity deal activity
“Dealmakers are looking for targets that can provide technology innovations or readily applicable tools to health practices.”

Ron Ellis, Senior Director, Transaction Advisory Services, RSM US LLP
While the annual volume of mergers and acquisitions (M&A) in the health care industry slid in 2019, the total value of those deals remained well within the high range seen throughout the decade. Nearly 1,800 transactions closed across Europe and North America totaling $429.5 billion. It appears dealmakers are still willing to pay up for the right prospects.

“The health care market is still fragmented across multiple regions,” says Ron Ellis, senior director in transaction advisory services at RSM US LLP. “There are still plenty of opportunities for consolidation.” One of the other key drivers propelling M&A in this space at a healthy rate is the desire for exposure to or acquisition of relevant technologies. Ellis also notes that as the consumerization (referring to increased digitization of processes for consumers to improve convenience and transparency) of health care continues, hospital chains and other providers are looking to acquire or develop capabilities in realms such as telemedicine or patient facing, which are easy-to-use applications for virtual care. This and the drive for consolidation of physician practice specialties look set to continue, which should help spur significant levels of M&A going forward. Key indicators to consider, however, do remain; chief among them is a diminishing appetite for acquisitions as avid competition keeps transaction multiples high.

“It’s still a very strong environment for dealmaking,” says Adam Lohr, partner and life sciences senior analyst at RSM US LLP. “Our clients’ primary concerns remain on how they are going to access capital while the economy is still hot.”
An issue deeply affecting how the health care industry will evolve is a shortage of labor. Not only is it encouraging increased investment into substitute technologies; it is also helping prompt further consolidation among companies as providers seek to optimize care delivery. In October 2019, the U.S. Department of Health and Human Services announced changes that would allow health care providers, who participated in value-based arrangements, to coordinate patient care with other providers. According to RSM’s summary of a Definitive Healthcare survey, a majority of respondents indicated that an increase in provider compensation and incentives would continue to drive growth in value-based care model adoption.

According to Lohr, “Technology is a huge component of how biotech and pharma companies are going to stay competitive in the future. Life sciences’ talent pools are being drained in two ways: first, backgrounds in life sciences alone are insufficient to obtain roles in the industry as data science has become a prized skill; and two, tech companies are also competing for those same candidates who possess data science knowledge and/or skills, even in combination with life sciences, given potential applicability.”

Thus, the key factor of labor shortages may continue to prompt even further consolidation and investment in technology moving forward, along with broader industrywide adoption of digital health tools, aided by the evolution of regulatory regimes worldwide.
“Long term, health care is still viewed as a growth industry,” says Ellis. “However, from year to year, potential shifts in political environments or macroeconomic trends can encourage more buying or more selling. For example, given the uncertainty around 2020 elections, sellers may be incentivized to get deals done sooner rather than later.”

As we consider the future of this industry, it’s important to note the underlying and somewhat interconnected drivers of aging demographics and increasing health care costs. These factors look to be even more potent as the full force of baby boomers’ retirement materializes throughout the 2020s. But there are significant variables to consider beyond broad economic trends. “The biggest threat to pharma and biotech companies is a potential shift to benchmarking drug pricing against a truly global level of competition,” says Lohr. “That would have a huge impact on the entire American life sciences ecosystem. However, much of the uncertainty around drug pricing related to the 2020 elections, in particular, has been priced into the market. Overall, if the global and U.S. economies can continue to be reasonably stable, any market volatility is likely to be overcome.”
**HEALTH CARE M&A CYCLE CONTINUES TO MODERATE**

2019 sees M&A volume contract by nearly **25%**

- Deal value remains robust—nearly **$430B** in 2019
- Record average deal size—**$2.16B**—indicates skew of megadeals

**BLOCKBUSTER DEALS DEFINE KEY TRENDS IN HEALTH CARE**

- Biopharma consolidation led by Celgene and Shire’s purchase deals
- 2019 exits drop below 200 for first time in nine years
- Labor shortages prompt further investment and focus on improving customer expectations

**PE'S PUSH INTO HEALTH CARE REMAINS ROBUST**

- PE accounts for elevated portion of deal volume at **47.2%** of Q4 2019 M&A
- Add-ons climb to record proportion of all PE buyouts at **75%** in Q4
- Prime targets garner premium; second-highest tally of PE deal value ever at **$133.4B**
Even as healthcare deal volume slid throughout 2019, mega-deals bolstered the total value. Chief among them were the $58.6 billion purchase of Shire by Takeda Pharmaceutical in January and the $74 billion acquisition of Celgene by Bristol-Myers Squibb in November. “Some of the mega-deals that characterized 2019 and helped set its tone as a robust year were announced at its very start, which boosted overall narratives,” says Lohr. “However, as risks are considerable for pharma deals given patent cliffs, development cycles’ length and more, such massive deals can’t be expected to occur often.” The decline in deal volume has been consistent for several quarters in a row as dealmakers are slowing their pace due to high prices.
At $87 million, the median deal size in the fourth quarter of 2019 marks the second-highest quarterly mark since 2013. In addition, the average deal size in the quarter skyrocketed to well over $2 billion. In tandem, those metrics suggest that dealmakers are still willing to pay up for the right targets, but given the slump in overall deal volume, it's clear that the frequency of such check sizes is declining as a result. “Private equity (PE) buyers are facing a lot of competition from strategic acquirers,” says Ellis. “I'm still seeing high valuations in the market, likely as a result.”
Although PE as a proportion of health care M&A is still historically high, the volume of deals also declined slightly in the back half of 2019. This is likely just a temporary slowdown as the year overall still marked some of the highest dealmaking figures on record with $133.4 billion across nearly 1,000 deals. “PE firms are still looking to do plenty of add-ons; but given their focus on specialty physician practices, the supply of quality targets could have diminished for a brief time,” says Ellis. “However, the demand on the buy side is still intact. Orthopedic, dental and physical therapy practices are all still among the attractive segments.”
THE VALUE OF RSM’S MIDDLE-MARKET LEADERSHIP

Focusing on the middle market, RSM US provides integrated transaction advisory, tax, assurance and consulting services. Our work with 2,900 health care companies gives us a deep understanding of the key trends impacting the industry. In addition, we have performed due diligence on nearly 2,600 deals in the past five years, 300 of which were health care transactions. This in–depth knowledge provides our private equity and strategic buyer clients with industry–specific due diligence considerations.

METHODOLOGY

M&A is defined as the substantive transfer of control or ownership. The data in this report tracks only completed control transactions. Announced, rumored or canceled deals are not included. Eligible transaction types include but are not limited to control acquisitions, leveraged buyouts (including asset acquisitions), add-on deals, corporate divestitures and reverse mergers. Volume will lag between quarters and will likely be revised upward once more data is collected, often resulting in more robust figures as the result of an ongoing research process to retroactively track down deals. All companies in underlying datasets that are acquired are headquartered in either Europe or North America.