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CRO M&A and Sector Update

November 2023



Introduction

Welcome to our latest update on the Contract Research Organisations (CRO) sector. In this report we will be reviewing deal activity across the year to-date and discussing some of the themes that arise from that data.

We will also be taking a closer look at some of the large public players in the sector and analysing their M&A strategies as they attempt to differentiate and grow.

Although the M&A market has generally softened compared to the highs of 2021, deal activity in the CRO sector has remained at levels that are in line with 2022, with 88 completed deals so far in 2023¹. Similarly, PE interest remains consistent with previous years and investment via a portfolio business or as a standalone platform represented 71% of completed deals in YTD 2023¹.

The largest change in this period relates to service split, with deals in the pre-clinical space decreasing, likely reflective of a difficult biotech funding environment - something we have taken a closer look at on the next page.

We hope that you enjoy this report and look forward to discussing the data and underlying themes with you.

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The impact of the declining biotech funding market on CRO's

Pharmaceutical outsourcing has been on the ascent for several years, and whilst big pharma remain significant clients for CROs, a substantial portion of their customer base now comprises of biotech's. The contribution of biotech to the drug development pipeline has increased to two-thirds of activities, from one-third a decade ago.

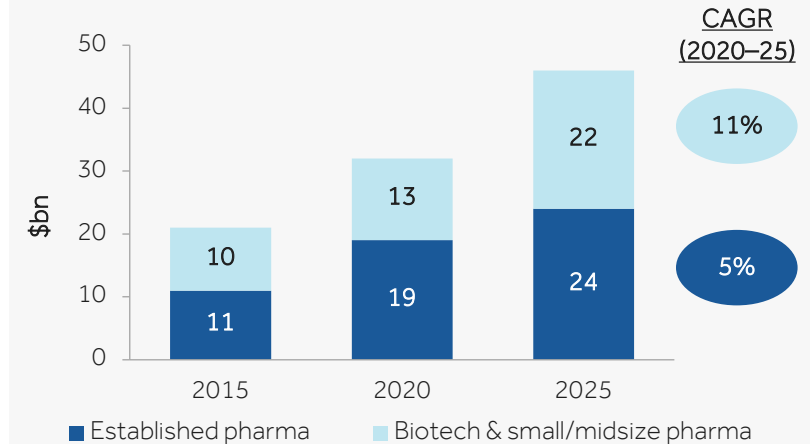
Nevertheless, the biotech funding landscape has experienced significant transformations over the past two years, with the record-highs observed during the bull market that gained momentum in the late 2010s and early 2020s, now being curtailed. Venture capital funding, which traditionally serves as the primary source of investment for early-stage biotech companies, has reached its lowest levels since 2019. This decline is largely attributable to more VC firms reserving capital for their existing portfolios.

The impact of rising interest rates has also reverberated through the once-vibrant biotech IPO and SPAC market. Consequently, this has led to reduced capital availability and expected returns for VC investors, further exacerbated by market volatility, which has eroded overall investor confidence.

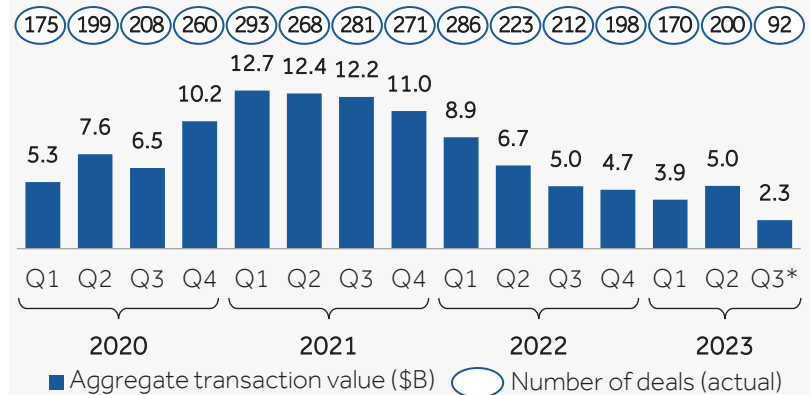
These dynamics have compelled biotech's to make challenging decisions regarding their drug development pipelines. The prevailing sentiment appears to have shifted from a focus on growth to one of survival. Biotechs are divesting preclinical assets to safeguard their more advanced clinical-stage programs. Furthermore, when considering investments in new biotech ventures, investors exhibit a growing preference for firms with drug candidates already in human trials.

