



Consolidation takes center stage in driving healthcare industry trends

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As one of the most important global industry sectors, healthcare is driven by demographics, global progression, and the industrialization of more and more countries. Throughout this growth period, we also see the industry continuing to face other political, regulatory, pricing, and technology pressures. Following are several of the more prominent trends and how they are influencing the growth of this sector.

1. The New Paradigm: Consolidation

It is clear that the U.S. is moving towards a more consolidated healthcare insurance and delivery model. Payors and retail points of sale are continuing to be drivers of this consolidation. Lines are also blurring between various subsectors in the healthcare delivery system with payors and providers also consolidating.

Competition from technology and other companies like Amazon continue to dominate general news headlines, although we believe—despite the PillPack acquisition—focus on this activity is more hype than reality.

As a vital component of the global healthcare sector, middle-market companies are also part of the consolidation equation. As Allen Fisher, Managing Director and Global Head of Healthcare Banking at MUFG explains, “We have a well developed, large healthcare practice that is increasingly focusing on mid-market and sponsor-owned companies as well. Much of the consolidation is driven by the need to enhance R&D, manage expenses, and find value-add business models in a dynamic environment.”

2. Political Uncertainty Continues

General political uncertainty and questions about the future of the Affordable Care Act (ACA) continue to weigh on the industry. While “Repeal and Replace” may be essentially dead as a political reality, many small, incremental changes in the law continue to be attempted and passed—often through non-healthcare legislation—or implemented administratively.

This uncertainty will continue to be concentrated on the Healthcare Services sector, where reductions in healthcare insurance coverage have had the biggest impact to date.

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- Lending relationships with virtually every major pharma, biotech, and MedTech company in the U.S.

So far, tariffs and possible trade wars have steered clear of pharma and MedTech companies. There is a sense of increasing caution for cross-border transactions, despite the fact that domestic consolidations across subsectors seem to be continuing apace.

3. Drug Pricing in the Spotlight

Drug pricing has received an uptick in both media and political attention in recent years, driven by scientific advances that have resulted in the launch of breakthrough treatments with high price tags as well as continued drug inflation.

The pharma sector continues to face pricing pressures with an increasing focus on outcomes-based payments. It is widely agreed that more sophisticated pricing models are needed that can better align pricing with the value that drugs deliver. Conversations continue regarding wholesale changes to the current pricing models (e.g., more direct sales/distribution chains, doing away with rebates), but actual change is likely to be slow and incremental.

On the generics side, consolidation of purchasing patterns has caused a reset of prices, causing pricing dislocations and a further increase in the already competitive dynamics of the generic pharmaceutical sector. On the other hand, the market is clearly seeing stabilization as weaker players are pushed out and companies place a higher focus on surety of supply, resulting in a reversion to the more historic pricing growth trajectories that brighten the outlook for pharma.

4. MedTech: Moving from a Holding Pattern to a Reawakening

With innovation somewhat stagnating, the MedTech sector is seeing change that is more evolutionary than revolutionary, so growth and profitability have been challenged. In addition, organic growth has more recently been replaced with M&A activity as manufacturers attempt to transform into “one-stop shops” for hospitals and providers.

We are starting to see a shift in both results and sentiment as synergies clearly begin to flow through company P&Ls and the emerging market economies stabilize and return as a growth area for MedTech manufacturers.

As healthcare companies continue to look ahead at future positioning, consolidation along with population growth, political drivers, public sentiment, and technological advancements on many levels will continue to drive growth in this fast-evolving sector.

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Andreas has more than 25 years of experience as a senior research analyst and investment and commercial banker focusing on Healthcare, covering the Pharmaceutical, MedTech, and Healthcare Services sectors from a global perspective and at all levels of the capital structure. He has originated, analyzed, structured, and executed numerous public and private mergers and acquisitions, strategic, lending, and capital markets transactions across company capital structures and in the U.S., Europe, and Asia.

Andreas is a graduate of Georgetown University and holds an MBA in Finance from New York University.