# Healthcare M&A Investment Theses

## Idea In Short

Anchor every acquisition to one of three revenue theses: category leadership, research pipeline replenishment or vertical integration. Write the investment thesis and the integration thesis before bidding. Healthcare's recession resistance and abundant dry powder keep multiples high, so undisciplined buyers overpay first.

## A Blockbuster Year for Deals

Bain & Company's healthcare report documented a record year, with healthcare mergers and acquisitions (M&A) reaching 435 billion dollars in 2018.1 The trend line pointed up and to the right. Two mega-deals supplied a third of total value. Takeda acquired Shire Pharmaceuticals for 80 billion dollars, and Cigna bought Express Scripts for 67 billion dollars. Beneath the headline numbers, Bain identified three main investment theses, all centered on revenue growth: category leadership, research and development (R&D) centered acquisitions and vertical integration. Each thesis rewards a different corporate discipline, and together they map the strategic logic of modern healthcare deal making.

## Category Leadership and Corporate Clarity

The first thesis doubles down on core competencies while divesting distractions. Pfizer and GlaxoSmithKline carved their consumer healthcare divisions into a joint venture with 12 billion dollars in sales. Johnson & Johnson shed two non-core assets, selling LifeScan to Platinum Equity and Advanced Sterilization Products to Fortive. Shire, General Electric and Novartis ran similar divestment programs. J.P. Morgan observed that this pursuit of corporate clarity extends across sectors, not just healthcare. The pattern rewards focus. Companies that concentrate capital and management attention on categories they can lead command better multiples than sprawling conglomerates defending everything at once.

## Buying the Pipeline

The second thesis treats acquisitions as R&D replenishment. Sanofi bought Bioverativ for 11.6 billion dollars, targeting a hemophilia market worth 10 billion dollars and growing at 7 percent. Celgene acquired the remainder of Juno Therapeutics for 9 billion dollars, gaining 100 scientists, best-in-class chimeric antigen receptor [CAR] T-cell therapies with more than eight targets and ten indications, plus a novel and scalable manufacturing platform. Pharmaceutical pipelines age relentlessly, and internal discovery cannot always refill them on schedule. Buying proven science compresses time, which in patent-driven markets is the scarcest asset of all.

## Insurers Integrate Vertically

The third thesis captures more of the value chain. The Cigna and Express Scripts merger completed at 67 billion dollars, and with it the three big pharmacy benefit managers [PBM] all became tied to insurers.2 The combination may represent one of the few market-driven paths to reducing complexity in the United States healthcare payments system. Removing the middleman cuts transaction costs and aligns incentives that fragmented arrangements had scattered. Vertical integration carries execution risk, yet the strategic prize, control of the patient dollar from premium to prescription, explains why insurers paid richly for it.

## Writing the Thesis Before the Check

The report's most transferable gem is its structured investment thesis, the thinking tool that drives clarity, prioritization and action. The sequence runs left to right. What is the business, its products and services, and how does it make money? How big is the market, and could horizontal integration, bolt-on acquisitions or economies of scale expand it? What do competition and positioning look like, and what are the chances of winning the fight? How well has the company been run, as evidenced by financials, and what risks threaten the forecast? Where else can the buyer add value, measured in earnings before interest, taxes, depreciation and amortization [EBITDA]?

Venture capital asks a compressed version of the same questions. One founder interviewed on the Harvard Business Review Ideacast summarized the three: why you, why now and how will you build a category-defining company worth billions?3 A second gem follows the first. The integration thesis begins once the investment thesis and vision exist. What is the merger's ambition, keeping companies separate in the Berkshire Hathaway style or transferring skills and sharing activities? What gets integrated, by how much, in which

sequence and by whom? Buyers who answer these questions before closing avoid discovering them during integration.

## Exits, Holding Periods and Dry Powder

Initial public offerings [IPO] capture headlines, yet sponsor-to-sponsor sales dominated exits at 47 percent of volume. Three forces explain the pattern. Private equity [PE] holds abundant dry powder awaiting deployment, firms bolt acquisitions onto existing platforms for scale and public market timing is rarely ideal. Holding periods tell their own story. The average PE-backed healthcare asset turns over in just 4.1 years, a remarkably short window to raise money, select an investment, improve EBITDA and sell. Bain framed the choice ahead:

> "Looking ahead, funds may decide to opportunistically exit deals and take advantage of heavy sponsor demand for relatively recession-resistant assets and high valuations. On the other hand, funds may decide to lengthen their holding period if they possess a category-leading asset and don't have pressure to sell. In some cases, a longer-term value-creation plan to raise incremental returns may be more valuable than selling top-performing assets and hunting for ways to redeploy large sums of new capital."

## Make Your Own Weather

The outlook for healthcare investing carried familiar tensions. Interest rate increases and nationalist political rhetoric promised volatility, while healthcare's near-immunity to the economic cycle kept investors committed. Fundraising continued strongly, collaboration among sponsors and strategic buyers grew to take down larger targets and buyers paid premium multiples for platform companies with pricing power. Market dips, if they came, would create buying opportunities.

A friend summarized the era over lunch: make your own weather. The easy, obvious trades have been picked over, and alpha now demands creativity in financing, integration and operational improvement. Bain agreed:

"Wherever they compete along this spectrum, investors will not only have to execute an airtight acquisition and integration playbook but will also need to flex new muscles and develop more creative approaches to building scale or category-leading assets."

- 1Bain Global Healthcare Private Equity Report
- 2Cigna Completes Express Scripts Acquisition
- 3HBR IdeaCast

## Summary

A record 435 billion dollar year confirmed that disciplined theses drive healthcare deals. Buyers pursued category leadership, pipeline renewal and vertical integration while exits shifted sponsor-to-sponsor. With short holding periods and rich multiples, only airtight acquisition and integration playbooks now beat the market.