These developments have a cascading effect in the CRO market, particularly impacting specialised pre-clinical service providers. With a reduced influx of drug candidates in the pipeline, biotech firms are increasingly adopting strategic outsourcing practices and designing cost-effective trials to optimise the utilisation of their available capital and advance their drug development programs more efficiently.

Global CRO market spend, by segment



PE/VC-backed investments through rounds of funding in biotechnology, 2020-2023



*= data to 5th Sep 2023

Outlook: expectations for the year ahead

Deceleration in big ticket M&A

There has been a surge in large CRO deals in recent years (e.g., Parexel, PPD, PRA, et al.), many of which have been acquired by strategic purchasers. The potential for further M&A activities in the billion-dollar segment appears less likely, primarily due to the diminishing pool of eligible companies and the increased costs of financing. We anticipate that the volume of smaller to mid-size transactions will remain relatively stable, given the considerable fragmentation within the market.

Portfolio asset restructuring

Larger CRO entities have initiated a process of recalibrating their portfolios to prioritise what they consider strategically essential operations. This transformation is likely to lead to the divestment of non-core businesses, particularly as companies contend with maintaining valuations and generating cash in today's economic climate.

Sustained interest from private equity platforms driving activity

Private equity firms are expected to maintain a strong presence in the pharmaceutical outsourcing sector, which they find appealing due to its robust growth prospects and potential for consolidation. Private equity-driven activity has accounted for more than 65% of transaction volume within the CRO sector in recent years. As many US-based private equity platforms dominate the sector, we can see them continuing to sweep up the more localised and specialised CROs, in order to meet the development needs of increasingly complex molecules and the tougher regulatory environment.

Re-alignment of private market valuations

Declining valuations in the public market have constrained the ability of many strategic buyers to offer premiums. Consequently, many are now placing increased emphasis on cost efficiency and synergies to remain competitive in their offers. Similarly, private equity investors are grappling with rising capital costs. Whilst we do not foresee a significant price correction, we anticipate that buyers will become more selective in determining which assets warrant premium pricing.

Extension of process timelines

We anticipate that the timeframes for processes will lengthen as buyers allocate additional time and resources to conduct extensive due diligence on potential targets. There is an increased focus on examining the financial health of target companies, with particular attention to identifying any indicators of financial distress or vulnerabilities arising from the uncertain business environment.



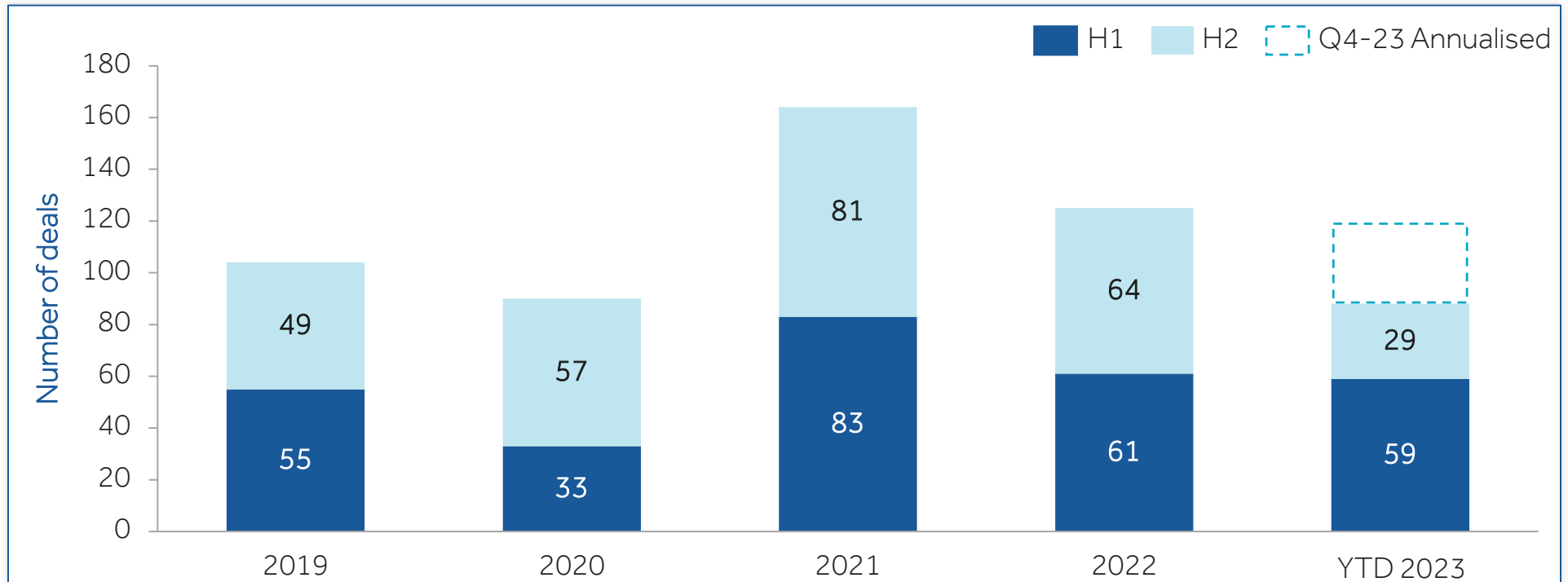
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M&A activity & valuations



