ASA Ventures Group

M&A Update June 2020-June 2021

HealthCare

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Summary

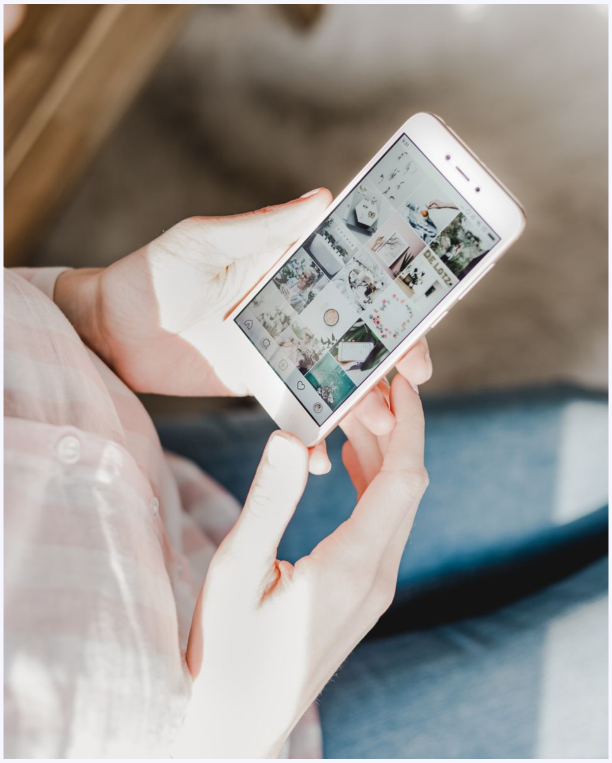
The Healthcare Industry is Starting to Recover After Getting Hit Hard

M&A Volume Bounces Back from 2020 Lows

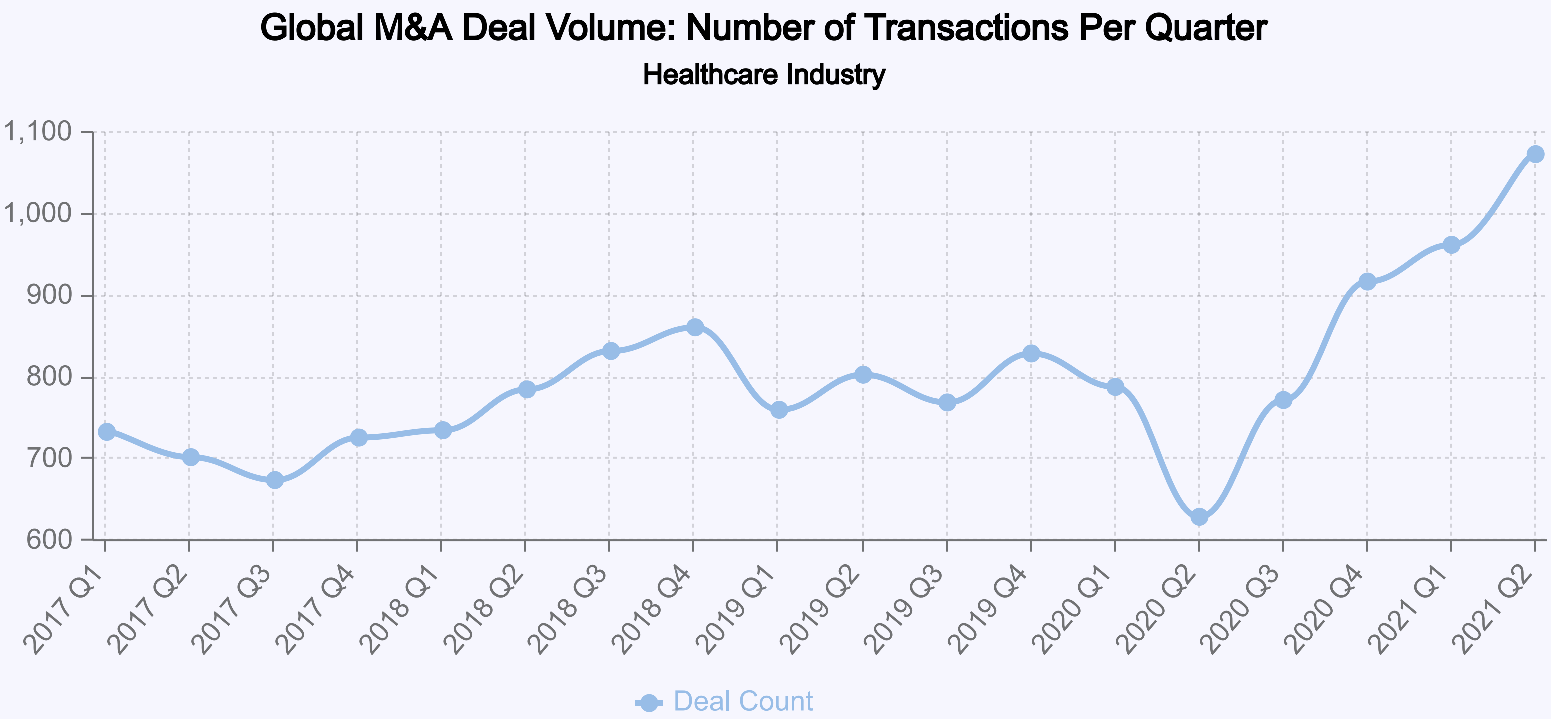
Global M&A in the healthcare industry took a huge hit with the onset of COVID in early 2020, but the second half of 2020 and the first two quarters of 2021 have seen a substantial rebound since then to all time highs in terms of numbers of transactions. The deals that came to a halt at the start of the pandemic were resumed in the second half of 2020, with 2021 providing opportunities for new investment as the healthcare industry was able to focus more on future growth. Transaction numbers have increased faster than transaction volume since Q2 of 2020, indicating a trend towards faster turnover of smaller deals. Many of these deals have been cross-sector, with the tech and healthcare industries merging to adapt to future expectations.

