

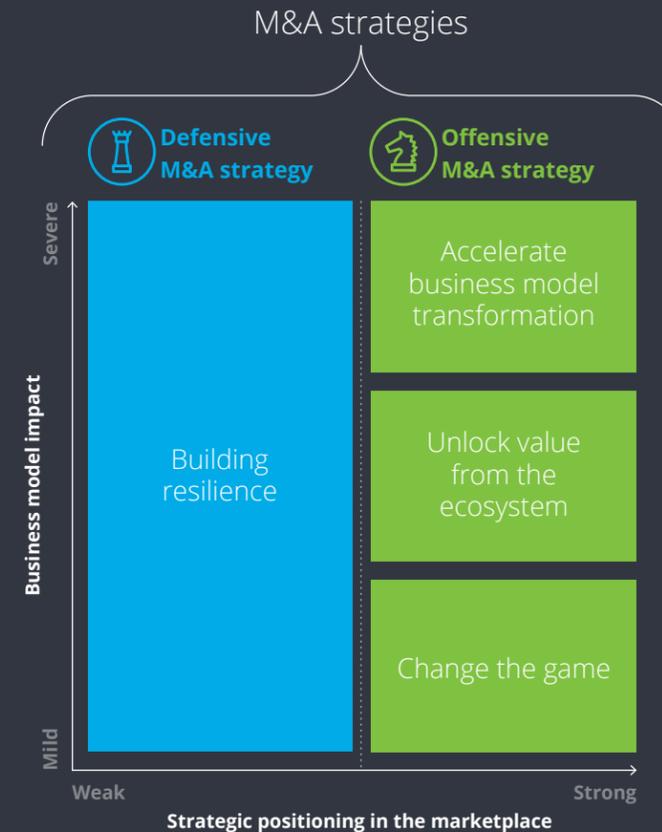
Path to thrive: Rethinking M&A strategies

As we move toward a post-pandemic world, through previously uncharted paths, thriving in such an environment requires companies to reimagine the future of their markets, reexamine their core capabilities, and reevaluate their competitive advantages. In parallel, as part of long-term value creation, companies also need to consider the impacts of other macro themes such as digitization, technology shifts, climate change, health care and well-being, energy transition, skills shortage, and aging populations. This will help them make fundamental choices on growth strategies, prioritize the markets and segments where they need to play, identify gaps and the skills they need to win, and determine how to transform themselves in the process.

Building on our research from the original *Charting new horizons* report,²³ we have evolved the M&A framework to demonstrate a new set of defensive and offensive deal archetypes that are required to build resilient business models, accelerate transformation, unlock the potential of ecosystem alliances, and capture market leadership. Redefining M&A strategies in terms of these choices will bring much-needed clarity of purpose while paving the path to thrive.

In parallel, as part of long-term value creation, companies also need to consider the impacts of other macro themes such as digitization, technology shifts, climate change, health care and well-being, energy transition, skills shortage, and aging populations.

Charting new horizons M&A framework



Building a resilient company

- Accelerate synergy realization from recent deals, evaluate your current portfolio, and divest assets that are not aligned to long-term growth.
- Optimize your portfolio and strengthen your core by acquiring competitors to consolidate the marketplace.
- Consider opportunistic deals to secure your supply chain systems, safeguard your customer channels, and enhance market positioning.

Charging the growth engine

- Transform your business model by acquiring value-enhancing products and capabilities. Identify portfolio gaps, and consider expanding toward market adjacencies through acquisitions in digital, ESG, and platform plays.
- Capture opportunities through purpose-led alliances and partnerships involving nontraditional peers and scale-ups from the ecosystem.
- Invest in disruptive innovation assets to scale at the "edge."

Business model impact: Consider the impact of post-pandemic structural changes on your employees, customers, suppliers, and operating model.

Strategic positioning in the marketplace: Consider your liquidity position, balance sheet strengths, ability to raise capital, competitive environment, threats of disruption, and drivers of competition in the marketplace.