CRO M&A activity remains strong although below the highs of 2021

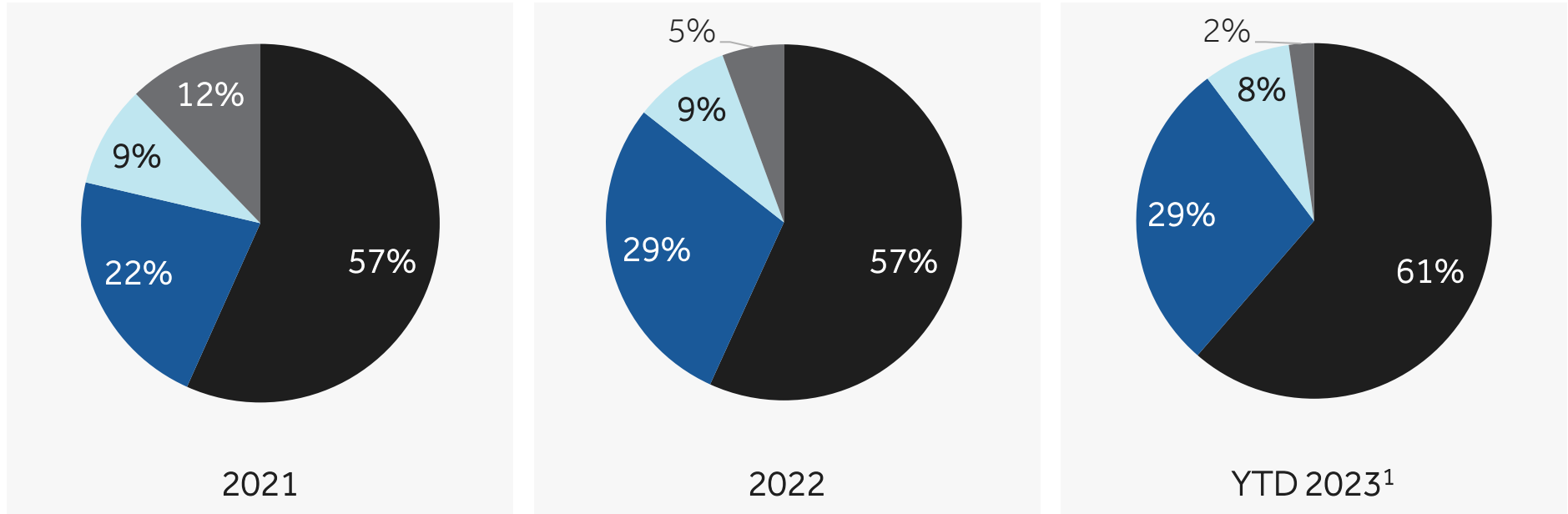


- Deal volume in H1 2023 remained in-line with the same period in 2022. However, both periods remain below the highs of H1 2021
- As a large number of clinical trials were initially paused during the pandemic outbreak and the investment environment was uncertain, it is no surprise that 2020 remains the lowest year in terms deal count
- Despite a slowdown in economic activity in 2022 and YTD 2023, overall deal count in the CRO sector remains above the levels seen in 2019 & 2020, likely indicating longer-term confidence in the sector despite a more challenge macroeconomic climate