Data and Analytics Becoming Central to the Industry

During the pandemic, healthcare saw a massive shift towards a digital atmosphere through telehealth. This was a necessary temporary shift to continue to provide critical care to those who needed it while still complying with public health orders and social distancing protocols. What was initially developed as a reactionary protocol may evolve into a new normal for the industry, as technology will begin to play a larger role in the healthcare industry in the future. Big data and analytics will begin to dominate the healthcare system to aid in roles such as client data management, business intelligence reporting tools, predictive modeling to track infection rates, and artificial intelligence to aid doctors in preemptive diagnostics. Telehealth and telemedicine are programs which will likely see substantial growth following COVID-19.

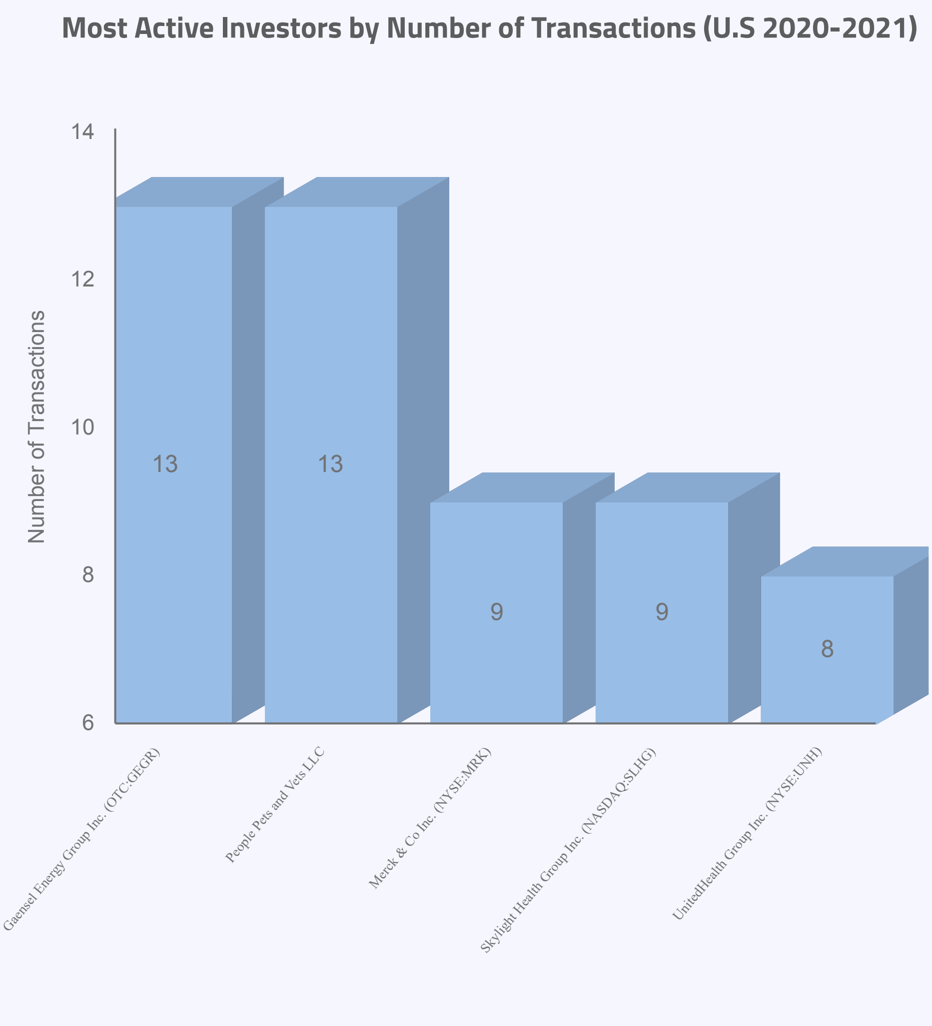


TOTAL TRANSACTIONS: 2020-2021



Investing in the future

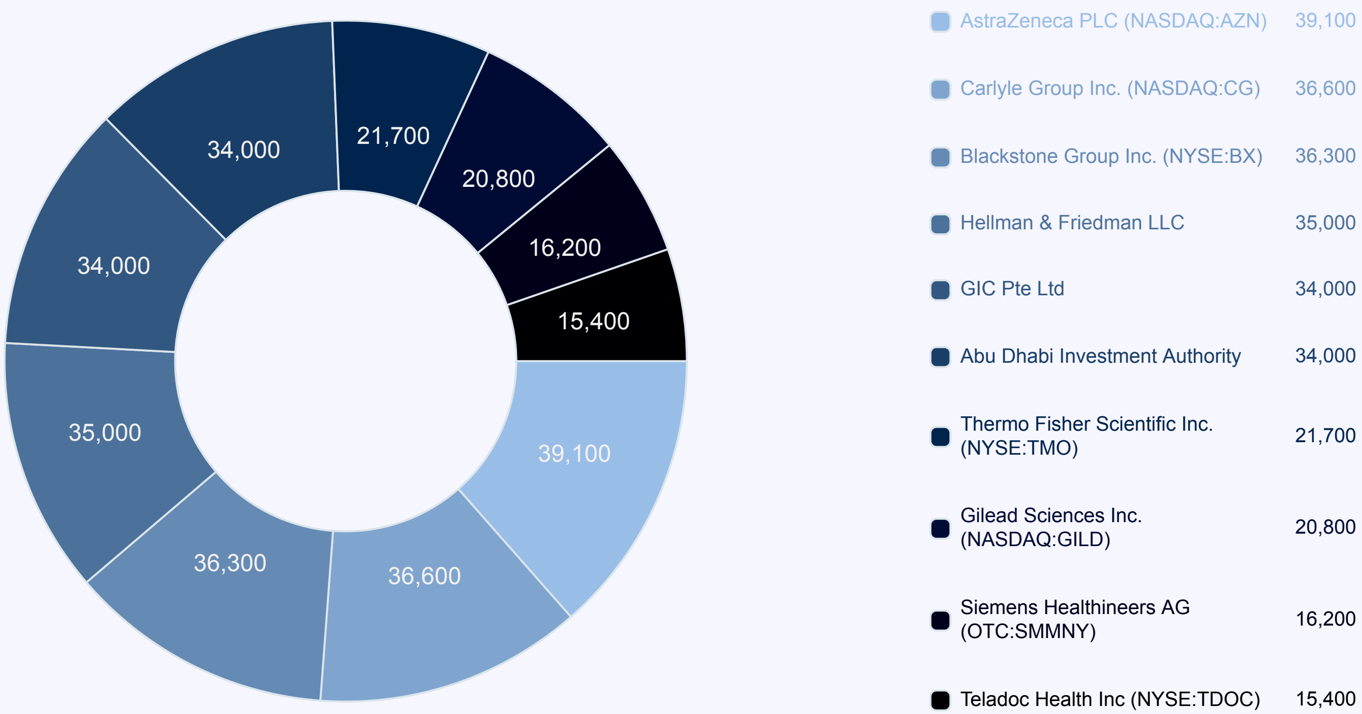
Gaensel Energy Group Inc. is an international finance and holding company which utilizes collective management and knowledge to manage companies in many sectors. Gaensel recently entered into a lucrative segment of the healthcare industry with the purchase of Swiss Stem Cells Biotech SA (SSCB). SSCB is one of the top biobanks in the world, specializing in the cryopreservation of human stem cells obtained from blood and cord tissue. Stem cell research has led to extraordinary breakthroughs in regenerative medicine, a field which could universally transform modern medicine.



