



Houlihan
Lokey

Pharma Services

Sector Spotlight

Spring 2024



The Pharma Services Sector Represents a Compelling Investment Opportunity Ripe for Continued Growth and Innovation

Pharma services represents a significant opportunity for investment with strong underlying tailwinds, a variety of actionable targets, and substantial room for further upside through technological advancements.



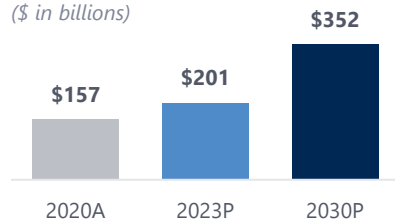
Large, Growing, Global Market Opportunity

Driven by a variety of tailwinds in the pharmaceutical and biotech markets, outsourced pharma services are expected to grow at an 8%+ CAGR over the next seven years

This sector is expected to outpace other healthcare subsectors due to rising drug demand, cost pressures, increasing complexity of drug development, and focus on core competencies

Market Opportunity

(\$ in billions)



Long and Expensive Development Process

The drug development timeline is long, expensive, and complex—in order to maintain ROI on a newly developed drug, pharma and biotech firms are incentivized to find cost-effective solutions throughout the drug development process

Outsourced pharma services companies provide high-demand, cost-effective solutions to these firms, driving growth within the segment

10 Years

Avg. Development Timeline

\$2.0B+

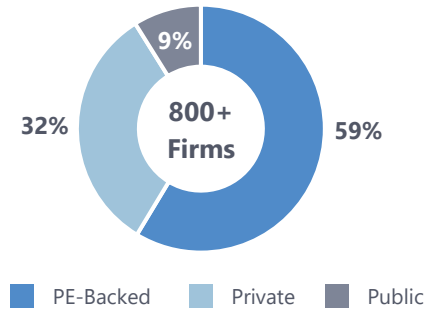
Avg. Development Cost



Highly Fragmented, Diverse Sector

The pharma services sector comprises 800+ diverse, innovative companies vying for market share, with only a few major players currently acting as primary consolidators

The highly fragmented nature of this sector represents a substantial platform opportunity for strategics and sponsors



Strong Macro Healthcare Growth Drivers

Outsourced pharma services are further driven by macro tailwinds within the broader healthcare sector, which are collectively accelerating global healthcare demand and spend

As the healthcare industry continues to grow and evolve, so too will the volume and complexity of new drug development, increasing demand for outsourced service providers who assist in their production

Aging Population

Chronic Diseases

Rising Costs

Comorbidities

Increasing Life Expectancy

Key Factors Driving Adoption of Outsourced Services From Pharma and Biotech Firms



Limited Infrastructure & Capabilities



Lack of Knowledge



Speed to Market



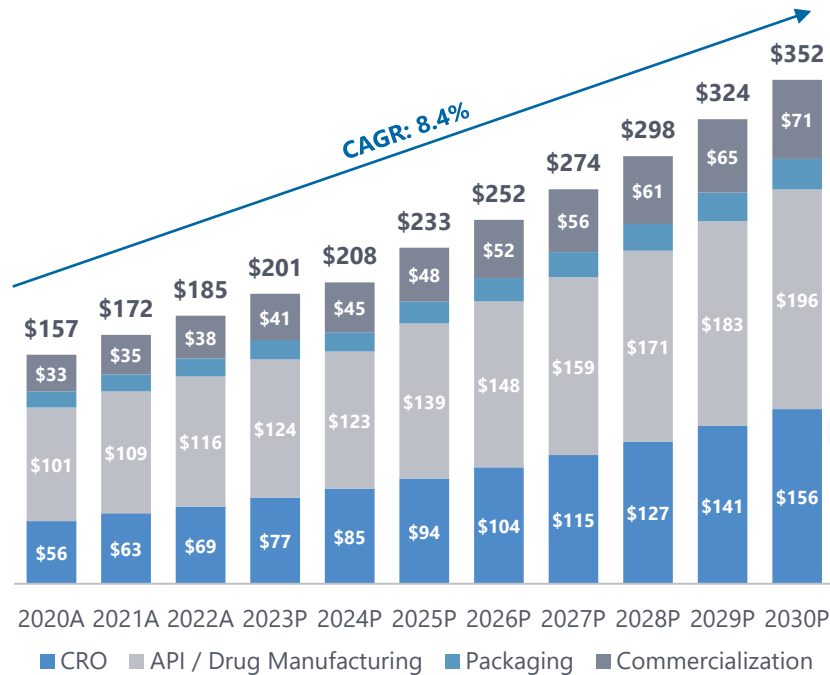
Desire to Reduce Costs

The Overall Pharma Services Market Is Growing Rapidly Relative to Comparable Sectors, Driven by Technological Advances and Substantial Market Tailwinds

All segments of pharma services are benefiting from the industry's expanded focus on the efficiency of the drug development process as well as the increased complexity of the development cycle.

