



 Harris Williams

# Healthcare Market Update & Vertical Perspectives

October 8, 2024



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# HW

# Leading Global M&A and Private Capital Advisor

With a global platform and recognition for consistently exceeding our clients' expectations, Harris Williams is the preferred investment bank providing M&A and private capital advisory solutions.

## Leading Full-Service M&A Advisory Practice

- Sell-side M&A
- Buy-side M&A
- Capital raises
- Fairness opinions

## 10 Global Offices Across the U.S. and Europe



## Full Suite of Private Capital Advisory Solutions

- GP-led secondary solutions
- Primary fund placement
- Strategic advisory
- Investor relations



8

Industry Groups with deep sector expertise

30+

Year firm history

87%

MDs promoted from within firm

75%

Revenue from repeat clients

90%

Revenue from sell-side transactions

## HW CORE PRINCIPLES

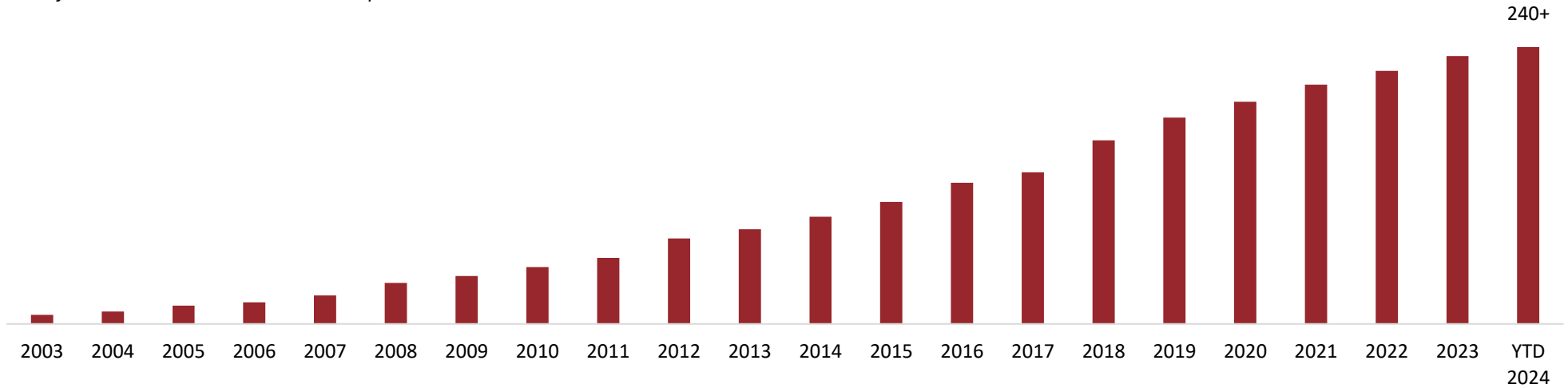


# Extensive Deal Experience Across 20+ Year Healthcare Group History

We have developed deep subsector expertise through 240+ closed transactions across the healthcare continuum.

## Cumulative Deals Closed

Number of Cumulative Closed Deals Since Inception



## Focus Sectors

HCIT	MEDICAL PRODUCTS AND DEVICES	OUTSOURCED PHARMA SERVICES	PAYER TECH & SERVICES	PHARMACY	PROVIDERS
<ul style="list-style-type: none"> <li>Data Management</li> <li>Employer</li> <li>Inpatient – Admin and Operational / Clinical</li> <li>LTC and Home Health</li> <li>Outpatient</li> <li>Payer</li> <li>Pharma IT</li> <li>RCM Services / Software</li> </ul>	<ul style="list-style-type: none"> <li>Cardio</li> <li>Contract Manufacturing</li> <li>Dental and Orthodontics</li> <li>Eyecare</li> <li>HME / DME / Mobility</li> <li>Medical &amp; Surgical Equipment</li> <li>Orthopedics &amp; Spine</li> <li>Outsourced Device Services</li> <li>Patient Diagnostics / Monitoring</li> <li>Specialty Distribution</li> </ul>	<ul style="list-style-type: none"> <li>CDMO</li> <li>Commercialization Services</li> <li>CRO</li> <li>Safety &amp; Regulatory Affairs</li> </ul>	<ul style="list-style-type: none"> <li>Cost Containment &amp; Member Engagement Solutions</li> <li>Direct-to-Payer Provider Services</li> <li>Health Plans and Network Services</li> <li>PBM</li> <li>Specialty Benefit Managers</li> <li>Third-Party Administrators</li> </ul>	<ul style="list-style-type: none"> <li>340B</li> <li>Compounding Pharmacy</li> <li>Infusion Services</li> <li>Institutional Pharmacy</li> <li>Outsourced Pharmacy Management</li> <li>Specialty Pharmacy</li> </ul>	<ul style="list-style-type: none"> <li>Behavioral</li> <li>Chiropractic</li> <li>Dental</li> <li>Dermatology</li> <li>Gastroenterology</li> <li>Home Health &amp; Hospice</li> <li>MedSpa Services</li> <li>Multi-Specialty / Other Specialty PPM</li> <li>Orthopedics</li> <li>Outsourced Provider Services</li> <li>Physical Therapy</li> <li>Podiatry</li> <li>Primary Care</li> <li>Surgery Centers</li> <li>Urgent Care</li> <li>Urology</li> <li>Vet</li> <li>Vision</li> <li>Women’s Health</li> </ul>