YTD 2023 reflects a similar geographic distribution to 2022

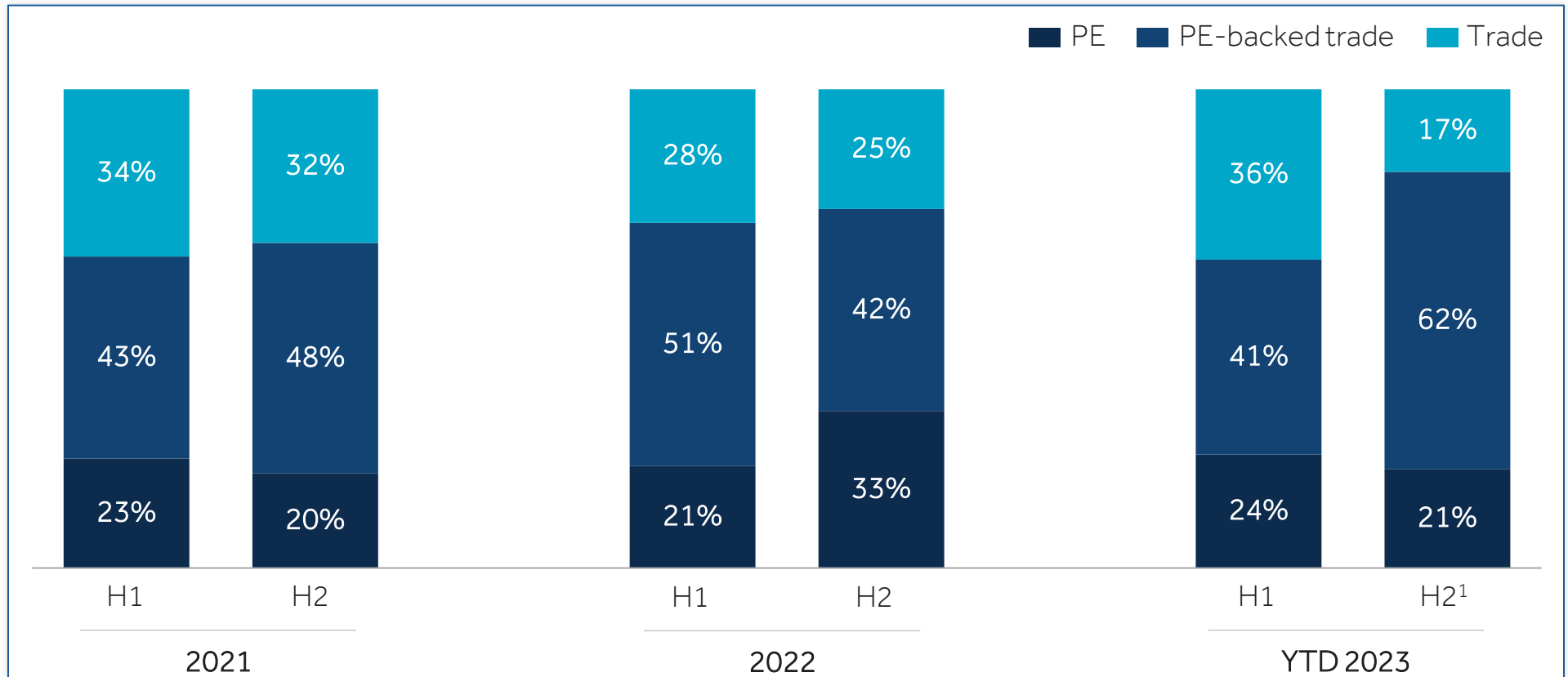
Geographic distribution

● North America ● Europe ● UK ● ROW



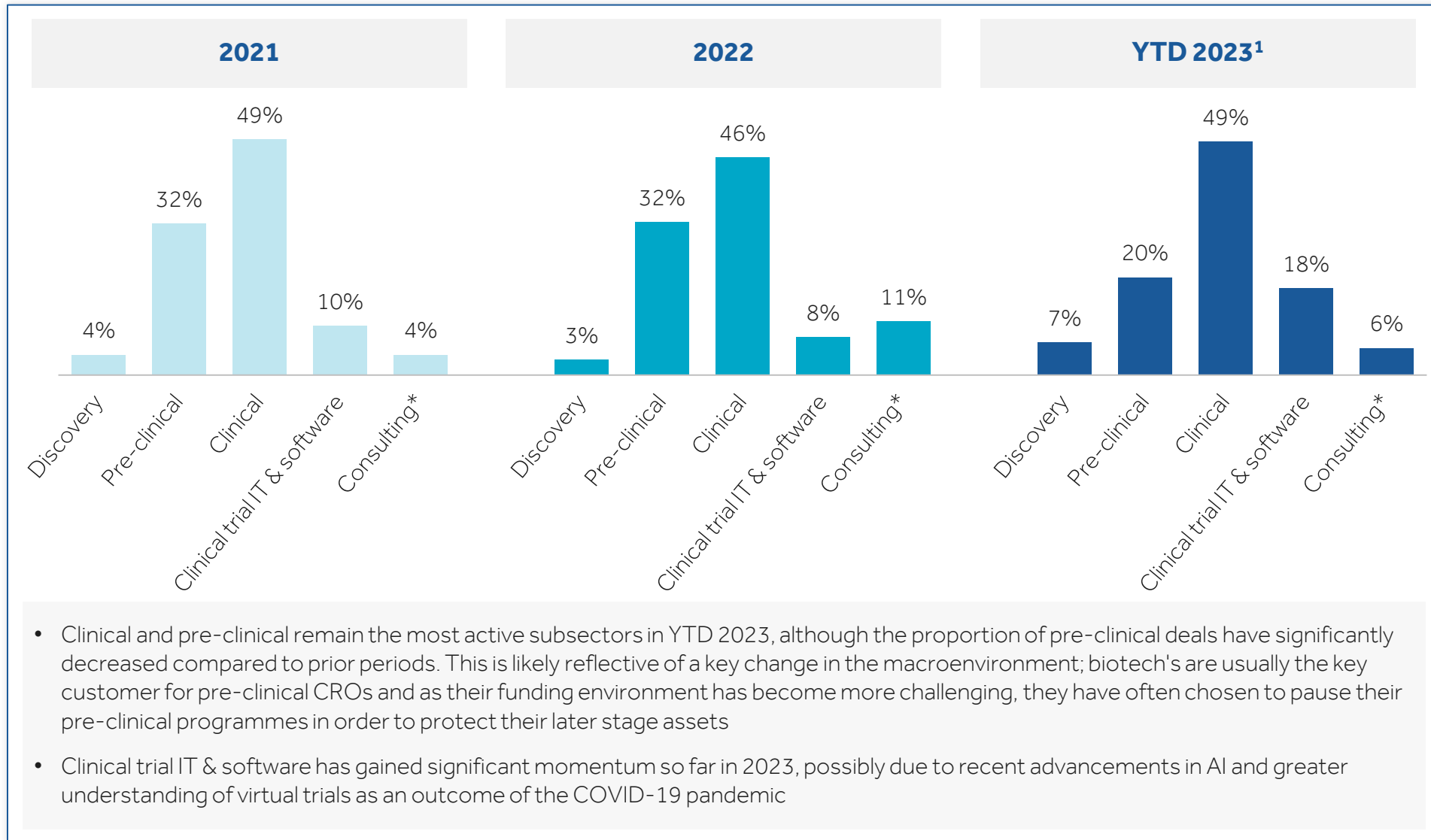
- The geographic distribution of deals has remained similar across the last 3 years
- So far in 2023, there has been a lower percentage of deals completed outside of North America, Europe & the UK
- North America and Europe remain the leaders in terms of CRO deal activity