Large, Growing Pharma Services Market Opportunity...

(\$ in billions)

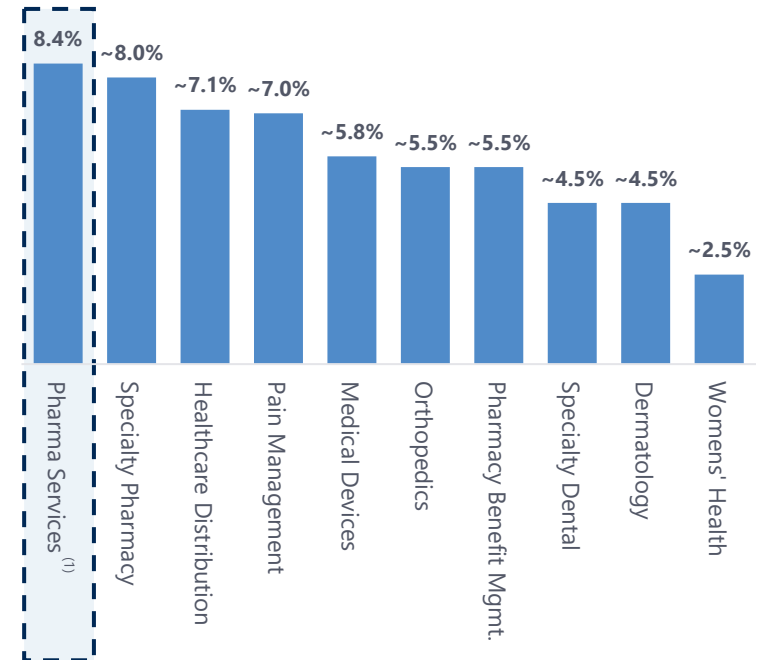


- Growth in the pharma services market is primarily being driven by the acceleration of the CRO segment (growing at ~11% CAGR), further bolstered by the commercialization (~8.0%) and CDMO (~7%) sectors
- Fueled by limited internal capacity, rising development costs, and a strategic shift toward core expertise, the pharma services sector is poised for further expansion throughout 2030P

...Outpacing Growth Within Select Other Healthcare Segments

Forward Organic Growth Rate by HC Subsector

(% estimated forward CAGR)



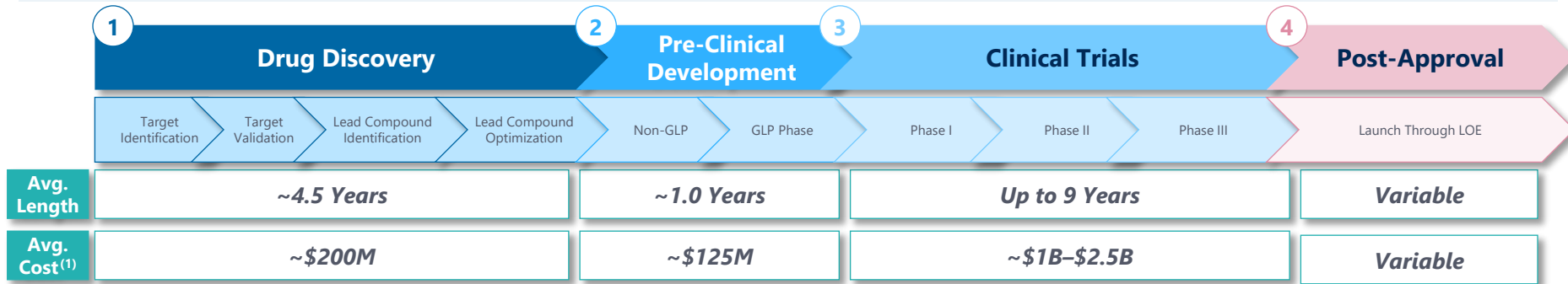
- The growing complexity, time to market, and costs of the drug development process are driving increased outsourcing penetration for CROs, CDMOs, and commercialization firms, accelerating growth in the pharma services sector relative to other popular healthcare subverticals
- As such, pharma services is expected to see increased investment and M&A activity in the foreseeable future

Sources: Statista, Emergen Research, Grand View Research.

