



Investment  
Banking

Canaccord Genuity

**H1-24**

# **CRO M&A and Sector Update**

July 2024

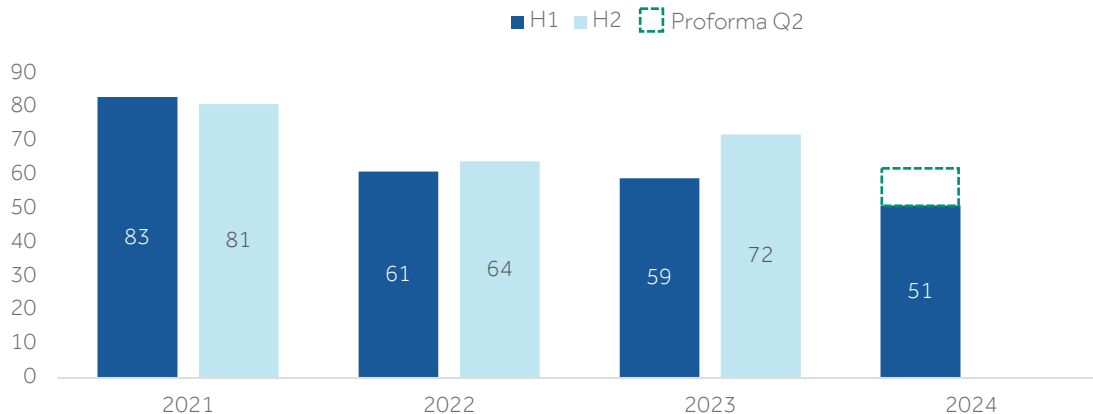


# M&A activity and valuations



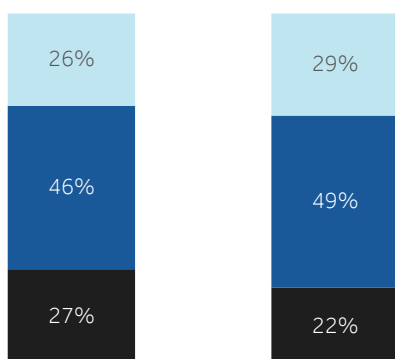
# Market activity

## Transaction volume

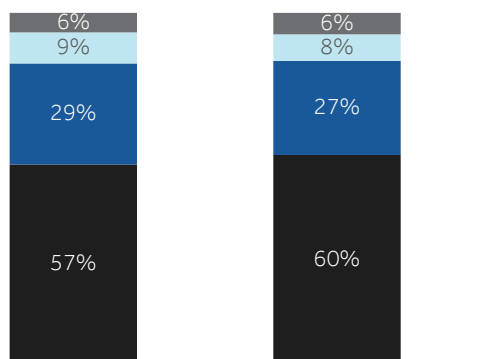


## Transaction by type

### Acquiror



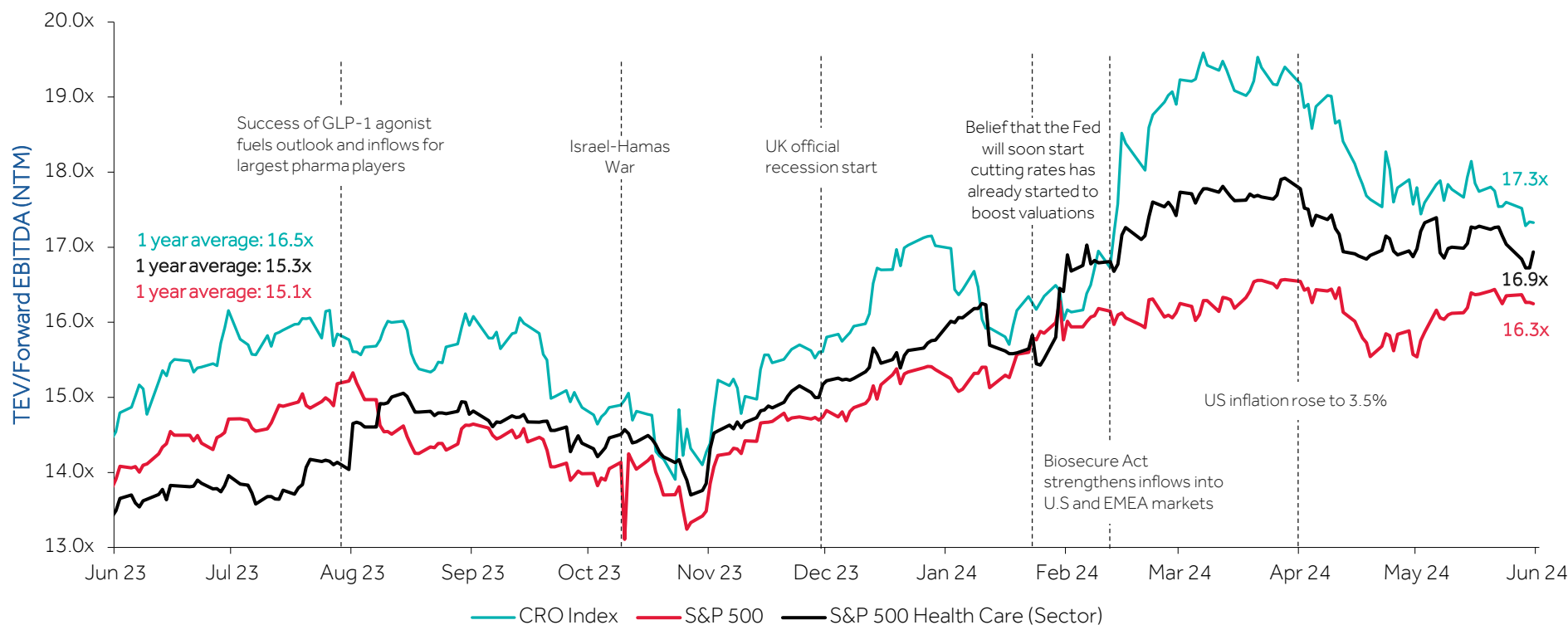
### Geography



- Deal volume in H1 2024 is expected to remain broadly in line with the previous 2 years
- Transaction activity has been generated primarily from North America and in instances where the acquiring entity is private equity (or PE-backed)
- We have seen a notable absence of large-scale transactions above the \$1bn mark. Transactions instead have been focused on gaining capabilities in niche areas by acquiring smaller players or start-ups, especially in areas related to patient recruitment, patient monitoring, and digital tracking of outcome measures in clinical trials.
- Notable transactions in the last 6 months:
  - Arsenal Capital's acquisition of Fortrea's Endpoint Clinical and Patient Access businesses for \$345m. The investment was made to help accelerate their technology roadmap and enhance operational infrastructure
  - Permira's public takeover of Ergomed for ~\$880m. The private equity house completed the acquisition of one of UK's largest listed CROs. The oncology and rare disease specialist provider's shares had been drifting lower since the covid-era biotech boom

# Sector multiples have rebounded since the start of the year

## Valuation over time



- Over the past 12 months, CRO valuations have continued to rise, aligning with the broader market trend. This increase reflects the overall positive sentiment towards the sectors. Looking further ahead into 2024, we anticipate an improvement in industry conditions with larger CROs aiming for double-digit growth in gross bookings. The majority of CROs boast higher quality backlogs and express confidence in strong order volumes moving forward
- Mid-sized CROs are experiencing normalised cancellation rates, returning to pre-pandemic levels of 10 - 15%. These cancellations have been driven primarily by study data issues rather than funding shortages, indicating a healthy outlook for the industry
- Post-pandemic, CROs have refrained from raising prices to maintain competitiveness in a challenging funding and spending environment. Whilst rate increases are not consistent across all regions or therapy areas, prices are generally now starting to rise