Private equity level of interest remains stable



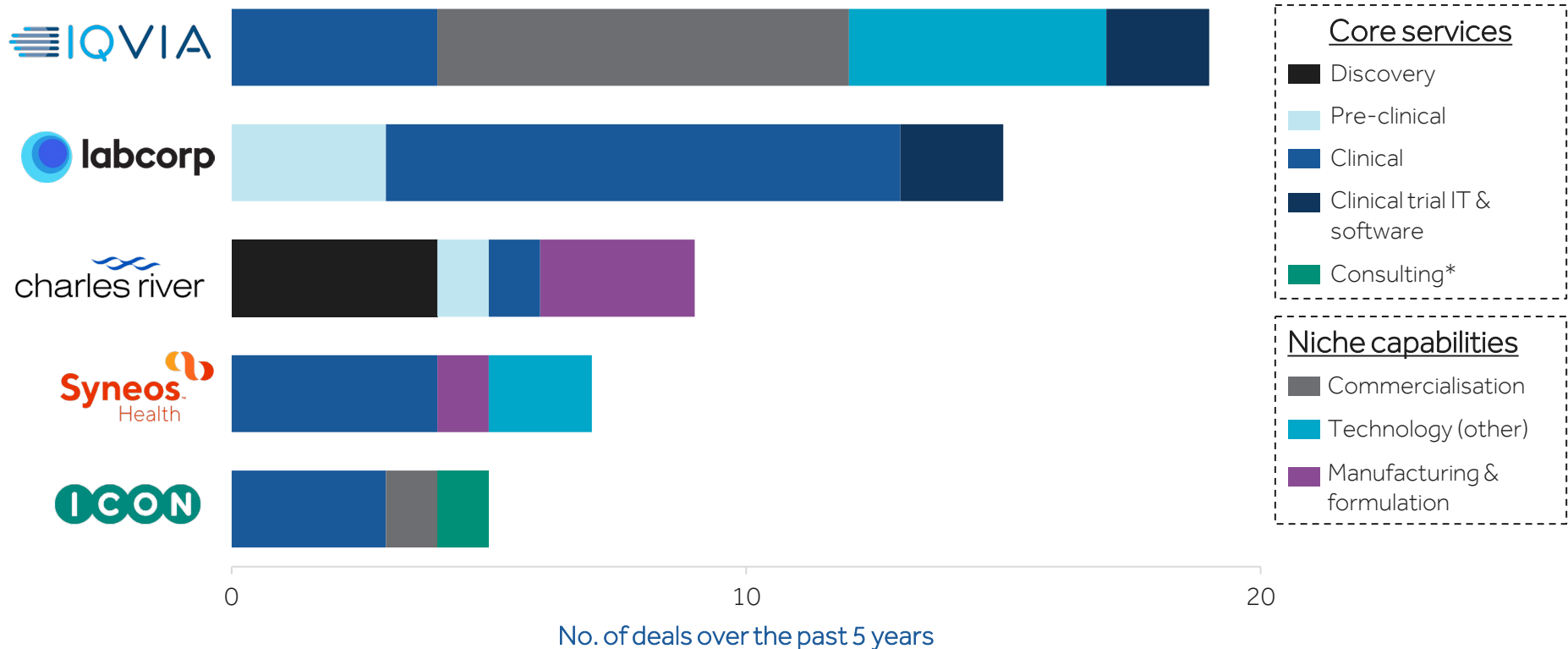
- Private equity activity levels have remained high within the CRO sector, reflecting the consolidation opportunity
- Despite the higher cost of debt, PE firms and PE-backed platforms still need to deploy capital. Primary PE-deals and deals completed by their portfolio businesses have remained above 65% across all 3 years
- In the latter half of 2023 to date, we have seen an uptick in deals completed by PE-backed platforms

