



OBJECTIVE CAPITAL

Contract Research
Organization
Industry Report
2019 Review

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INTRODUCTION

Objective Capital Partners is pleased to present its Contract Research Organization Industry Report, a review of 2019.

In this report you can expect to find a sector overview, demand trends, industry transaction activity, insights into select active acquirers, and more.

We hope you will find this report to be informative and that it serves as a valuable resource to you in staying abreast of the market. If there is additional content you would find useful for future updates, please don't hesitate to call or email us with your suggestions. We look forward to staying in touch with you.

Regards,



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SECTOR OVERVIEW

CRO industry
estimated to be
approx. \$30B
and growing

\$30B ↑

Contract Research Organizations (CROs) provide outsourced research and development services, specialized products, regulatory and scientific support, and infrastructure and staffing support to the life sciences industry. CROs have evolved over many decades from limited outsourced clinical trial services providers to fully outsourced providers of drug development products and services from preclinical and discovery services, to clinical (often referred to as Phase I-III), to Phase IV/post-approval monitoring and commercialization.

SECTOR OVERVIEW

Target companies which utilize such CRO services include biotechnology, pharmaceutical, and medical device companies. The sponsor companies that choose to outsource drug and device development activities to CROs do so for a variety of reasons including access to capabilities not found in-house, shift fixed costs to variable costs, and ability to achieve greater global reach and scale. Small and virtual life sciences companies need to outsource nearly every piece of the drug and device development process. Other companies, such as large pharmaceutical manufacturers, maintain their own research and development capabilities in-house and may choose only to outsource very specific components of the development process in a functional service provider (FSP) relationship due to resource constraints, specialized expertise, or a lack of required geographic footprint.



CRO industry includes over 1,000 entities globally with consolidation expected

CRO industry
expected to
grow in 2020
by approx. 6%

6%
↑

The CRO industry is estimated to be \$30B and highly fragmented with over 1,000 entities globally, though relatively few of full scale and breadth of service. Consolidation in the space is relatively common and recent M&A among CROs has been around building out capabilities either in data analytics (Quintiles / IMS Health, PRAH / Symphony), key CRO functions such as patient recruitment (PPD / Acurian), site management (Parexel / Fomativ, PPD / Synexus) or preclinical services (Charles River). Much of the growth has been concentrated in the large full-service players as well as the small/niche CROs, while mid-size full-service companies have generally trailed market growth, which is where a lot of the consolidation has been happening.

Many of the largest outsourced services are generally mature and to an extent, commoditized. The CRO industry is expected to grow ~6%, driven by ~2%-3% from increasing R&D spending by the biopharma industry and ~3% from increased penetration of drug development budgets. The industry remains fragmented in 2019 and we expect to see continued opportunity for value accretive M&A.

DEMAND TRENDS

Several key trends that are driving positive CRO industry growth include robust R&D funding, accelerated drug approval rates, growing number of pipelines in preclinical and clinical development, and the proliferation of biopharmaceutical companies without internal research and clinical capabilities. According to a recent study in March 2019 from the Tufts University Center for the Study of Drug Development (CSDD), the top 10 largest CROs controlled 57% of outsourcing spend in 2018, a 12% increase from seven years ago, suggesting the top CROs, with geographic scale and broad therapeutic expertise are taking share.

Capital financings and fundraising for Life Sciences companies is also at record highs. Robust capital markets have driven increased biopharmaceutical R&D investment. Companies with key therapeutic pipeline drugs in such areas as immuno-oncology (IO), neurology and rare disorders have been a key component of this heightened interest for the sector.



Larger CROs have steadily increased outsourcing efforts since 2012

Improving review times at the FDA have also contributed to an increased pace of drug launches. Robust funding and improving review times at the FDA have in part contributed to a healthy rate of new drug launches, which itself has been driving an even better funding environment. Increased resources at the FDA have been a significant driver of improved approved time. Given how critical to drug candidate value is a shorter timeline from early preclinical and discovery development to launch, this development at the FDA is seen as a positive.

Lastly, the number of biopharmaceutical companies with active development pipelines has been increasing and this has benefitted CROs as redundancies in R&D programs are likely to be more prevalent when compared to if the pipelines were housed within a concentrated number of entities. Increasingly, the role of small and mid-cap biotechs is becoming an outsourced development hub for traditional pharma, which seek to acquire biotechs with programs that they deem attractive or of strategic fit with existing development pipelines.

INDUSTRY TRANSACTION ACTIVITY

M&A activity strong with 30 transactions in the last 12 months



According to Pitchbook and S&P Capital IQ data, business sale median valuations of publicly traded CROs range from 13.98x to 19.78x EBITDA LTM and 1.7x to 3.62x revenue LTM multiples and generate average EBITDA margins of 15%. Valuations within this range are influenced by revenue size, competitive environment, growth rates, margins, the strength of the management team, and buyer motivations. For small-mid size companies, expect companies to trade at a discount to these publicly traded entities given the size and range of service offerings. Representative precedent transactions with multiples data supports a median EV / EBITDA of 11.50x and EV / Revenue of 2.20x. Over the past twelve months since September 2018, there have been 30 M&A deals, much of which did not disclose the transaction values. Nonetheless, acquisition activity remains robust in the space with a number of companies actively seeking greater scale, capabilities or expanded geographical regions.