# Selected recent transactions (1/2)

## Selected transactions (Jan 2024 – May 2024)

Date <sup>1</sup>	Target	Country	Service	Buyer	Buyer type	Financial metrics
May-24	Algorics		Clinical	Precision for Medicine	PE-backed	\$1.1B
	ProductLife Group		Regulatory affairs	Oakley Capital & 21 Invest	PE	\$1.1B
	OCT Global		Clinical	Palleos Healthcare	Trade	\$1.1B
Apr-24	HORUS Scientific		Pre-clinical	Veranex	PE-backed	\$1.1B
	G&L Healthcare Advisors		Regulatory affairs	Armira	PE	\$1.1B
	Insife ApS		Regulatory affairs	Qinecsa Solutions	PE-backed	\$1.1B
Mar-24	Heads		Clinical	Veeda Clinical Research (CX Partners)	PE-backed	\$1.1B
	Integrity Global		Regulatory affairs	ProductLife Group	PE-backed	\$1.1B
	Fortrea		R&D software/ clinical trial IT	Arsenal Capital	PE	\$1.1B
	Invicro		Pre-clinical	Calyx Services	Trade	\$1.1B
Feb-24	Assets of Abond CRO		Clinical	Bioforum	Trade	\$1.1B
	Continuum Clinical		Clinical	Spectrum Science	PE-backed	\$1.1B
	Clincierge		Clinical	Greenphire (Thoma Bravo)	PE-backed	\$1.1B
Jan-24	Science 37		Clinical	eMed	Trade	\$1.1B
	ZoBio		Pre-Clinical	Oncodesign	Trade	\$1.1B
	Promedica		Clinical	iuvo Bioscience	Trade	\$1.1B
	AbCheck		Pre-clinical	Ampersand Biomedicines	Trade	\$1.1B