# Recent Transaction Activity By Sector

## HCIT

 a portfolio company of  has received a significant growth investment from 	 a division of  has received a majority investment from 	 a portfolio company of  has been acquired by  	 a portfolio company of  has been acquired by 	 a portfolio company of  has acquired 	 a portfolio company of  has been acquired by  a portfolio company of 	 a portfolio company of  has been acquired by 
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## MEDICAL PRODUCTS & DEVICES

 has been acquired by 	 a subsidiary of  a portfolio company of  has been acquired by 	 has been acquired by 	 has been acquired by 	 has acquired  a portfolio company of 	 a portfolio company of  has been acquired by  	 a portfolio company of  has been acquired by 
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## OUTSOURCED PHARMA SERVICES

 a portfolio company of  has been acquired by 	 has acquired  a portfolio company of 	 a portfolio company of  has been acquired by 	 a portfolio company of 	 has been acquired by  a portfolio company of 	 a portfolio company of 	 a portfolio company of  has been acquired by 
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## PAYER TECH & SERVICES

 has acquired 	 has made a majority investment in 	 has acquired  a portfolio company of 	 a portfolio company of  has been acquired by 	 a portfolio company of  has been acquired by 	 a portfolio company of  has received an investment from 	 a portfolio company of   has been acquired by 
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## PHARMACY

 a portfolio company of  has been acquired by 	 a portfolio company of  has been acquired by 	 has been recapitalized by  has been acquired by  	 has been recapitalized by 	 a portfolio company of  has been acquired by 	 a portfolio company of  has merged with  in a recapitalization by 	 has been acquired by 
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## PROVIDERS

 has been acquired by 	 a portfolio company of  has been acquired by 	 a portfolio company of   has been acquired by 	 a portfolio company of  has been acquired by 	 a portfolio company of   has been acquired by 	 a portfolio company of  has merged with  a portfolio company of 	 a portfolio company of  has been acquired by 
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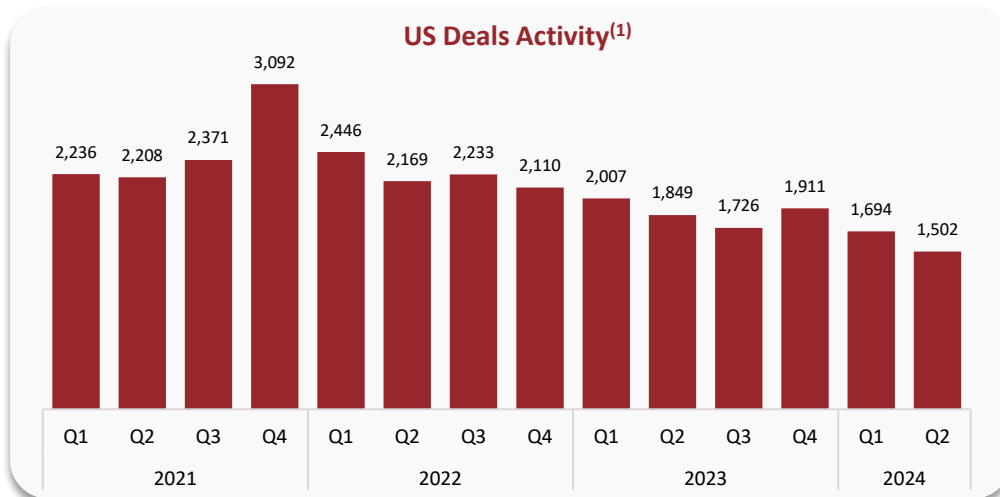
# Our View on the 2H 2024 and Early 2025 M&A Market Environment

The broader M&A markets are open for the right assets, but navigating today's environment requires thoughtful preparation and engagement.

