MID-MARKET PULSE

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MERGERS & ACQUISITIONS

MID-MARKET PULSE: Healthcare M&A Forecast Brightens

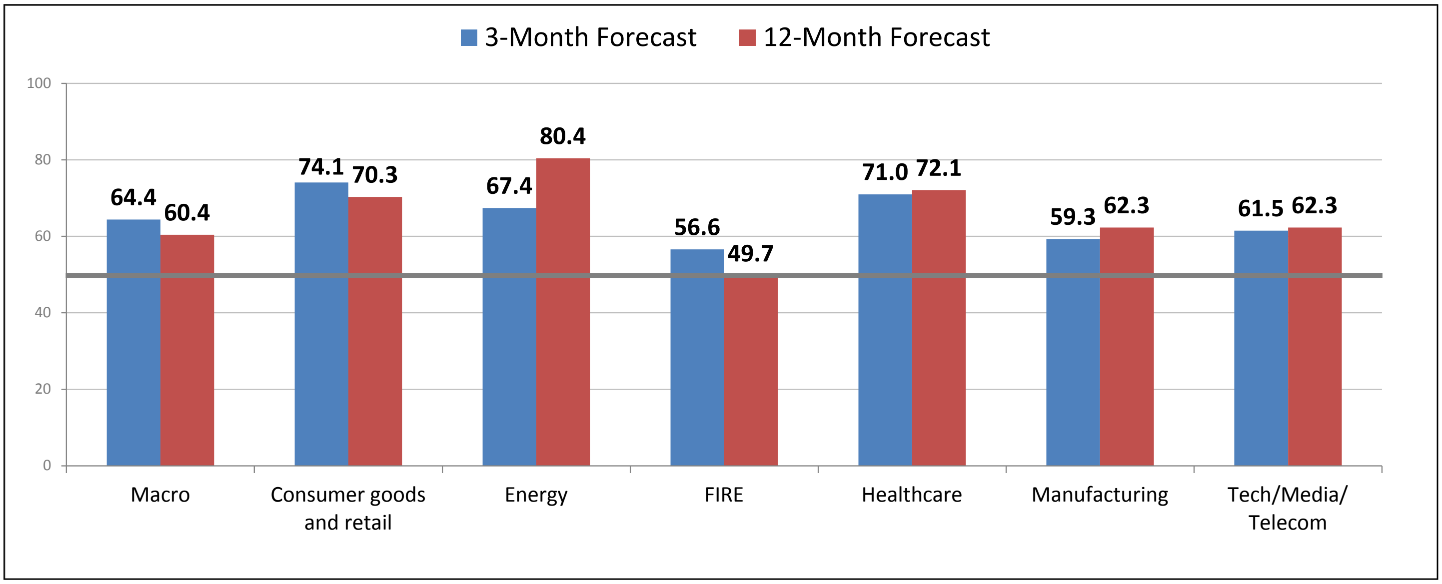
The outlook for M&A in the healthcare sector was much more positive in August than it was earlier in the year, according to *Mergers & Acquisitions*' Mid-Market Pulse (MMP), a forward-looking sentiment indicator, published in partnership with CT.

In August, the sector garnered a 3-month outlook score of 71.0 and a 12-month outlook score of 72.1, much higher than the scores of 53.2 and 59.8 the sector received in March, when we last featured it. Interestingly, there was not a wide disparity between the 3-month and 12-month outlooks in healthcare as there was in some other sectors, most notably energy, in which the long-term outlook was much more positive than the short-term outlook. In recent months, there has been a significant divergence between the 3-month and 12-month forecasts in general, with hopes being higher for the longer-term outlook. As M&A activity heats up in the second half of the year, the disparity may erode for most industries.

While strong, the healthcare scores did not return to their historic highs, however. In March of 2015, dealmakers gave healthcare a 3-month score of 91.2, the highest ranking ever received on the MMP for any sector. In recent years, consolidation in the sector has been driven by the Affordable Care Act (ACA), as providers have been under pressure to achieve cost efficiencies. Over time, the impact of the ACA is expected to lessen.

Throughout the year, poll respondents have expressed some uncertainty about the future of healthcare M&A, due to the upcoming presidential election. Thanks to the high level of regulation in the healthcare sector, transaction professionals who work on deals in the industry expressed more concern about the election than their colleagues in other sectors.

Across all sectors, dealmakers said they will be "glad to have the election behind us," as one survey respondent put it. Another said, "For better or worse, deal activity will be increased after the election, when dealmakers will have a better sense of fiscal trends." ■



ABOUT THE *MERGERS AND ACQUISITONS* MID-MARKET PULSE (MMP)

The MMP is a monthly barometer for the outlook of M&A activity and conditions from the collective viewpoint of approximately 250 business executives in private equity firms, investment banks, lenders and advisor firms, such as accounting, law, and consulting firms, involved in M&A activity. Various sub-indicators that make up the overall MMP composite include projected deal volumes and pricing, staffing and resource utilization levels, and the expected impacts of economic conditions, taxes, and regulatory policy on respondents' future M&A activity.

MMP results are presented as rolling aggregate indicators for both three- and 12-month outlook periods for macro M&A issues as well as for individual industry sector issues in healthcare, consumer/retail, manufacturing, energy, and technology/media/telecommunications on a monthly rolling basis. A diffusion index is produced by calculating the sum of percentages of those indicating on survey responses that describe a change in sentiment for three and 12 months (e.g., increase/positive, decrease/negative, or no change/neutral) to arrive at three-month and 12-month aggregate index values that are then averaged to create a total composite for the month. A reading of over 50 indicates an expansion relative to the prior month, and a reading below 50 indicates a contraction.

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