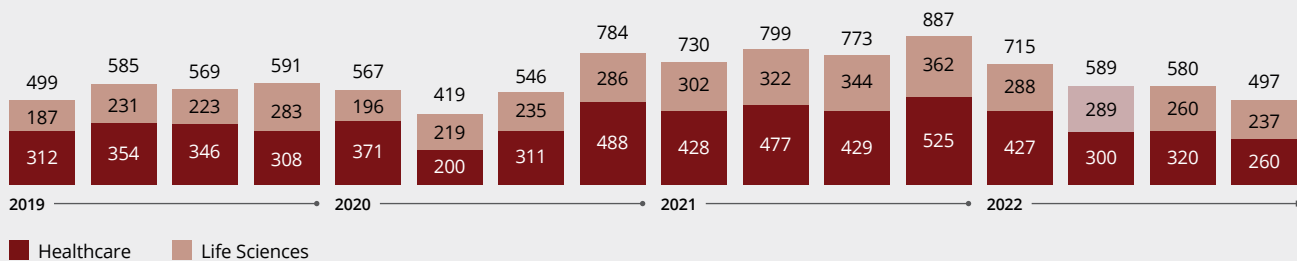




## HOW ECONOMIC UNCERTAINTY WILL IMPACT PHARMACY VALUATIONS IN 2023

**The healthcare services sector continues to attract attention from buyers across a broad range of backgrounds.** While late 2021 and 2022 proved to be record years for healthcare M&A, 2023 is expected to descend slightly but still land above pre-pandemic levels. The industry's overall strengths will endure, people need care, drugs, and medical devices in good times and bad, but some subsectors should see more action than others.<sup>3</sup> Companies will divest non-core assets that, in turn, will facilitate innovation and permit access for acquirers; and continued geopolitical turmoil, supply chain challenges and labor shortages will fuel disruption and force firms to focus on their longer-term strategies. Although broader economic headwinds due to inflation and rising interest rates will impact deal flow and valuations across many sectors, demand for quality, sustainable healthcare assets will remain strong.

Healthcare and Life Sciences Deal Volume by Quarter



Notes: Biopharma data sourced from Informa and Pitchbook while all other LS sub-sectors' data has been sourced from Capital IQ and Pitchbook; HC data has been sourced from Capital IQ, Refinitiv, and Pitchbook; Some of the 2022 deals may be missing due to data lag at the time of publication; YTD as of December 22, 2022  
Sources: Informa, Pitchbook, Capital IQ, Refinitiv, and KPMG Analysis

Figure 1 - <https://institutes.kpmg.us/healthcare-life-sciences/articles/2023/hcls-investment-outlook.html>

In a post-pandemic world, pharmacy continues to generate interest from an array of acquirers. Players are redirecting their efforts away from tech and other industries that experienced a surge during the pandemic but are now losing steam due to high valuations and economic uncertainty.

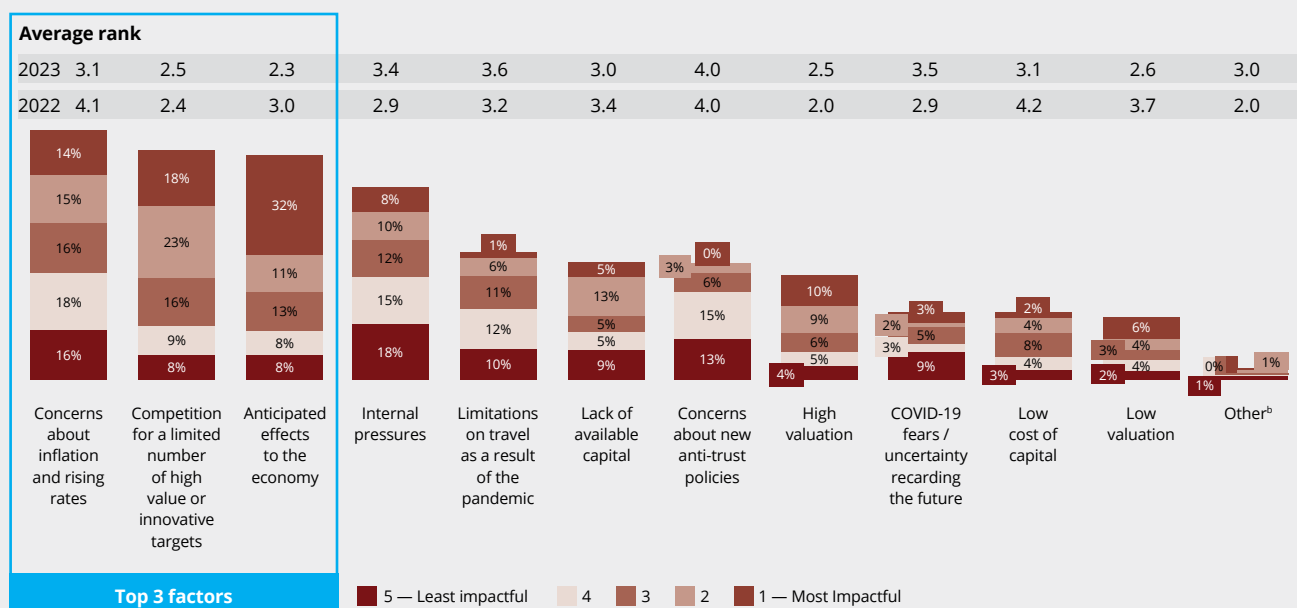
The appeal of healthcare services and pharmacy, compared to other categories, is its back-to-basics stability, characterized by strong growth and the expanding aging American patient population.