Significant uplift in IT-related deals, whilst pre-clinical declines

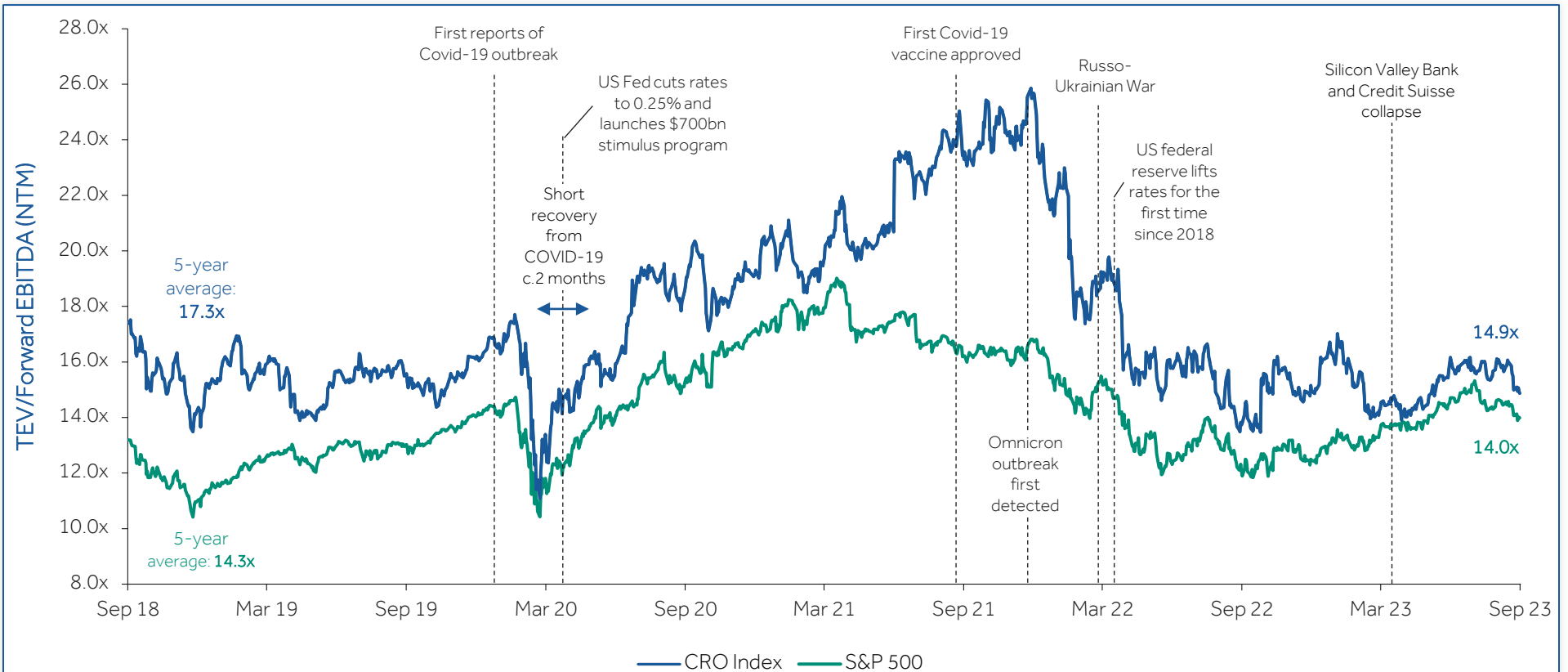


CROs are acquiring niche capabilities to differentiate

- Over the past 5 years, M&A activity by the large CRO players has been concentrated on smaller acquisitions focused on niche capabilities and technologies
- Through this approach providers are able to conduct multiple services under one roof, which removes the hassle of supplier management, enables rapid responses to emerging data and provides differentiation
- IQVIA and Syneos have especially used acquisitions as a way of advancing their breadth of commercialisation and technology capabilities to create an integrated offering across the value chain















Public market valuations have reverted closer to longer term averages



















- CRO multiples have been depressed by a slowdown in demand for services caused by reduction in biotech funding, as well as the higher interest rate environment and macroeconomic uncertainty
- These headwinds have eliminated the premium over multiples for the market as a whole and will create a cap on what listed trade buyers are able to pay without creating value dilution
- However, we have not seen this translate to private market deals where valuations have been upheld by buyer appetite (particularly from financial sponsors) and scarcity of high-quality businesses coming to market













Recent transactions (1/3)

Selected transactions				
Date	Target	Country	Service	Buyer
Sep-23	ICCR-Roßdorf GmbH		Pre-clinical	GBA Group
	Cirion BioPharma Research		Clinical	Cerba Healthcare (Bpifrance, EQT and PSP)
	Ergomed		Clinical	Permira
Aug-23	Q&Q Labs		Pre-clinical	Scantox
	CRO Kottmann		Clinical	RQM+ (Linden Capital Partners)
	Pelago Bioservices		Pre-clinical	Impilo
	Nucro-Technics		Pre-clinical	Frontage Laboratories
	NDA Group		Consulting	SSI Strategy
	NuChem Sciences		Discovery	Sygnature Discovery
Jul-23	PrecisionMed		Pre-clinical	BioIVT
	The Clinical Research Institute (CRI)		Clinical	NAMSA
	DSG		Clinical trial IT & software	Signant Health

Recent transactions (2/3)