# Selected recent transactions (2/2)

## Selected transactions (Oct 2023 – Dec 2023)

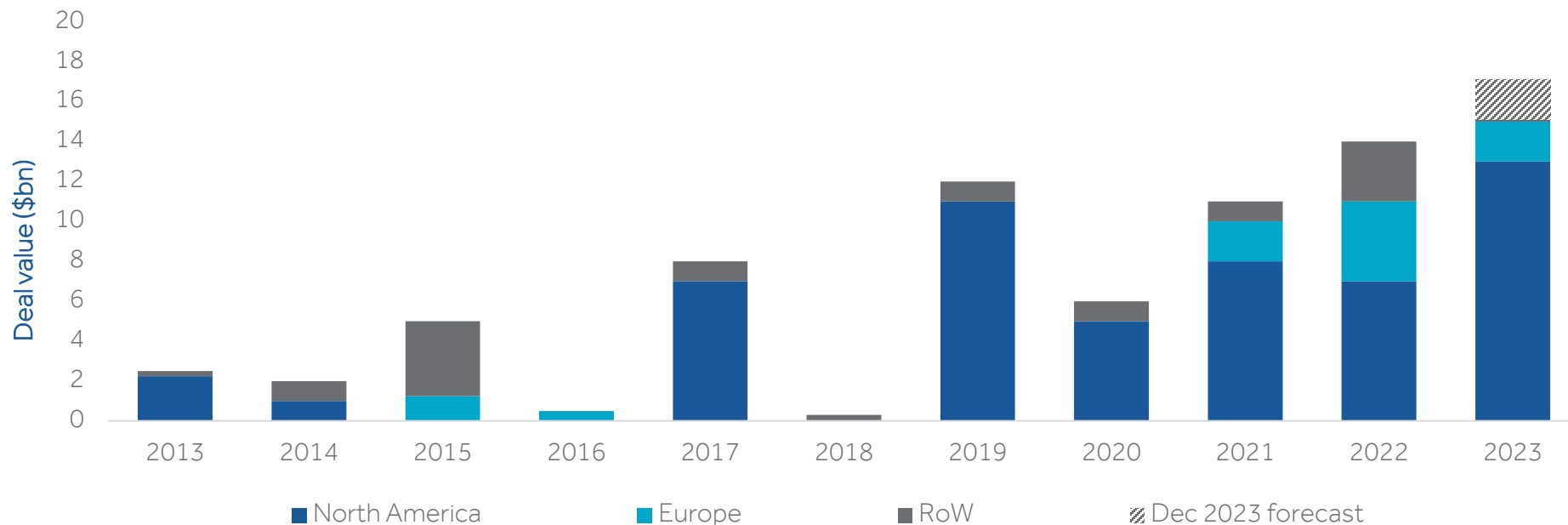
Date <sup>1</sup>	Target	Country	Service	Buyer	Buyer type	Financial metrics
Dec-23	Applied Biomath		R&D software/ clinical trial IT	Certara	Trade	\$2.1B (2022)
	T3 Labs		Pre-clinical	Veranex (Summit Partners)	PE-backed	\$1.1B (2022)
	Clinres Farmacija		Clinical	ProPharma Group (Odyssey Investment Partners)	PE-backed	\$1.1B (2022)
Nov-23	Labquality		Clinical	Merieux Equity Partners	PE	\$1.1B (2022)
	Julius Clinical Research		Clinical	Ampersand	PE	\$1.1B (2022)
	QPS-Neuropharmacology division		Pre-clinical	Scantox (Impilo)	PE-backed	\$1.1B (2022)
	Symbio & Prionnovera		Clinical	Archimed	PE	\$1.1B (2022)
	August Research		Clinical	Everest Clinical Research (Arlington Capital Partners)	PE-backed	\$1.1B (2022)
	Antibody Analytics		Pre-clinical	NorthEdge	PE	\$1.1B (2022)
Oct-23	Instat Clinical Research		R&D software/ clinical trial IT	Veristat (WindRose Health Investors)	PE-backed	\$1.1B (2022)
	Formedix		R&D software/ clinical trial IT	Certara	Trade	\$1.1B (2022)
	Clinical Trial Data Services		R&D software/ clinical trial IT	Veramed (Livingbridge)	PE-backed	\$1.1B (2022)
	VaxTRIALS		Clinical	Emmes (New Mountain Capital)	PE-backed	\$1.1B (2022)
	Denali Medpharma		Clinical	Resolian (Ampersand)	PE-backed	\$1.1B (2022)

# Key themes within the CRO sector



# Pharma services continues to be an important segment for PE


















## CRO and CDMO buyout deal value (excluding add-on deals)



- Throughout the covid era, a consistent trend has been private equity's interest in the life sciences sector. Private equity has concentrated on finding opportunities within this sector that provide predictable revenue streams, while also enabling growth and attractive exit multiples
- This shift has sparked increased interest in pharma services companies, as they benefit from the trend of pharmaceutical firms opting to 'rent' rather than owning research and manufacturing capabilities. This approach has helped sponsors mitigate the financial risks associated with development programs
- Private equity sponsors were responsible for more than half of pharma services platform transactions in 2022 and 2023, despite the uncertainty surrounding global economic and political instability and recent market activity suggests that their enthusiasm will continue

