

**OBERON
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HEALTHCARE INDUSTRY UPDATE

SEPTEMBER 2020

MERGERS & ACQUISITIONS | CAPITAL RAISING | FINANCIAL ADVISORY | VALUATIONS

Healthcare Industry Overview

Healthcare is one of the largest and fastest-growing industries in the world

- Global healthcare market reached a value of \$8.5 trillion in 2019, expected to grow to \$12.0 trillion in 2022; CAGR 9.0%+
- Spending on a per capita continues to be unevenly spread, ranging from US\$12,262 in the US to just US\$45 in Pakistan
- US spends twice as much as other countries on healthcare; spending projected to grow by annual average rate of 5.4% between 2019 and 2028; expenditures on products and services ranging from medicines to hospital care to climb to \$6.2 trillion in 2028 from \$3.8 trillion in 2019
- US healthcare industry consists of approximately 784,626 companies, 1 in 8 US citizens is employed in the healthcare industry

Factors expected to impact higher healthcare spending

- Aging and growing population; global population is expected to reach 8.5 billion by 2030 from 7.7 billion in 2019 with 11.5% accounting for those 65 and older; increasing life expectancy to 74.7 years from 73.7 in 2018; expanding geriatric demographic is a key concern for governments and health systems worldwide
- Chronic and non-communicable diseases on the rise globally; in addition to communicable diseases such as Covid-19
 - 17.9 million people die each year from cardiovascular disease, an estimated amount of 31% of all deaths worldwide; 85% are due to heart attack and stroke; cardiac disease is the number one cause of deaths globally
 - COPD affects more than 200 million people and is the fourth leading cause of death; asthma afflicts 235 million worldwide and has been increasing during the past three decades
 - 425 million people are currently living with diabetes, expected to increase by 48% to 629 million by 2045; 30.2 million in the US alone (114.4 million in China and 72.9 million in India)
- Lifestyle related factors include smoking, poor diet, hypertension, obesity, and lack of physical activity; leading causes of heart disease, stroke, chronic obstructive pulmonary disease, lung cancer, and diabetes – US maintains highest rates globally
- Expansion of public health care systems, costly infrastructure and increased investment in healthcare, rising labor costs and staffing shortages

COVID-19 Impact

The US healthcare sector is normally insulated from economic downturns; COVID-19 has produced a unique set of challenges

The long-term impact of Covid-19 on the US healthcare system will be determined by the duration and severity of the pandemic and effectiveness of the associated governmental response

- Covid-19 has resulted in patients canceling or delaying appointments, which has drastically reduced the number of primary care visits, lab tests, radiology screenings, physical therapy sessions, dermatology treatments, etc. – **providers are cutting costs to absorb declining revenues**
- CMS's recommendation to delay non-essential surgical procedures has resulted in a substantial decline in volume and demand for associated medical products and supplies – **device manufacturers and IDNs are reducing expenses to offset lost revenue** (IDN – Integrated Delivery Network which is comprised of providers and sites of care)
- Rise in uninsured and underinsured patients, amidst business closings and layoffs, reduced reimbursement for healthcare providers – **potentially negated/offset by the CARES Act**
- Healthcare providers and device manufacturers are starting to take aggressive cost-saving initiatives, including the modification/termination of third party vendor agreements, delaying CapEx and cutting salaries – **could create a challenging environment for some healthcare IT and outsourcing firms**

The COVID-19 pandemic is causing uncertainty in the healthcare sector with 20% of public companies already have withdrawn 2020 full year financial guidance, implying a decline in growth

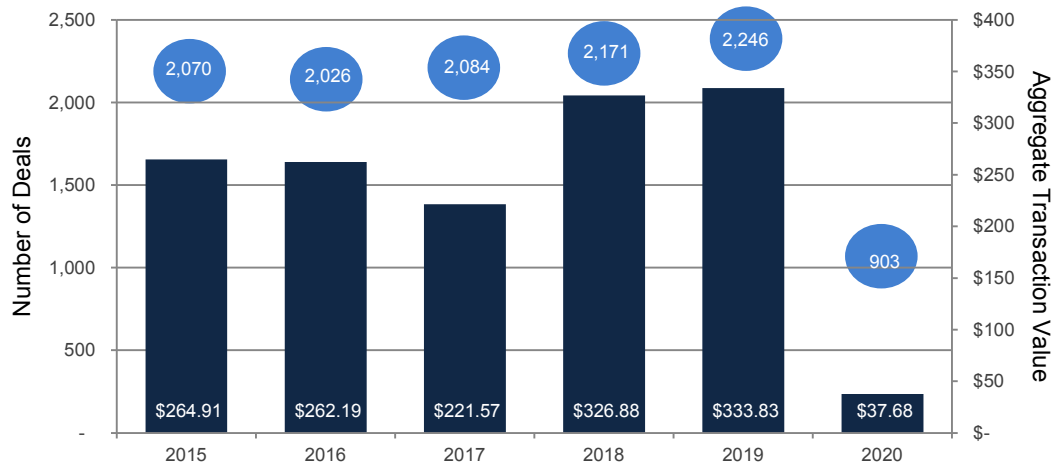
- Shelter-in-place orders have resulted in a sudden and substantial reduction in utilization of some medical facilities
- Covid-19 has shifted demand for healthcare services to the future; consumers foregoing services and elective surgeries
- Quest Diagnostics, a commercial lab provider, indicated a 40% decline in volume during the last 2 weeks of March