M&A and the path to thrive

Sectors will evolve at different trajectories and paces. At the same time, technology-enabled convergence is blurring traditional sector boundaries and creating new market opportunities and customer segments. Companies need to reframe their growth options to include not only financial considerations but also operating model agility, competitive positioning, capital return horizon, and brand permission to enter new markets.

M&A strategies are now firmly cemented as a fundamental part of the corporate arsenal, both in defense to preserve value, as well as in offense to drive transformative growth. This framework can help companies articulate a new combination of M&A strategies to fortify their gains, accelerate business model transformation, and make horizon investments to capture lasting market leadership.

Defensive M&A strategy

Offensive M&A strategy

02 Cleaning the stables

Do you have a non-core asset divestment program in place? Do you plan for rapid asset transformation to enhance the sale value?

01 Accelerate synergies

Are you well-positioned to accelerate both cost and revenue synergies and demonstrate the wider stakeholder benefits?

03 Strengthen the fortress

How can you use M&A as a strategic response to shape responses to optimize the operating model and supply chain resilience and enhance your customer-centricity?



04 Safeguard competitive positioning

Are you actively monitoring the markets and prepared to move fast on opportunistic deals to consolidate segments?

05 Portfolio transformation

Are you undertaking a portfolio review and considering the implications of the "new normal" factors such as technology transformation and ESG on your current and future portfolio?

06 Digital acceleration and portfolio expansion

Are you considering M&A deals to accelerate digital transformation and develop platform and "as-a-service" plays to capture new revenues by expanding your portfolio into value chain adjacencies?

07 ESG and impact investing

Businesses are expected to demonstrate they can deliver returns with a purpose. Do you have a multidimensional view of ESG investment aligned with product, infrastructure, and technology plays?

08 Alliances

Are you exploring value creation opportunities through purpose-led alliances with a diverse range of collaborators, including nontraditional peers and innovative startups?

10 Scaling at the edge

Do you have horizon scanning capabilities? Are you looking to build a portfolio of disruptive investments at the edge of your business to establish strategic positions in transformational growth segments?

09 Convergence

Are you actively looking to capture cross-sector convergence opportunities to create new products, customers, and market segments and position for market leadership?



Life Sciences & Health Care

Observations

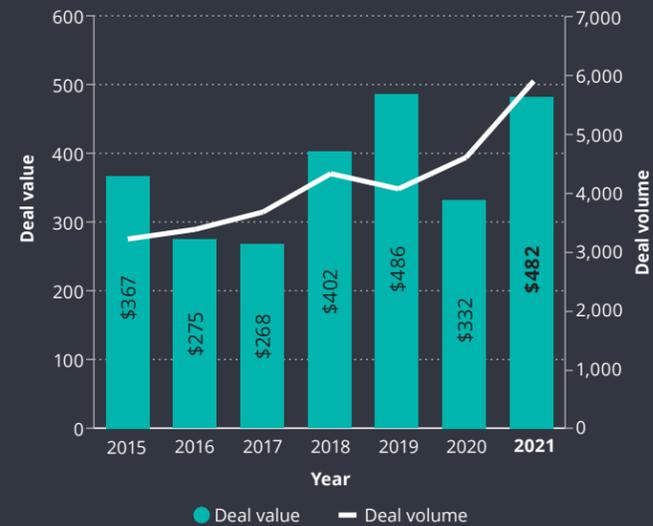
Life Sciences & Health Care (LSHC) recorded a 45% YoY growth in deal value to reach \$482B in 2021.

The rise in value was primarily driven by the strong 132% YoY growth in the large deals segment (≥\$1B to \$10B) to a total \$217B in 2021.