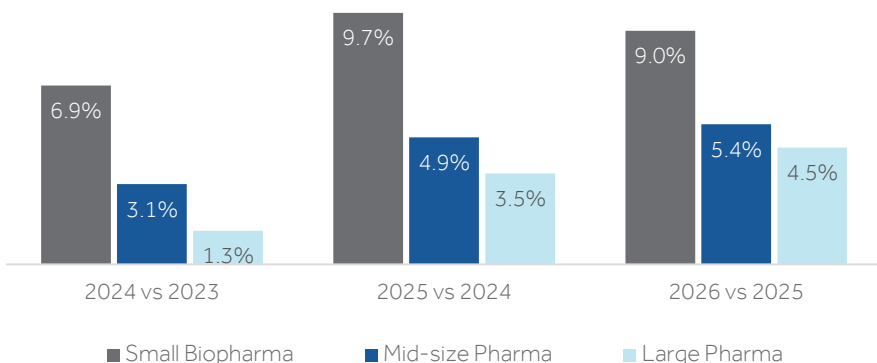


# Acquisition interest from trade buyers persists but has been constrained by value expectations

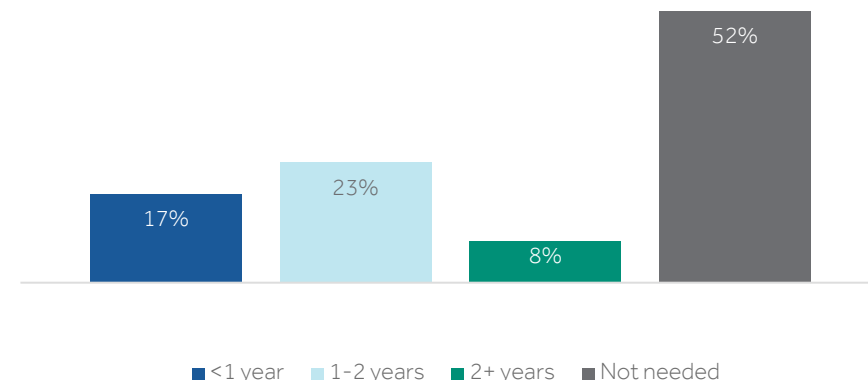
	Senior leadership commentary	Last 3 acquisitions				
		Year	Target	Country	Area	Value
	<ul style="list-style-type: none"> <li>"M&amp;A remains the priority as the optimal way to deliver shareholder value and we fully intend to utilize the strength of our balance sheet to acquire companies that complement our current services", <a href="#">Steve Cutler, CEO</a></li> <li>"The challenge [...] is that valuations in the space are still quite high with a lot of private equity interest. So that's always the pushing the pole in terms of the attractiveness of opportunities from a strategic perspective and how we weigh that against some of the financial and valuation metrics."</li> </ul>	2021	PRA Health		Full service	€8.6bn
		2020	MedPass		Medical Device	€30m
		2019	Symphony Clinical		Clinical	€25m
	<ul style="list-style-type: none"> <li>"The inference from the sellers are that they're stuck remembering what the multiples were two, three years ago or some competitor that was part of some competitor that went public. I think that's foolishness. But that may be the way it is."</li> </ul>	2024	Scanbur A/S (Research model)		Pre-clinical	-
		2023	SAMDI Tech		Pre-clinical	€40m
		2022	ExploraBiolabs		Pre-clinical	€226m
	<ul style="list-style-type: none"> <li>"What's left over in free cash flow, acquisitions are going to have the first call, but from time to time there're going to be periods where our stock price gets dislocated, and we'll take advantage of [...] repurchase shares"</li> <li>"We walked away from more than a few over valuation concerns where we just say, look, this is what the seller is expecting, this is the indications we're getting that PE is willing to spend and we're just not going to spend that much... Valuation expectations are coming down, but slowly."</li> </ul>	2023	Farmacja.net		Commercialisation	-
		2023	PharmaReview		Commercialisation	Conf.
		2023	Educom		Commercialisation	Conf.
	<ul style="list-style-type: none"> <li>"I don't think M&amp;A has, particularly in the short term, an effect on our performance. Long term sometimes takes out a client, sometimes that's good, sometimes not, depending upon whether we keep, but on the shorter term, we tend to book and keep what we win."</li> </ul>	No significant transactions in the past 3 years				
	<ul style="list-style-type: none"> <li>"M&amp;A is yet another important opportunity for growth, and LabCorp will continue to scope out regional laboratories and other potential acquisition targets that could add to its diagnostics capabilities." <a href="#">Adam H. Schechter, CEO</a></li> </ul>	2024	Invitae Corp		Diagnostics	€192m
		2024	Bio-Reference		Diagnostics	€188m
		2023	Baystate Health Systems		Pre-clinical	-