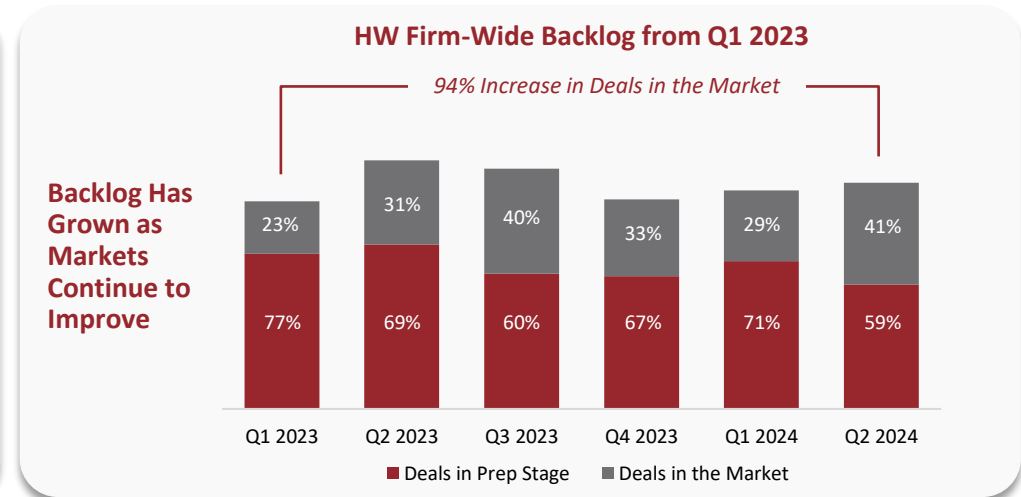
## Harris Williams Insights & Market Takeaways

- Investors want and need to put money to work and are still aggressively pursuing high-quality opportunities.
- The market for scaled assets is strong and continues to improve; the right assets in the right sectors are getting all of the attention today.
- The Harris Williams backlog shows meaningful conversion of deals moving from preparation to in-the-market.
- 40+ billion-dollar U.S. PE deals announced in 2024 YTD, including 8 deals in healthcare<sup>(1)</sup>.
- Investor sentiment is decidedly more optimistic than it was a year ago, with many sponsors behind their pace of deployment and focused on finding new opportunities in 2024.
- Ample dry powder, stable to improving rates, and more conducive credit market conditions prime M&A markets for greater activity in the second half of 2024 and beyond.
- While sentiment has improved, the bar remains high for investment committees, and buyers are focused on finding the highest-quality opportunities.

### Deal Activity Has Moderated Since 2021...



### ...and Backlog has Begun to Convert



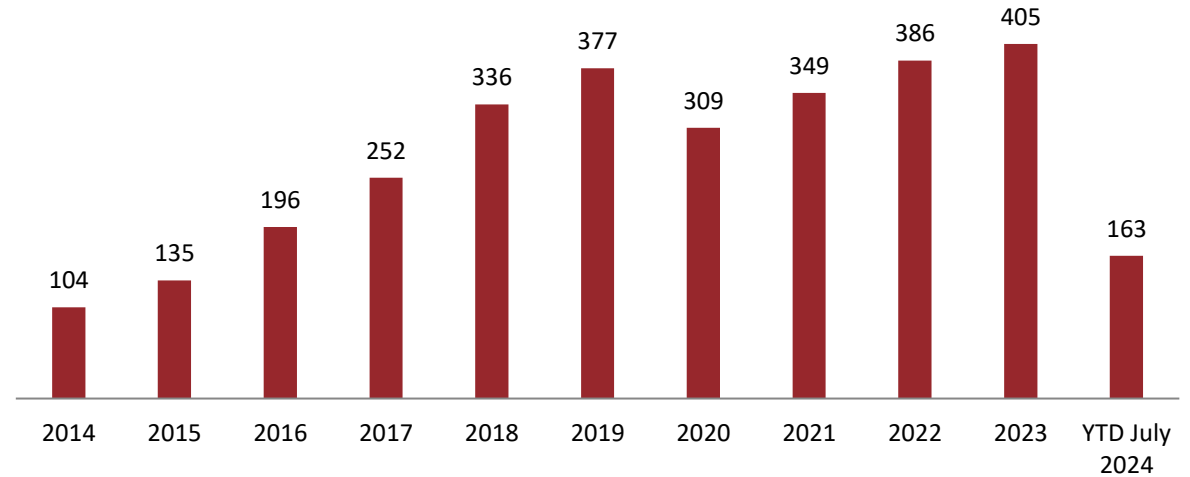
# 2024 Healthcare M&A Market Trends

As of 2024 YTD, the healthcare M&A market has proved open for “A+” assets that are also in the right sectors.