TOTAL TRANSACTION VALUE BY COMPANY: 2020-2021

Most Active Investors by Transaction Size

Values in Millions ($)



AstraZeneca Megadeal

In the largest single-transaction deal of 2020, U.K-Swedish pharmaceutical and biotech company AstraZeneca has entered into an agreement to purchase Alexion Pharmaceuticals, Inc. for over $39 billion. Alexion is known for its research in rare diseases, with it's most recognized drug being Soliris. AstraZeneca is recognized for thier developments of cancer treatments and most recently their Covid-19 vaccination, but they intend to increase their presence in immunology and boost top line growth with this new substantial acquisition.

Gilead Acquires Immunomedics

Gilead Sciences Inc. is an American biopharmaceutical company which specializes in antiviral drug therapies. In September of 2020, they acquired biotech company Immunomedics for $21 billion. This decision was driven primarily to capitalize on a new cancer drug to be released by Immunomedics called Trodellvy. This is a hefty price to pay for the acquisition of essentially a single drug, but Gilead plans to leverage this new purchase to branch out into oncology. Trodellvy is a blockbuster in the solid-tumor treatment business after indication it could cut the risk of death by various cancers by 52% compared with chemotherapy.

COVID-19 Recovery

Healthcare M&A is quickly evolving and will see tremendous growth in the future

Quickly Adapting to New Obstacles.

Health systems took a massive hit across the board in terms of revenue. Discharges decreased year-over-year by 14.7% in 2020, ED visits decreased by 26.8%, and operating room minutes decreased by 6.9%. Much of this was caused by a sharp decline in elective surgeries and other operations, while hospitals were overburdened with COVID-19 cases instead. This trend took a direct hit on M&A deal activity as well, with medtech deal volume decreasing 16% and medtech deal value decreasing 60% in 2020. The healthcare industry had to adjust to a new digital environment with telehealth and telemedicine. Telehealth claims exploded in 2020, with a 2816% increase from 2019 to 2020. As telehealth systems became more established towards the end of 2020, the type of illnesses patients were being diagnosed with changed as well. In December of 2020, 47% of telehealth claims resulted in a mental health diagnosis, whereas only 3% were related to COVID. This is a trend that will likely persist for the remainder of 2021 as the healthcare industry responds to a global mental health crisis as a result of prolonged isolation.

SPAC Season in Healthcare

Special Purpose Acquisitions Companies (SPACs) have gained in popularity over the past year, allowing private companies to quickly go public for a broader set of investors to participate in the raising of funds. Few sectors have seen more SPAC interest than the healthcare industry recently. More capital has been raised for healthcare SPACs in Q1 of 2021 than was raised and deployed in all of 2020. In total, healthcare SPACs have raised about $14.6 billion for numerous companies in the industry. The enormity of capital flowing into healthcare is caused by the digital disruption of the industry, likely advancing progress by five to ten years as a result of the pandemic.