(1) 2023–2028 CAGR applied as growth rate.

The Drug Development Process: Long, Expensive, and Complex

Pharma services companies provide essential outsourcing support across the full spectrum of the drug development and commercialization process, increasing overall efficiency and ease of the development process.



Due to the time, cost, and complexity of the drug development process, many pharma and biotech firms are expanding their use of outsourced service providers to help control costs, navigate the complex regulatory landscape, and streamline the efficiency of their operations to bring safe and effective drugs to patients worldwide in a timely and cost-effective manner

Key Pharma Services Segments

1 2 3



CRO

Support pharma and biotech companies with research methodology design and execution throughout the drug discovery, pre-clinical, and clinical trial stages

- ✓ Drug Discovery
- ✓ Clinical
- ✓ Preclinical
- ✓ Site Networks
- ✓ Lab Services

3 4



CDMO/Supply Chain

Aid in formulation, compounding, materials sourcing, manufacturing, and distribution of pharma and biotech products—active during the clinical and commercial stages

- ✓ Drug Development
- ✓ Cold Storage
- ✓ Bioprocessing
- ✓ Packaging
- ✓ API Dev and Mfg.
- ✓ Finished Dose Mfg.

3 4



Commercialization

Support the late clinical and post-approval phases of a product's lifecycle—bringing products to market, selling the product, and collecting real-world evidence

- ✓ Consulting
- ✓ Marketing
- ✓ Medical Affairs
- ✓ Market Access
- ✓ Data/Analytics
- ✓ Outsourced Services

Sources: Food and Drug Administration, National Center for Biotechnology Information, NorthEast BioLab, Taconic Insights.

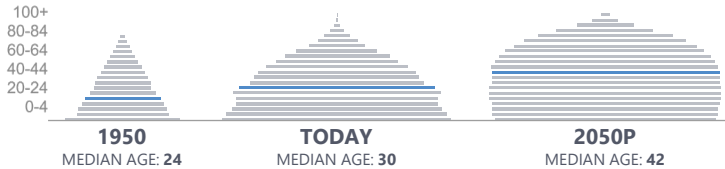
(1) Average cost of clinical trials is highly dependent on spending associated with drugs that end up failing at some point in the trials. These numbers do not include costs associated with failed drugs.

Macro Tailwinds Within the Broader Healthcare Space Will Continue to Support Increased Demand for Pharmaceuticals and Medical Devices

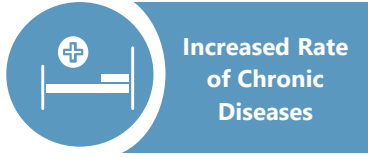
As overall healthcare demand continues to increase, so too will the volume and complexity of new drug development, driving increasing demand for outsourced service providers who assist in their production.



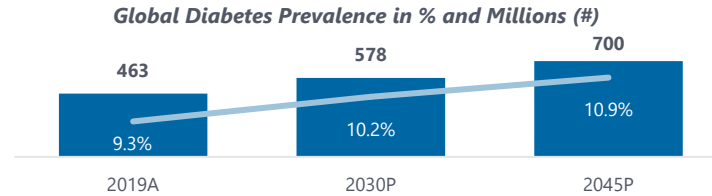
Aging Population



- Globally increasing life expectancy in addition to lower overall population growth is expected to result in global median age increasing from 30 years today to 42 years by 2050
- Increased average age is a leading driver of increased healthcare spend



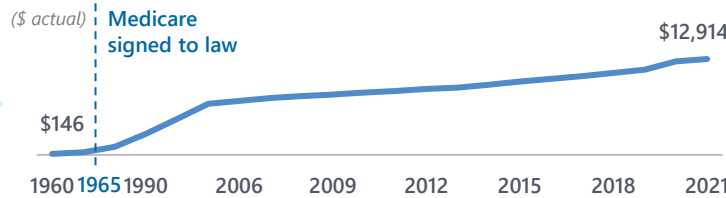
Increased Rate of Chronic Diseases



- In the United States, 60% of adults have a chronic disease, and these diseases account for 90% of total healthcare spending
- Increased prevalence of chronic diseases is also driving investment in the development of relevant, effective medications