## Key Observations

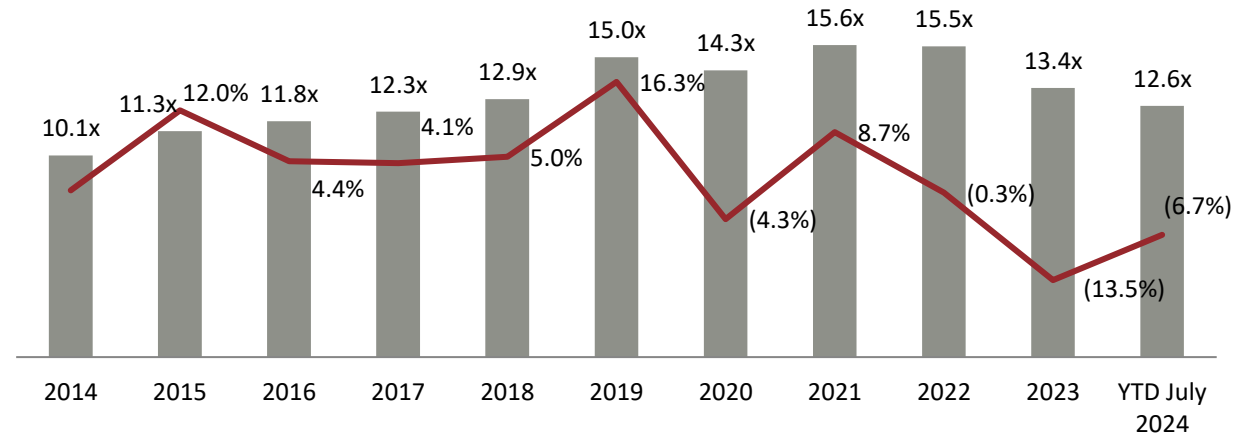
- Macroeconomic challenges exacted a toll on healthcare buyout activity in 2023 – in 2024, investor sentiment has remained mixed across different healthcare verticals.
- Healthcare products and services remain appealing to investors due to their non-deferrable and recurring demand, with buyers prioritizing businesses with exceptional organic growth and well-integrated business units and minimal exposure to challenging reimbursement dynamics.
- Given elevated interest rates and lower-than-desired valuations for some sellers, secondary transactions represent an abnormally high share of overall healthcare deal activity in 2024 as investors seek to unlock value in a dynamic market.
- Investors are hyper-focused on organic growth, labor optimization, and cost containment as indicators of a differentiated platform – assets that perform well across these indicators are receiving outsized attention in today’s market.
- Overall, investor interest in the healthcare sector remains high, with a growing backlog of high-quality companies expected to enter the market in Q4 2024 and Q1 2025.

## Healthcare Sector M&A Deal Volume<sup>(1)</sup>



## Healthcare Sector EBITDA Multiples<sup>(1)</sup>

(Enterprise Value / LTM EBITDA)