# Positive signals indicate an improving operating environment with lower funding constraints in short-term...

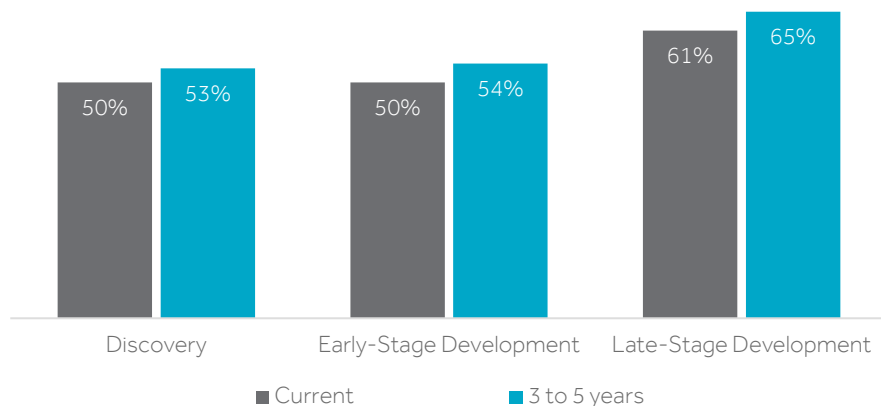
## Expected growth in R&D budgets



## Time required before needing to raise capital<sup>1</sup>



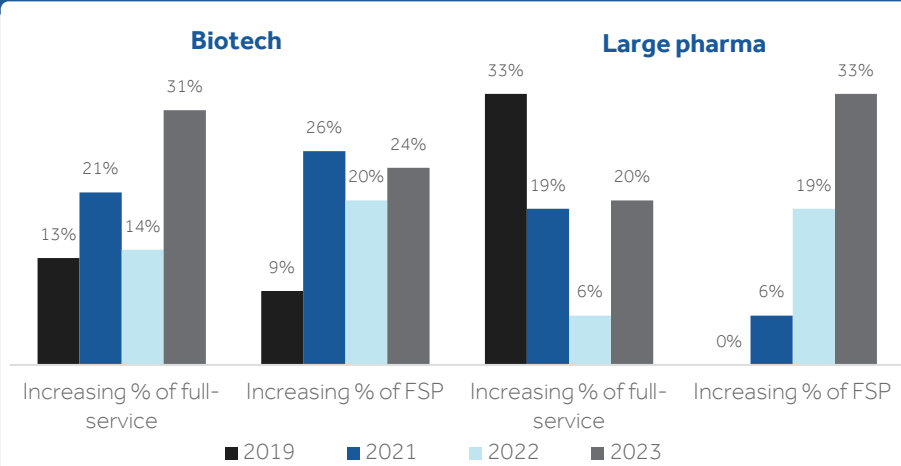
## Expected outsourcing rate by phase



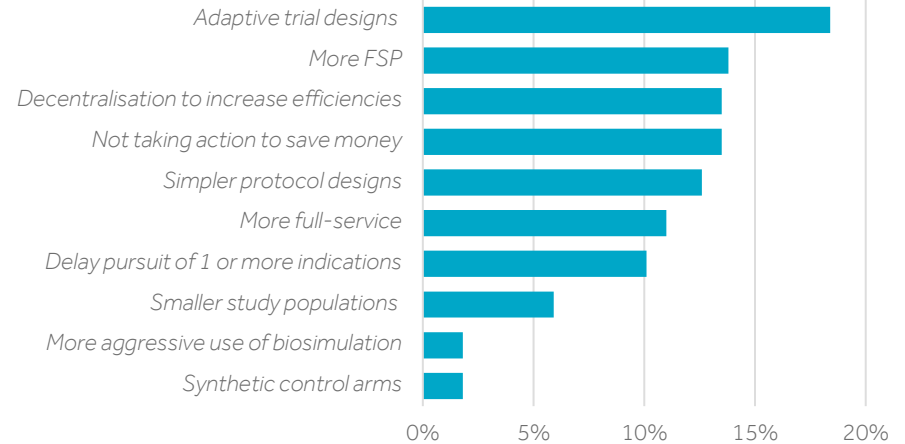
- Sponsors are expecting a softer near-term spending environment, but one that is expected to increase disproportionately in 2025 and 2026, reflecting the health of their drug pipelines and indicating a positive outlook for CROs in the coming years
- Outsourcing rates are expected to continue increasing more gradually and evenly across most clinical phases over the next 3 - 5 years
- Despite what has been a challenging biotech funding environment the situation seems to be improving with only 17% of respondents indicating they will require additional within the next 12 month (versus 28% when asked the previous year)

# ...with sponsors revisiting their preferred operating model and priorities when selecting CRO partners

## Importance of full-service vs FSP operating models



## Levers to contain drug development costs



## Important attributes in CRO selection process

### Top 5 attributes

- Specific therapeutic expertise
- Depth of resources
- Attention to detail, quality of work
- Breadth of services (i.e. full-service)
- Pricing

### Bottom 5 attributes

- Site relationships
- Customer service
- Brand name of CRO
- Understanding of specific geography
- Study start up strategy

- Large pharma is increasingly favouring FSP operating models as it is viewed as more economical, enables them to retain greater control and helps deals with staffing shortages
- Further measures are being taken by sponsors to reduce costs, including the use of adaptive trial designs where there are more frequent go/no-go decision points, enabling drug candidate to fail more quickly before too many costs have accrued
- Sponsors place significant value on the therapeutic knowledge and depth of resources in their choice of selecting a CRO partner, above the internal reach, pricing or brand recognition.