The total value of global healthcare mergers and acquisitions for Q2 of 2020 is down significantly compared to Q1 of this year and Q2 of last year

- Q2 2020 aggregate transaction value was \$12.26 billion compared to \$29.31 billion in Q1 and \$137.29 billion in Q2 2019
- Deal activity in the US started to slow in Q1; only 393 deals in Q2 this year; fewest number in the last five years

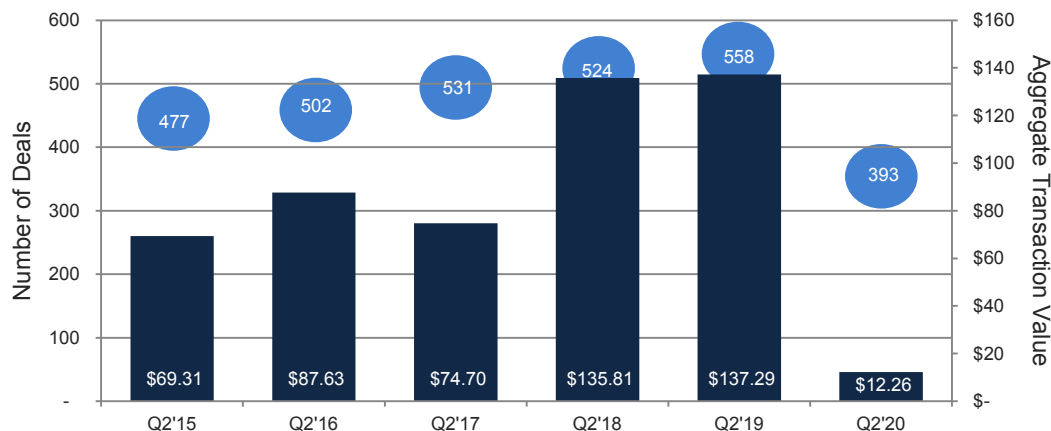
Global Healthcare M&A

Global Healthcare M&A



- The aggregate value for healthcare M&A fell sharply in Q2 2020, both compared to Q1 2020 and Q2 2019, as Covid-19 dampened deal-making.
- Healthcare companies saw an uptick in debt issuances as the onset of the COVID-19 pandemic, coupled with historically low-interest rates and easy monetary policies, fueled the demand for corporate credit.
- Companies have cash on hand and may deploy these strong balance sheets for acquisitions over the next few years.

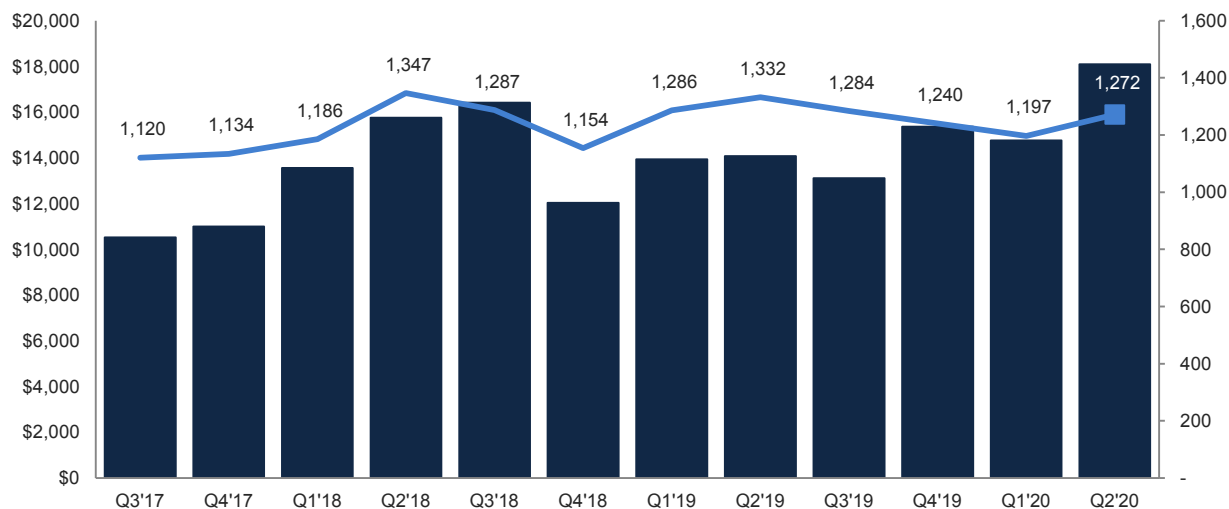
Global Healthcare M&A in Q2



- Of the 20 largest healthcare deals in the quarter, seven targeted biotechnology companies and six involved pharma firms
- The impact of the pandemic varied around the world with China seeing the least impact on its global buying activity, with a year-over-year decline in deal count of 7% and a fall in deal values of 20.1%.
- The Americas — dominated by the U.S. — was the biggest decliner and saw its share of global M&A by value decline to 33.4% in the first half of the year.