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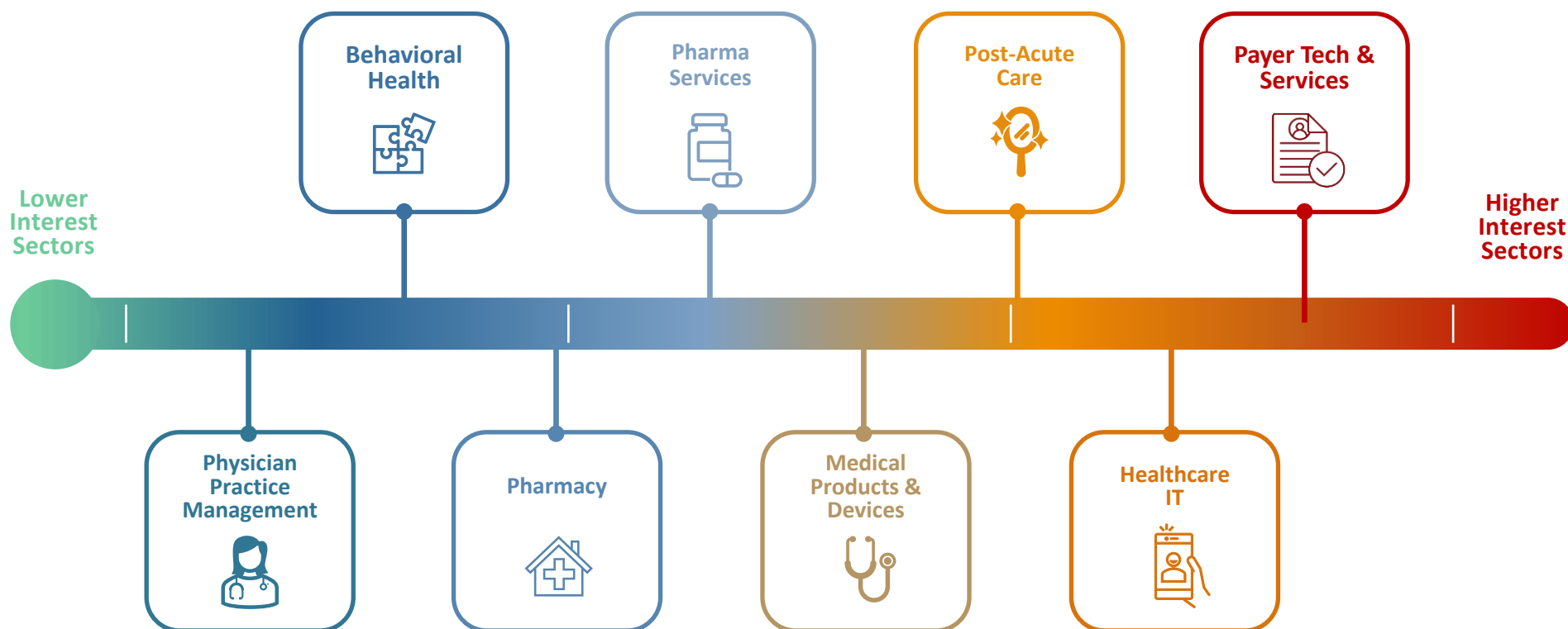
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# Sectors of Interest in Today's Market

Investors continue to pick their spots with a focus on A+ assets in high-growth, resilient sectors.

Level of Investor Interest in Representative Subsectors in Today's Market



# Payer Technology & Services

Growing investor interest in the payer and employer sector has resulted in a high level of transaction activity that Harris Williams believes will continue into 2025 for quality platforms.

## 2025 Sector Outlook

- Healthcare is too expensive and too complex to manage, with leading payer technology and services businesses improving access, quality, and cost for payers and members.
- Healthcare investors who are looking to diversify reimbursed provider exposure can apply expertise in this sector, particularly within the direct-to-payer, provider, and specialty benefit management categories.
- 2024 has been an active year in the sector and Harris Williams expects to see continued acceleration of M&A activity in 2025.

## 2025 Investor Interest Across Sub-Sectors

Sub-Sector	Commentary
Health Plans and Network Services	High-performing networks and innovative captive / consortium models driving cost savings.
Third-Party Administrators	Independent TPAs increasingly viewed as strategic advisors and enablers of best-in-class point solutions.
Direct-to-Payer Provider Services	Leverage trusted primary care member relationships to drive engagement and navigate downstream spend.
Cost Containment & Value-Based Care	Eliminate fraud, waste, and abuse, and drive better healthcare decisions through engagement solutions.
Specialty Benefit Management	Carve out and improve management of high-cost, high-complexity specialty benefits relative to traditional health plans.
Payer Technology & Outsourcing	Leverage AI and lower cost delivery models to enable health plan cost containment.

## Key Investor Themes

- A** Double-Digit Organic Growth
- B** Strong Management Teams
- C** M&A Consolidation Points in a Fragmented Employer Health Market
- D** Proven Cost Containment Value Proposition
- E** Diverse business models with high customer retention

## M&A Market Activity

### Companies to Watch in 2025-2026



# Medical Products & Devices

Supply of medical products & devices assets has been outstripped by investor demand, and, as a result, Harris Williams expects strong transaction volume in the sector heading into 2025.

## 2025 Sector Outlook

- Sponsor and strategic deals are getting done at all sizes.
- Supply of assets continues to be outstripped by investor demand; the number of trades teed up for 2025 is expected to generate strong interest from the market.
- Continued consolidation of supply chain, increase in outsourcing, and complexity in manufacturing processes drive outsourced demand from OEMs.
- In the past 12-24 months, new strategic parties have been put on the board as a result of consolidation.