Legislative Impact on Healthcare

Numerous emergency legislative actions have been taken to stifle the negative economic impacts COVID-19 had on everyone. Large stimulus bills, loan forgiveness, and easier access to debt and funding allowed many businesses to stay afloat from March 2020 through 2021. The healthcare industry was no different, with the Coronavirus Aid, Relief and Economic Security (CARES) Act providing significant funding for healthcare providers. The American Rescue Plan Act (ARP) also provided aid to the industry, with $8.5 billion allocated for rural healthcare. Despite all of this government relief, most hospitals reported declining and negative margins through 2020, with an average operating margin of just over -4% for the year without adjusting for CARES, or -3.5% operating margins after adjusting for CARES aid. Despite all of these legislative efforts, many hospitals did not receive the funding necessary to cover all of their operations. Many nonprofit health systems were not allowed to use the Paycheck Protection Programs (PPP) implemented because their employee headcount was significantly higher than 500.

Valuations

Over $400 Billion of Disclosed Deal Value: June 2020-June 2021

Average Deal Value (Millions of $)	700.4
Average TEV/Revenue	3.02
Average TEV/EBITDA	13.45

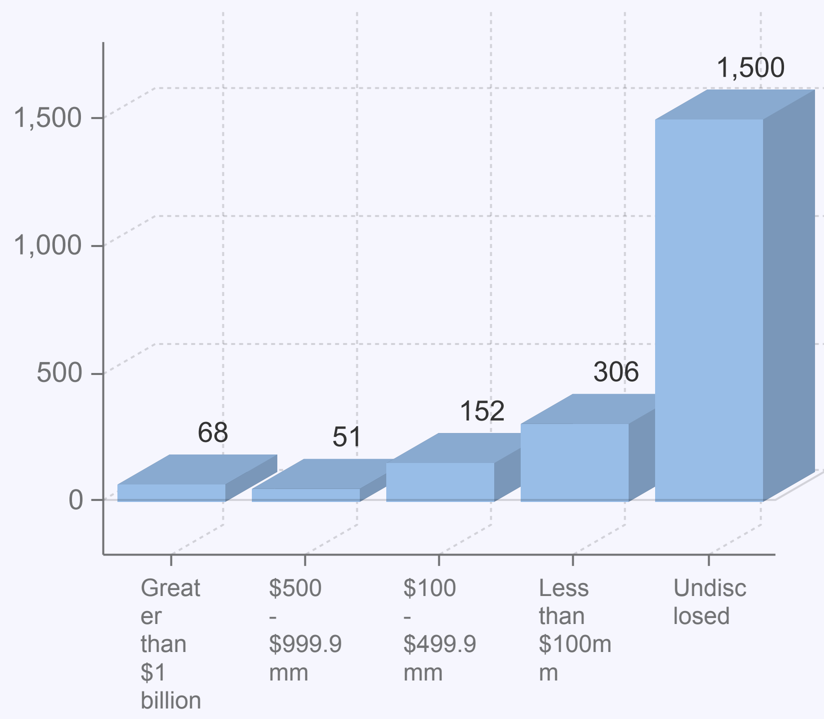
Valuation Multiples Continue to Stay High

Valuations for companies in the healthcare industry started to rise significantly from 2019 to 2020, especially in Q2 of 2020. Over the past 12 months, valuations have stayed relatively high, hovering around the 13-15 enterprise value (EV)/EBITDA range. Multiples were at the highest in Q4 of 2020 at 15.7 EV/EBITDA, and have slightly decreased since then to the mid 13 range. Demand for companies in the healthcare industry were at highest in the middle of the pandemic, when priorities began to shift from adapting to a remote work environment, to investing in the future of research and technologies in the industry. For companies with less than $200mm in revenue, the valuation multiples for the past year were slightly higher. EV/EBITDA for companies making deals in this range was an average of 13.86, and the EV/Revenue was 3.23. The table to the left is for any transaction occurring in the U.S from June 2020-June 2021.