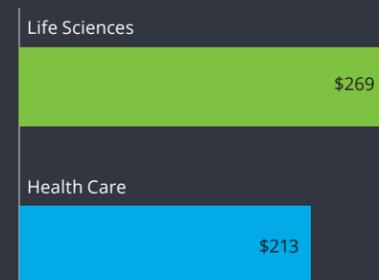
North America was the largest contributor among the regions with 2,315 deals worth \$303B. Europe, with \$94B worth of deals, was a distant second in terms of values, while Asia Pacific was second with 1,907 transactions, in terms of volume.

Among the subsectors, Health Care saw the highest YoY increase in M&A value and volume. Deal values rose by 121% to reach \$213B and deal volume rose by 33% to reach 3,463 transactions.

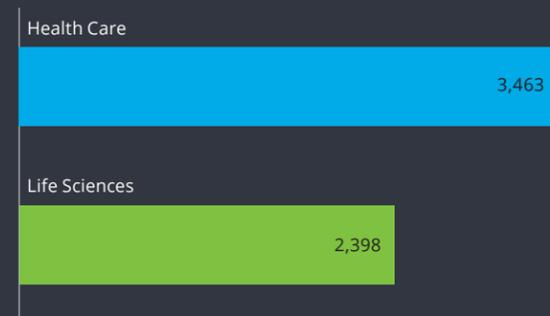
Life Sciences & Health Care deal value and volume (in billions of US dollars)



Deal value by sector (in billions of US dollars)



Deal volume by sector



Life Sciences & Health Care

Forces shaping new normal conditions

Digitization of health care

- The potential for new variants, speed of vaccination, and changing government approaches all contribute to pandemic uncertainties.
- Consumers got used to alternative service delivery methods during the pandemic, and there could be an increased demand for virtual care and automated medication management.

Industry economics may shift

- A focus on value-based and outcome-based care may change the way companies generate revenue.
- New business models would focus on early-detection and preventive care.

Short-term responses

1 Mitigating uncertainties

Companies need to potentially divest non-core assets and invest in capabilities such as supply chain, alternative service delivery, and next-gen therapeutics.

2 Technology-led business model transformation

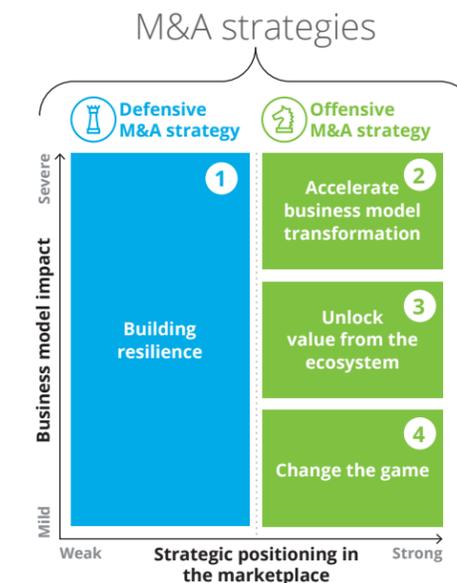
Investments in digitalization and remote service capabilities will reduce delivery costs, increase patient access, and augment inpatient services. LSHC companies are likely to invest in R&D enabling technologies such as AI-driven drug discovery.

AI will fundamentally impact business models

- AI and big data create the opportunity to further tailor care to specific patients and treat diseases earlier in their life-cycle.
- The rise of virtual and lower-cost sites of care means that some providers may be stranded with more physical assets than needed.

Mental health will continue to be a priority

- Demand for mental health treatments is growing due to reduced stigma, pandemic effects, and other behaviors.
- Models of care that incorporate mental health into existing treatment centers will increase.



Medium-term responses

3 Integrating patient-care value chain

Integrating with insurers, providers, and retailers would improve patient care and provide cost efficiencies; data sharing and trust will prove to be critical in delivering value from such ecosystem partnerships.

4 Technology-enabled preventive care

The convergence between technology and health is enabling new business opportunities in areas such as health monitoring, preventive and predictive care. LSHC companies should have an active investment strategy for such emergent spaces.