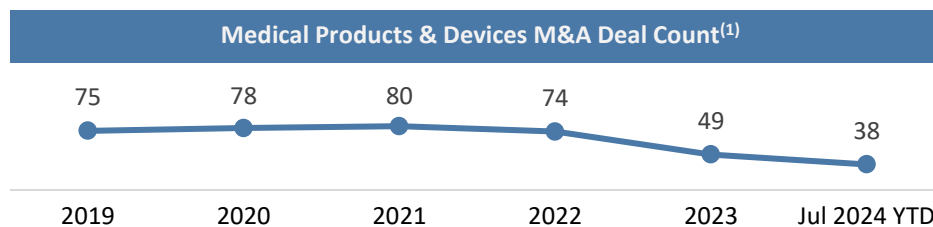
## 2025 Investor Interest Across Sub-Sectors

Sub-Sector	Commentary
Contract Manufacturing	Resolved raw material supply chain issues and reduced inventory stocking by OEMs.
Dental & Orthodontics	Lack of volume expected in 2025.
HME / DME / Mobility	Interest in CRT / more complex categories.
Medical & Surgical Equipment	Lower volume, high-quality assets.
Outsourced Medical Device Services	Several companies expected to transact in 2025.
Specialty Distribution	Many businesses still stabilizing from COVID.

## Key Investor Themes

- A** Differentiated Technology / Service Offering
- B** Strong Organic Growth Supported by Faster-Growing End Markets
- C** Revenue Visibility
- D** Total Addressable Market and Ability to Expand
- E** Customer Wallet Share and Market Opportunity

## M&A Market Activity



### Expected 2025 M&A Market Activity

Expected to Come to Market

# Pharma Services

Pharma services continues to be an attractive sector, though investor interest is highly dependent on sub-sector and client-specific performance dynamics.

## 2025 Sector Outlook

- Differentiation has increased in importance for investors.
- Vendor consolidation, particularly in commercialization, is impacting companies positively or negatively.
- Customer mix matters – large pharma has seen mixed performance and small pharma / biotechs are still recovering from the funding cycle.
- Overall reduced desire to underwrite customer concentration.

## 2025 Investor Interest Across Sub-Sectors

Sub-Sector	Commentary
Commercialization	2019 – 2022 market growth of 20% has slowed to 0 – 5%; increasing importance of differentiation.
CRO	Relatively consolidated space drives need for unique differentiation for smaller players.
Clinical Trial Site	Highly fragmented space that needs consolidation, professionalization, and tech enablement.
CDMO	Capital-intensive sector but ability to differentiate on service in small molecule.
Regulatory	Specialized players that provide strategic services to help navigate complexity of FDA.
Pharma IT	Strong interest with focus on players that increase efficiency and/or provide actionable insights.

## Key Investor Themes

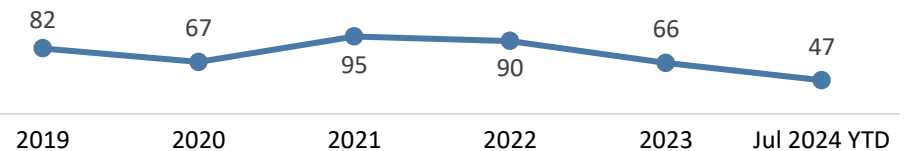
**A** Differentiation Amidst a Slow Growth Environment

**B** Vendor Consolidation and Stability in Contracts

**C** Diversity of Customer Mix

## M&A Market Activity

Pharma Services M&A Deal Count<sup>(1)</sup>



Expected 2025 M&A Market Activity

Expected to Come to Market



# Providers – Behavioral Health

Long-term behavioral health trends are creating a greater need for care, and driving steady investor activity in the space heading into 2025.

## 2025 Sector Outlook

- The highest-quality assets that have been able to prove organic growth engines, clinical outcomes, strong payer relationships, and geographic density are the businesses that investors are more interested in.
- Despite payer support and increased awareness, there is still a demand imbalance for services, yet the broadest tailwinds remain positive in behavioral health.
- Integration of primary care and mental health is an interesting avenue for investors.

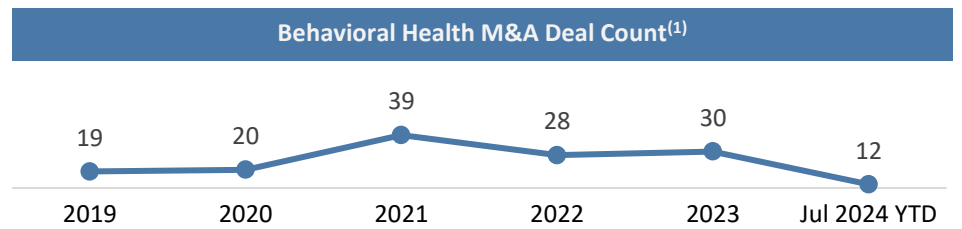
## 2025 Investor Interest Across Sub-Sectors

Sub-Sector	Commentary
ABA	Emphasis on multi-disciplinary approaches.
Eating Disorder	Low volume of deal flow.
Substance Use Disorder	Backlog expected to trade in '25.
IDD	Steady increase in prevalence rates and demand for services.
Outpatient Mental Health	PE lifecycle for outpatient mental health companies will drive '25 activity.
Inpatient Psych	Integration of primary care and specialized services.
School-Based Services	Strong demand for outsourced providers in school-based settings.