**M&A overall, has been lackluster as market volatility and fears of a recession take their toll. Deal volume dropped by 41% in the U.S. last year to \$1.5 trillion, according to Dealogic.<sup>1</sup>**

## Headwinds that could impact deal activity in 2023

Q: What factors will impact your firm's M&A deal activity plans for 2023, as measured by number of transactions?  
(Please rank as applicable up to 5, 1=most impactful and 5=least impactful)



Notes: Totals: US FDA no longer recognizing China-only clinical trials, availability of qualified personnel, waiting for home-health reimbursement finalization, etc.  
Source: 2023 KPMG HCLS Investment Survey

Figure 2 - <https://institutes.kpmg.us/healthcare-life-sciences/articles/2023/hcls-investment-outlook.html>

Further, public acquirers and private equity (PE) groups see an abundance of opportunity through vertical and horizontal integration. Roll-up acquisitions by PE groups continue to grow in popularity as they seek to reduce costs, streamline operations and gain access to new markets. At the same time, strategic acquirers continue to diversify and integrate their supply chain and customer bases. Sellers must be keenly aware of the pros and cons any buyer brings to the table, as each offers more than simply an attractive enterprise value.

Independent pharmacy activity and valuations ramped up during the two years preceding 2023. Moreover, the sector shows no sign of slowing as institutional pharmacy continues to recover and telehealth, online pharmacy, and new technologies expand organizations' reach to diverse patient populations.

**Sixty percent of healthcare and life sciences investors are planning to increase their mergers and acquisitions activity in 2023 despite economic pressures, and a fourth of respondents to a recent survey expect to do at least 10% more deals than in 2023 compared with 2022.<sup>4</sup>**



***In the face of uncertainty, pharmacy is perceived as relatively insulated from recession. This perception will continue to drive demand and valuations.***

This means there is tremendous opportunity for acquirers to grow platforms and bolt on companies that offer overnight synergies. Some of the pharmacy segments that continue to dominate M&A markets via surging valuations and demand include infusion (specialty and home infusion), long-term care, compounding pharmacy (503A and 503B), digital pharmacy and some specialty.

The coming year is anticipated to be an active one for pharmacy M&A. Interest rates are expected to continue to rise to levels not seen in years and inflation will remain strong. However, in the face of uncertainty, pharmacy is perceived as a sector that is relatively insulated from recession. This perception will continue to drive demand and valuations. An aging America provides consistent growth for the industry while government payor networks provide a reliable payment system. The challenge then, is for pharmacies to be first to market with cutting-edge technology and services that will maintain their competitive edge. In this new landscape, organic growth alone will not generate the speed and profits organizations need to remain competitive and as a consequence, M&A will be an inexorable growth strategy for both buyers and sellers.

#### References

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- 3 <https://institutes.kpmg.us/content/dam/institutes/en/healthcare-life-sciences/pdfs/2023/sustained-turbulence-post-pandemic-market-hcls-2023.pdf>
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***If you have questions regarding your business strategy, exit planning or valuation, please contact us for a confidential discussion.***

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