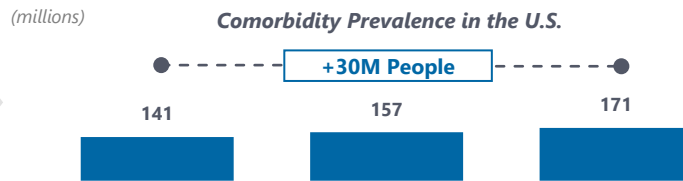
Rising per Capita Healthcare Costs



- The overall cost of individual healthcare has substantially increased since Medicare was signed into law
- This expansion is driven both by expanded access to healthcare as well as the increased price of pharmaceutical products



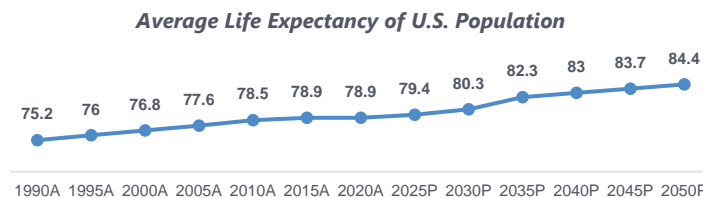
Prevalence of Comorbidities



- 73% of adults aged 65+ have two+ chronic conditions in the United States
- Surging comorbidity treatment costs fuel the rise in healthcare spending, leading to expanded demand for value-based care models



Increasing Life Expectancy



- Rapid developments in diagnosis time and treatment efficacy have increased the life expectancy of the average American
- Lengthening lifespans fuel a surge in healthcare spending as individuals consume more services over longer periods

The Increasing Complexity and Cost of the Drug Development Process Will Continue to Drive Growth in Pharma Services Outsourcing

The pharma services outsourcing segment will continue to grow in importance as increasingly complex drugs become more prevalent, especially for small to mid-cap biotech firms who face a greater strain in resources.

The Drug Development Landscape Has Become Increasingly Costly and Complex

- 1** The drug development landscape continues to grow in complexity as new generation molecules are becoming more prevalent in the development pipeline to tackle rising levels of chronic and difficult-to-treat diseases
 - Specialty drugs such as biologics, orphan drugs, mRNA therapeutics, and cell and gene therapies are forecasted to continue to expand rapidly in the coming years with double-digit growth expectations
 - With greater complexity embedded throughout the development timeline, these processes are ripe for further outsourcing
- 2** A greater proportion of therapies, including large and small molecule drugs and other advanced treatments, are following expedited approval processes that require more efficient solutions and greater expertise
 - Expedited approval processes can be more complex to navigate and benefit from outsourcing expertise
- 3** Returns on research and development are declining, driving the need for solutions that offer greater speed, efficiency, and effectiveness in the drug development process
 - CROs, CDMOs, and commercialization organizations allow firms to outsource non-core functions, allowing them to allocate resources for other functions

SMID-Cap Effect



- While companies of all sizes utilize pharma outsourcing services, small- to mid-cap biotechs (SMIDs) typically are in greater need of the outsourcing expertise
- More established pharma companies have the flexibility and scale to build best-in-class-capabilities in-house and outsource selectively; however, SMID-cap biotech companies often don't have the same luxury
- Given their growth profile, lack of robust profitability, and less mature development infrastructure, these smaller biotech firms must rely on external resources to provide the full offering of clinical services before building out their own development organizations, which will continue to be a positive tailwind for the pharma services industry

Pharma Services Outlook: Compelling, Durable Tailwinds Will Continue to Drive Long-Term Demand Throughout the Sector

1

Biotech Funding: Increasing demand for innovative medical technologies and advancements in genetic research leave the market optimistic on the funding environment

2

R&D Spending: The increase of total R&D spend in the pharmaceutical and biotechnology industry will further drive the underlying demand for all outsourced pharma services providers

3

Drug Development Pipeline: The continued increase of novel substance launches and increased complexity of the drug development process are driving increased demand for outsourced pharma solutions

4

Drug Approvals: As the total volume of novel drug and biosimilar approvals increase to pre-COVID-19 levels, the demand for CDMOs and supply chain providers will increase to address excess capacity in the market

5

Outsourcing Penetration: Penetration rates for pharma services outsourcers are rapidly expanding across the primary segments, driven by various key demand factors that will likely continue in the long-term