INDUSTRY TRANSACTION ACTIVITY

Publicly Traded Comparables

Company (\$ in millions)			EV / Revenue		EV / EBITDA		Revenue Growth	EBITDA Margin
	Enterprise Value	Market Cap	LTM	NTM	LTM	NTM	LTM	LTM
PRA Health Sciences	\$7,098	\$6,192	2.46x	2.47x	17.56x	15.36x	27%	14%
ICON	\$7,786	\$7,833	2.98x	2.98x	17.59x	17.09x	48%	17%
IQVIA	\$37,909	\$27,558	3.62x	3.66x	19.78x	17.23x	7%	18%
Medpace	\$2,023	\$1,997	2.72x	2.87x	13.98x	15.03x	62%	19%
Syneos Health	\$7,567	\$4,851	1.70x	1.72x	16.19x	12.77x	64%	10%
Charles River	\$8,790	\$6,711	3.47x	3.77x	16.44x	46.29x	64%	11%
Low	\$2,023	\$1,997	1.70x	1.72x	13.98x	12.77x	7%	10%
High	\$37,909	\$27,558	3.62x	3.77x	19.78x	46.29x	64%	19%
Median	\$7,677	\$6,451	2.85x	2.92x	17.00x	16.23x	55%	15%
Mean	\$11,862	\$9,190	2.82x	2.91x	16.92x	20.63x	45%	15%

Representative Precedent Transactions

Closed Date	Target	Acquirer	Enterprise Value	EV / Rev	EV / EBITDA
(\$ in millions)					
Apr-19	Citox Lab	Charles River	\$608	3.32x	NA
Aug-18	Kinapse	Syneos	\$118	2.80x	NA
Apr-18	MPI Research	Charles River	\$800	3.30x	11.70x
Jan-18	KWS BioTest	Charles River	\$20	1.00x	NA
Sep-17	Parexel	Pamplona	\$4,600	2.20x	12.60x
Sep-17	Chiltern	Labcorp	\$1,200	2.20x	12.60x
Aug-17	Albany Molecular Research	GTCR	\$922	1.50x	8.10x
Aug-17	Brains On-Line	Charles River	\$21	1.10x	NA
Aug-17	inVentiv	INC Research	\$4,505	2.10x	10.80x
Jul-17	MAPI	ICON	\$144	1.40x	NA
Mar-17	ExecuPharm	Parexel	\$149	1.30x	NA
Mar-17	Medical Affairs Co	Parexel	\$38	3.10x	NA
Dec-16	Cyprotex	Evotec	\$69	3.20x	11.50x
Nov-16	inVentiv (50% stake)	Advent	\$3,800	1.70x	11.10x
Oct-16	BioClinica	Cinven	\$1,400	5.20x	14.70x
Oct-16	IMS Health	Quintiles	\$10,400	3.30x	11.30x
Sep-16	Agilux Labs	Charles River	\$64	2.40x	NA
Low			\$20	1.00x	8.10x
High			\$10,400	5.20x	72.97x
Median			\$608	2.20x	11.50x
Mean			\$1,698	2.42x	11.60x

Report data sourced from Pitchbook

Laboratory Corporation of America



Laboratory Corporation of America (Lab Corp) is the nation's second largest independent clinical laboratory, with roughly 20% of the independent lab market. The company operates more than 1,800 patient-service centers, offering a broad range of clinical lab tests, ranging from routine blood and urine screens to complex oncology and genomic testing.

Acquisitions

[MI Bioresearch, March 2019](#)

[MNG Laboratories, March 2019](#)

IQVIA



IQVIA is the result of the 2016 merger of Quintiles, a leading global contract research organization, and IMS Health, a leading healthcare data and analytics provider. The CRO segment focuses primarily on providing outsourced late-stage clinical trials for pharmaceutical, device, and diagnostic firms.

Acquisitions

[Jager Health Group, August 2019](#)

[TKL Research, December 2016](#)

Charles River Laboratories



Charles River Laboratories is a leading provider of drug discovery and development services. About half of the Company's revenue comes from drug discovery and preclinical testing, and one fourth comes from the manufacturing support segment.

Acquisitions

[Citox Lab, April 2019](#)

[MPI Research, April 2018](#)

[KWS BioTest, January 2018](#)

Report data sourced from Pitchbook

TPG Capital



TPG Capital is a private equity firm that seeks to invest in the consumer, retail, media, industrials, financial services, technology, and healthcare sectors. The firm was founded in 1992 and is based in San Francisco, California.

Acquisitions

[Pharmatech, May 2019](#)

[Innovative Diagnostics, September 2018](#)

DFW Capital

DFW CAPITAL PARTNERS

DFW Capital Partners is a private equity investment firm that is focused on the lower middle market. The firm focuses on investing in firms operating in the healthcare, business and industrial services sectors. It was founded in 1983 and is based in Teaneck, New Jersey and maintains an office in Chevy Chase, Maryland.

Acquisitions

[Lotus Clinical Research, September 2018](#)

[Endeavor Clinical Trials, July 2017](#)

CTGR



GTCR is a private equity firm that prefers to invest in growth companies in the financial services and technology, healthcare, technology, media and telecommunications and growth business services sectors. The firm is based in Chicago, Illinois and was founded in 1980.

Acquisitions

[Albany Molecular Research, August 2017](#)

Report data sourced from Pitchbook

FINAL THOUGHTS

With a positive M&A environment and continued growth in the CRO market, expect the substantial amount of M&A activity seen in previous years to continue. As strategic sponsors are forced to look at being more efficient with R&D resources, access more advanced capabilities and develop innovative products to tackle unmet needs and regulatory requirements pre- and post-approval become more rigorous, M&A activity in the CRO market will focus on companies who can add a differentiated and specialist service offering. The CRO market is one which is continually evolving as they improve their scientific and technological understanding, along with their need for scale and increased capabilities, making this a sector to watch for exciting M&A deals in the near future.

If you are trying to explore either a sale of your CRO company, valuation of your business, or are interested in looking at opportunities for growth, our Life Sciences & Healthcare Practice Group is happy to assist you with your goals. Contact me at (858) 245 -4905, or email me at david.crean@objectivecp.com.



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