## Key Investor Themes

- A Strong Organic Growth Supported by Volume Increases
- B Clinician Retention
- C Earning Base Cleanliness
- D Ability to Track Clinical Outcomes
- E Regional Density

## M&A Market Activity



Expected 2025 M&A Market Activity

Expected to Come to Market

# Providers – PPM / Consumer Healthcare

The bar has been raised for PPM / Consumer Healthcare transactions due to broader regulatory scrutiny, clinical staffing challenges, increased costs, and exit questions, causing many investors to slow their review of transactions.

## 2025 Sector Outlook

- Though a handful of PPM / Consumer Healthcare transactions have been completed in 2024, the majority of scaled transactions have gone on hold or pursued a structured recap.
- The highest-quality assets that have performed well through a challenging operating environment will lead the first wave of platform activity.
- As volume of exits grows, the bar among investors will remain high; those that can prove out their model, growth story, and exit opportunity will achieve strong valuations.

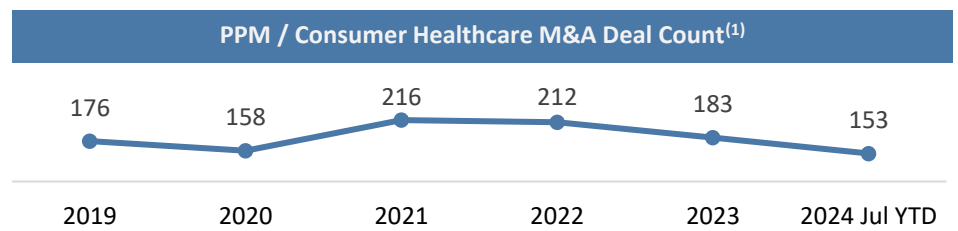
## 2025 Investor Interest Across Sub-Sectors

Sub-Sector	Commentary
Dental	Smaller deals present more optionality / growth potential.
Dermatology	Challenged performance with lack of cosmetics penetration.
Gastro / Urology	Income repair and ancillary penetration critical.
MedSpa Services	Choppy environment separating leading platforms from rest.
Orthopedics	Proven cycle resilience and vertical integration opportunities.
Physical Therapy	More straightforward provider model with more strategic exits.
Vet Services	Opportunity to open wide if an IPO exit materializes.
Vision	Current bias toward Optical Retail / Optometry vs. Ophthalmology.
Women's Health	Excitement in Fertility with less action in OBGYN.

## Key Investor Themes

- A** Sustained Organic Growth Aided by Meaningful Ancillary Penetration
- B** Provider Retention (Physician and Mid-Level)
- C** Platform Integration to Support Future Growth and Prove the Value of the Platform
- D** Earnings Base Cleanliness
- E** Minimal EBITDA Recency from M&A

## M&A Market Activity



### Expected 2025 M&A Market Activity

#### Expected to Come to Market



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# HW

# Healthcare IT

Following several years of declining M&A activity due to a supply / demand imbalance, 2025 and beyond are expected to be significantly more active as COVID-era investments come back to market.

## 2025 Sector Outlook

- Buyers remain highly interested in healthcare-focused MSPs, interoperability / data management, pharmacy IT, and revenue cycle management.
- As healthcare interest has shifted away from reimbursed clinical services, demand for HCIT assets has continued to increase.
- High prices paid for assets in 2020 and 2021 have dictated longer hold periods for investors, though the businesses themselves have generally performed well in advance of potential exits in the next 24 months.

## 2025 Investor Interest Across Sub-Sectors

Sub-Sector	Commentary
Patient-Facing Solutions	A well-defined strategy around the use of AI is paramount for consumer healthcare organizations.
Care Delivery	Post-acute care providers are utilizing software to unlock and operationalize existing data assets.
Pharma & Devices	Outsourcing key functions has driven development of a diverse ecosystem of solution providers.
Revenue Cycle Management	Focus on end-to-end solutions that cover the entire patient financial journey.
Population Health & Risk Management	Systemic shift to value-based care arrangements underscores the need for robust analytics.