# Our transaction experience across pharma services

Research		Manufacturing		Commercialisation	
<p><b>AVANIA</b> ADVANCING YOUR MEDICAL TECHNOLOGY A KESTER CAPITAL-BACKED COMPANY</p> <p>has received investment from</p> <p><b>astorg.</b></p> <p>  Jun-22</p>	<p><b>iSAFETY</b></p> <p>has been acquired by</p> <p><b>propharma</b></p> <p>  Aug-21</p>	<p>Financial Advisor to <b>SEQENS</b></p> <p>on its pending acquisition of</p> <p><b>CELL for CURE</b> from <b>NOVARTIS</b></p> <p>  Nov-23</p>	<p><b>Noramco™</b></p> <p>has divested its API site in Rhode Island, USA, to</p> <p><b>康龙化成 PHARMARON</b></p> <p>  May-22</p>	<p><b>EPG HEALTH</b></p> <p>has been acquired by</p> <p><b>IQVIA™</b></p> <p>  May-23</p>	<p><b>calcium</b> BRAND NOURISHMENT</p> <p>has received significant investment from</p> <p><b>NexPhase CAPITAL</b></p> <p>  Nov-21</p>
<p><b>SON CLINICAL</b></p> <p>has been acquired by</p> <p><b>VERISTAT</b></p> <p>  Feb-22</p>	<p><b>charterhouse</b></p> <p>has invested in</p> <p><b>phastar</b></p> <p>  Jan-21</p>	<p><b>MSD</b></p> <p>has divested its Mirabel manufacturing site in Riom, France to</p> <p><b>FAREVA®</b></p> <p>  Jan-21</p>	<p><b>GSK</b></p> <p>has divested its Mississauga, Ontario manufacturing facility to</p> <p><b>Bora Pharmaceuticals</b></p> <p>  Mar-20</p>	<p><b>Bioscript</b> A SOVEREIGN CAPITAL PARTNERS-BACKED COMPANY</p> <p>has acquired</p> <p><b>FORTIS &amp; VALID INSIGHT™</b> STRATEGY STRATEGIC SOLUTIONS</p> <p>  Aug-21</p>	<p><b>DiD</b></p> <p>has been acquired by</p> <p><b>LUCiD GROUP</b> Transforming lives. Always.</p> <p>  May-21</p>
<p><b>orphan reach</b></p> <p>has been acquired by</p> <p><b>Emmes</b> A BEHRMAN CAPITAL-BACKED COMPANY</p> <p>  May-21</p>	<p><b>admescope</b></p> <p>has been acquired by</p> <p><b>Symeres</b> A GILDE HEALTHCARE-BACKED COMPANY</p> <p>  Oct-21</p>	<p><b>Bridgepoint</b></p> <p>has acquired</p> <p><b>PharmaZell</b></p> <p>  Feb-20</p>	<p><b>GHO CAPITAL</b></p> <p>has acquired</p> <p><b>Sterling</b></p> <p>  Feb-19</p>	<p><b>inflexion</b></p> <p>has acquired</p> <p><b>PHARMASPECTRA</b></p> <p>  Oct-19</p>	<p><b>Prescient</b></p> <p>has received investment from</p> <p><b>BAIRD</b></p> <p>  Jul-17</p>