Global Healthcare Investment

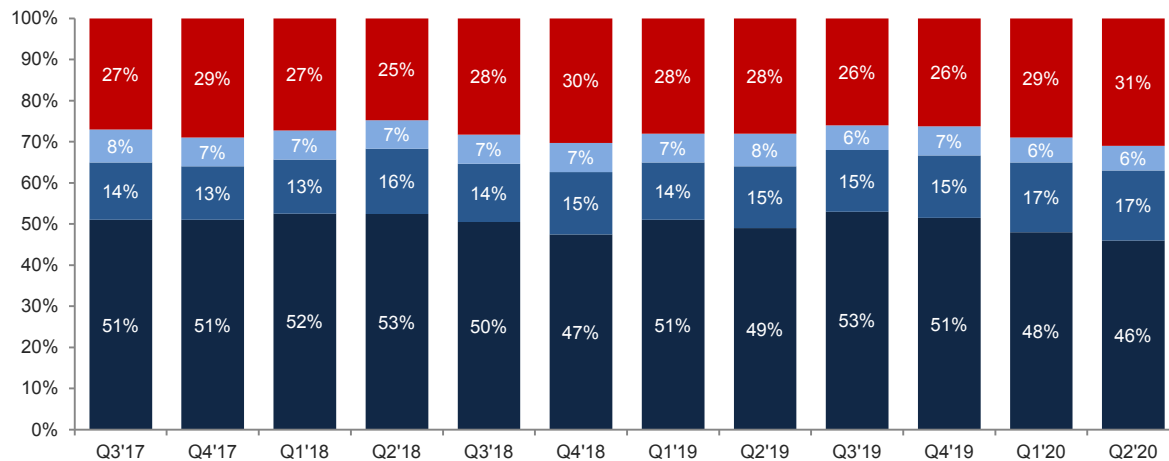
Quarterly Global Healthcare Funding / Deal Count



- Global healthcare funding to private companies reached a new quarterly record of 18.1B in Q2 2020
- There were 1,272 equity investments in Q2 2020, growing 6% quarter-over-quarter (QoQ)
- 46 healthcare unicorns valued in aggregate at \$116.8B (22 in the US, 11 in China)

■ Deal Count
■ Amount (\$M)

Percentage Share of Global Deals



- Early stage - deal share continued to decline in Q2 2020
- Corporate venture capital participation has remained stable since 2015
- Tech giants (Google, Amazon, Apple) continue to enter the health care industry

■ corporate minority rounds, unattributed
■ Series D, Series E+, growth and private equity
■ Series B and Series C
■ convertible note, angel, seed and Series A

Healthcare Industry Trends

Healthcare AI deals and dollars saw an uptick in Q2 2020:

- Healthcare AI startups raised \$1.1B in equity funding across 84 deals, 14% increase QoQ – however, financing activity was below Q3 2019 (\$ 1.6B across 123 deals)

Telehealth deals skyrocketed:

- Telehealth saw a record 154 deals in Q2 2020, 23% increase QoQ – however, funding dipped 18% compared to Q1 2020; 22 M&A transactions set a record for telehealth exit volume (vertical and horizontal consolidation)

Record funding and exits for medical devices:

- Medical device companies received \$4.3B in funding – new quarterly high – across 371 deals. Exit activity set a record with 34 M&As and 12 IPOs (8 of which were in China)

Deal and dollars for digital health in China bounced back:

- The quarter saw 47 deals – a 68% quarterly increase – and \$1.4B in funding. Funding was largely driven by the \$1B Series B for DNA sequencing provider MGI Tech.

Women's health funding dipped but deals rose:

- Women's health funding saw a 47% quarterly decline to \$206M after a strong Q1 2020 – however, Q2 2020 deals jumped to 52, a 20% increase QoQ

Mental health deals reached a record high:

- Mental health startups saw record deal volume in Q2 2020 with 57 deals – however, funding fell by 15% QoQ to \$491M

Regenerative medicine dollars and deals reached an all time high:

- With \$2.7B invested across 99 deals, Q2 2020 set a milestone for financing activity in the sector. Venture capital firms continue to allocate significant capital to this segment.

About Oberon Securities

Oberon Securities is an independent investment bank focused on providing financial advice on mergers, acquisitions, restructurings, and capital-raising to owners, senior executives, management teams, boards of directors, creditors and independent committees of public and private companies.

Founded in 2001, the firm's clients include leading companies in the Healthcare industry. Oberon's established experience in Healthcare includes Healthcare IT, Healthcare Services, Medical Diagnostics, Managed Care, Senior Housing & Long-Term Care, Medical Devices & Diagnostics as well as, Biotechnology and Pharmaceuticals.

Our clients benefit from our diverse and extensive transactional and industry experience, particularly in such highly regulated industries as health care and life sciences.

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