Selected transactions				
Date	Target	Country	Service	Buyer
Jun-23	Immunetrics		Clinical trial IT & software	SimulationPlus
	SoftGenetics		Clinical trial IT & software	Dotmatics
	Comac Medical		Clinical	Edgecap
	Cyclenium Pharma		Pre-clinical	Spirochem
	4Pharma		Clinical	BC Platforms (Jolt Capital)
May-23	P95		Clinical	Ampersand Capital Partners
	Alliance Clinical Network		Clinical	Amulet Capital
	Nutrasource Pharmaceutical		Consulting	SGS
	Libra Medical		Clinical	RQM+ (Linden Capital Partners)
	JSS Medical Research		Clinical	Genesis Drug Discovery & Development
	Syneos		Clinical	Elliot Investment, Patient Square Capital & Veritas Capital
Apr-23	BISC Global		Clinical trial IT & software	Excelra
	ReachBio Labs		Discovery	Discovery Life Sciences (Water Street)
	Accelemed		Clinical	IMA Group (Centre Partners)
	Clinerion		Clinical	TriNetX (Carlyle)
	Concept Life Sciences		Discovery	Limerston Capital

Recent transactions (3/3)

Selected transactions				
Date	Target	Country	Service	Buyer
Mar-23	Essex Management		Clinical	Emmes (New Mountain Capital)
	Cromsource		Clinical	Clinchoice
	Onix Life Sciences		Consulting	Framework Solutions (WestView Capital Partners)
Feb-23	Porsolt		Pre-clinical	Apax Partners
	MAXIS		Pre-clinical	Avania (Astorg)
	Sabai Global		Consulting	Thompson Street Capital
	Life Sciences Platform of Vault Health		Clinical trial IT & software	Science 37
Jan-23	SAMDI Tech		Pre-clinical	Charles River Laboratories
	SB Drug Discovery		Pre-clinical	Sygnature Discovery (Five Arrows)
	S-Cubed		Clinical	Phastar (Charterhouse Capital Partners)
	Oncolines		Pre-clinical	Symeres (Keensight Capital)
	Proteros Biostructures		Pre-clinical	Inflexion

Canaccord Genuity: selected CRO and pharma services transactions

 <p>AVANIA ADVANCING YOUR MEDICAL TECHNOLOGY A KESTER CAPITAL-BACKED COMPANY</p> <p>has received investment from</p>  <p>astorg.</p>  <p>Jun 22</p>	 <p>iSAFETY™</p> <p>has been acquired by</p>  <p>PROPHARMA GROUP™ AN ODYSSEY INVESTMENT PARTNERS BACKED COMPANY</p>  <p>Aug 21</p>	 <p>orphan reach</p> <p>has been acquired by</p>  <p>Emmes A BEHRMAN CAPITAL-BACKED COMPANY</p>  <p>May 21</p>	 <p>SON CLINICAL</p> <p>has been acquired by</p>  <p>VERISTAT</p>  <p>Feb 21</p>	 <p>charterhouse</p> <p>has invested in</p>  <p>phastar</p>  <p>Jan 21</p>
 <p>admescopelogo</p> <p>has been acquired by</p>  <p>Symeres MAKING MOLECULES MATTER</p> <p>A GILDE HEALTHCARE-BACKED COMPANY</p>  <p>Oct 20</p>	 <p>inflexion</p> <p>has acquired</p>  <p>PHARMASPECTRA</p>  <p>Oct 19</p>	 <p>Creativ Ceutical The enlightened decision</p> <p>has been acquired by</p>  <p>HUNTSWORTH</p>  <p>May 19</p>	 <p>Arxspan</p> <p>has been acquired by</p>  <p>BRUKER</p>  <p>Mar 19</p>	 <p>Linguamatics</p> <p>has been acquired by</p>  <p>IQVIA</p>  <p>Jan 19</p>
 <p>BioPhorum</p> <p>has received investment from</p>  <p>Vespa Capital</p>  <p>Aug 18</p>	 <p>XENDO A PROPHARMA GROUP COMPANY A SOVEREIGN CAPITAL PARTNERS INVESTMENT</p> <p>has been acquired by</p>  <p>PROPHARMA GROUP™ A LINDEN CAPITAL PARTNERS LLC INVESTMENT</p>  <p>Jul 18</p>	 <p>Prescient</p> <p>has received investment from</p>  <p>BAIRD</p>  <p>Jul 17</p>	 <p>inc Research™</p> <p>has signed a definitive merger with</p>  <p>inVentiv Health PUBLIC RELATIONS GROUP</p>  <p>May 17</p>	 <p>MEDAXIAL</p> <p>has been acquired by</p>  <p>COVANCE</p>  <p>May 14</p>

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