## Key Investor Themes

A Interoperability / Data Management

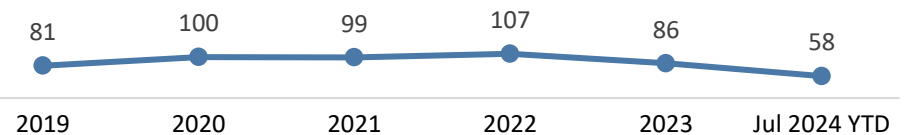
B Recurring Revenue Profile

C Multiple Ways to Win

D Large and Growing TAM

## M&A Market Activity

### Healthcare IT M&A Deal Count<sup>(1)</sup>



### Expected 2025 M&A Market Activity

#### Expected to Come to Market





# Pharmacy

An aging population, higher prevalence of chronic diseases, continuing development of new therapies, and increasing treatment options for patients and caregivers are driving investor interest in pharmacy.

## 2025 Sector Outlook

- Pharmacy continues to be an attractive sector, with momentum expected to continue in 2025.
- A number of higher-quality infusion platforms are anticipated to come to market, which will lead the charge in pharmacy M&A.
- Outsourced pharmacy management and exclusive / limited distribution business models are also garnering investor interest as they command attractive margins.

## 2025 Investor Interest Across Sub-Sectors

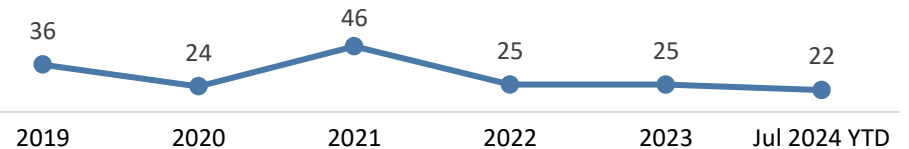
Sub-Sector	Commentary
Infusion	Payers driving volume to lower cost setting of care and is a highly fragmented market.
Rare Disease – Exclusive Distribution	Ability to add value through white glove service.
Behavioral Pharmacy	Strong end market tailwinds and need for specialized service.
Specialty Pharmacy	Payers have squeezed margins and tough-to-drive prescriber / patient loyalty.
503A/B	GLP-1 driving strong growth, but continued questions around compliance risk.

## Key Investor Themes

- A** Business Models that Create Value for Payers and Patients
- B** Shift Toward Specialty Pharmaceuticals and More Complex Therapies
- C** GLP-1 Uplift and Potential from Other Future Blockbusters
- D** Patent Cliff for High-Volume Therapies (e.g., Stelara) and Impact on Margins for Pharmacies

## M&A Market Activity

### Pharmacy M&A Deal Count<sup>(1)</sup>



### Expected 2025 M&A Market Activity

#### Expected to Come to Market



# Providers – Post-Acute

Harris Williams expects an uptick in post-acute M&A activity, supported by strong sector tailwinds and positive organic company performance.

## 2025 Sector Outlook

- A plethora of high-quality platforms traded in 2019 – 2021 are expected to drive activity in 2025 due to the private equity lifecycle.
- This dynamic, combined with continued optimism and tailwinds in the post-acute care industry, is driving buyer interest.
- 2024 saw a normalization of a tight labor market that persisted in 2022 – 2023, teeing up a quality environment for companies to transact in 2025.

## 2025 Investor Interest Across Sub-Sectors

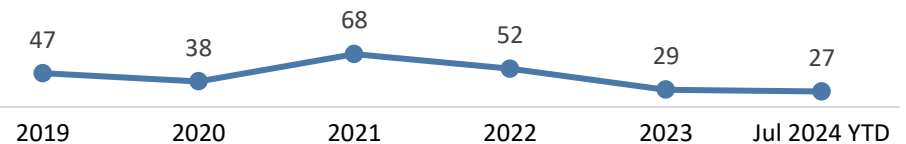
Sub-Sector	Commentary
Home Health	Cautious optimism based upon broad-based tailwinds for care in the home.
Hospice	Strong organic growth and utilization trends.
Post-Acute Value-Based Care Models	Broad interest across facility- and home-based care, as well as payment models.
Non-Medical Home Care	Strong underlying tailwinds, particularly for businesses diversified across multiple states.
Pediatric Home Care	Strong interest, but fewer platform opportunities
Home Care Franchisors	Highly attractive way to play senior care tailwinds in a high margin, consumer-oriented model.

## Key Investor Themes

- A** Strong Organic Volume Growth Supported by Sustainable Tailwinds
- B** Fragmented Market with M&A Opportunity
- C** Greater Visibility into Reimbursement / Regulatory Environment Than Years Past
- D** Large, Growing TAM

## M&A Market Activity

### Post-Acute M&A Deal Count<sup>(1)</sup>



### Expected 2025 M&A Market Activity

#### Expected to Come to Market



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