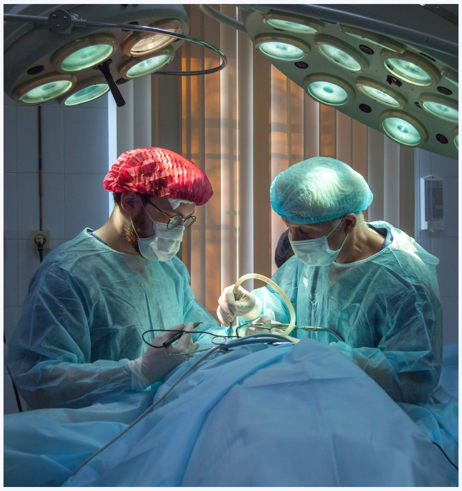
Shifting Away From Megadeals

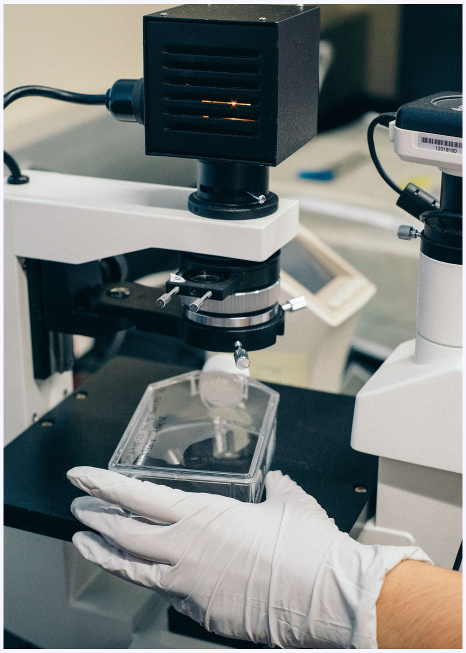
While there were a few noteworthy megadeals which occurred in the past year, the size and number of these deals were significantly smaller than pre-pandemic levels. From Q2 of 2020 to Q2 of 2021, deal volume increase at a more rapid pace than total transaction volume. This indicates an overall shift towards more frequent smaller deals being made in the industry. M&A in the healthcare industry has recently shifted towards a more opportunistic approach, with an increased appetite for smaller, research-based acquisitions as companies seek to bolster their portfolios on tighter budgets. Healthcare is starting to see a shift towards conglomeration, with large providers acquiring as many sectors in the industry as possible to reduce costs and provide a one-stop shop for consumers. Megadeals may start to see a rebound in the next next year as cash balances increase after recovering from COVID-19. This is contingent on antitrust regulation which is starting to see a spillover effect from the tech industry.

Number of Healthcare M&A Deals by Transaction Range



Conclusion





M&A Will Recover

M&A in the healthcare industry exploded in the second half of 2020 and continued to stay high in Q1 and Q2 of 2021. This trend should continue through 2021 as emergence from the pandemic fosters an environment of growth in the industry. Money will continue to pour into healthcare as the environment begins to adapt and evolve.

Valuations Remain Steadily High

Valuation multiples will likely remain high for the near future as the COVID-19 recovery spurs growth in the healthcare industry. While multiples have declined slightly since the end of 2020, there will continue to be elevated demand for acquisitions in this industry through 2022 as the changing landscape triggers a need for technological growth.

Telehealth Takeover

The healthcare industry is adapting to accommodate a shift towards a virtual atmosphere. Big data, analytics, artificial intelligence, and enterprise software will become increasingly valuable in the industry in the next few years. M&A will serve a large portion of this demand as the tech and healthcare industries become more and more intertwined. This shift will not only make getting care more convenient for the vast majority of people, but it will likely allow previously underserved markets such as those living in rural areas to get the care they need.

Senior Management Team

Jim Audette is a founding partner and President of ASA Ventures. He has broad experience in building high performance companies as a C-level executive and strategist. In addition, his experience includes M&A, debt and equity financings, and corporate restructurings, in a wide range of industries including technology, consumer products, promotional products, healthcare, manufacturing, energy and industrials.

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John Allen is a Managing Director, founding partner of ASA Ventures and is a CPA. He brings over 30 years of direct P&L and general management experience. His diverse background includes a unique combination of operations, financial and sales management, which has enabled him to lead companies to dramatic increases in revenue and profitability. He has served as President, General Manager, and Chief Financial Officer. He has an extensive sales background, has closed numerous transactions in the technology sector, as well as, integrating acquisitions.

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Bill Schloth is a Managing Director and founding partner of ASA Ventures. Bill has significant experience in mergers and acquisitions. He has worked on transactions in many sectors including renewable energy, cloud computing, data analysis, construction and manufacturing. These transactions have ranged in enterprise value from $5 million to $200 million. His focus has always been on exceeding client expectations through detail-oriented due diligence, transparency and thorough marketing efforts.

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ASA Ventures Group

Investment Banking for Private Companies: We Make a Market to Sell Your Company

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