# Team contacts

## **KUNAL KADIWAR**

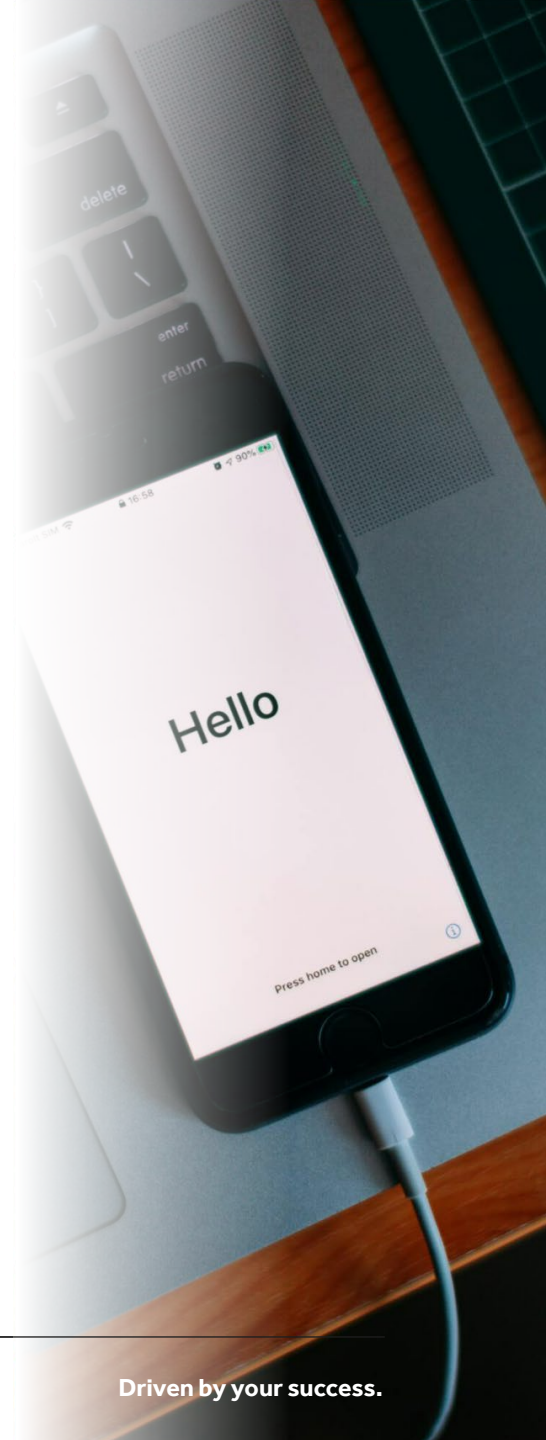
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