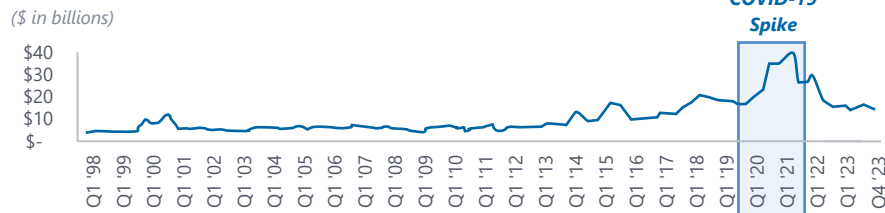


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Pharma Services Outlook: R&D Funding Drives Increased Demand for Clinical Trials and Manufacturing Services, Priming Growth Avenues for Pharma Service Providers

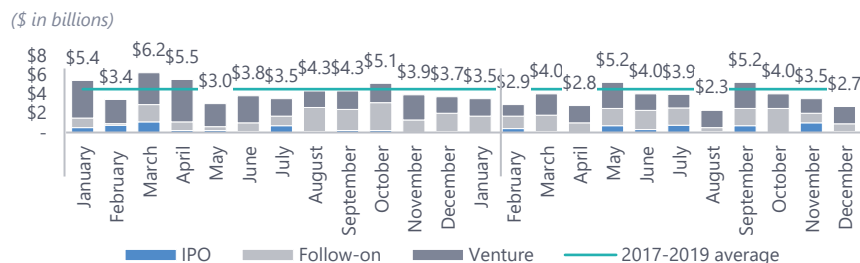
1 Biotech Funding

Total Biotech Industry Funding, 1998 to Present⁽¹⁾



- The influx of biotech firms since 2018 (now representing 70% of funding) has driven increased demand for outsourced pharma services to handle non-core functions, while the small biotech firms focus on their core competencies
- After the 2021 spike, biotech funding is set to return to pre-COVID-19 growth levels
- Optimism is growing for a 2024 IPO market rebound with pent-up demand, improved market conditions, and potential rate cuts

Biotech Industry Monthly Funding, 2022 to Present⁽¹⁾



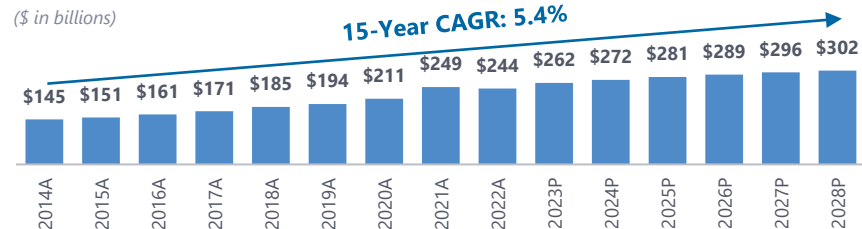
- Biotech funding has remained consistent throughout 2022 and 2023, with analysts predicting a return to 2017–2019 growth rates in 2024
- 71% of public biotechs have more than one year of cash on hand
- Recent biotech funding has prioritized machine learning, cell therapies, and gene therapies, creating a surge in demand for specialized outsourcing providers who offer exposure to these trends

Soaring R&D budgets fuel a steady demand for CROs, amplified by the expanding reach of outsourcing into early-stage drug discovery

Sources: Statista, WallStreet Research.
(1) Updated through Q4 2023.

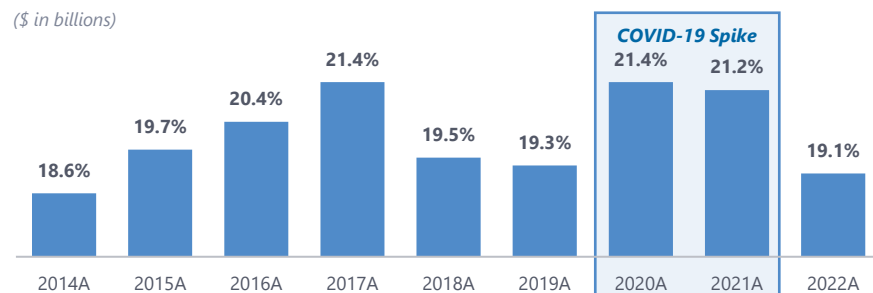
2 R&D Spending

Total R&D Spend



- R&D spend is anticipated to continue to grow as the drug development process continues to grow in complexity with the evolution of new, more-effective treatments
- The growing prevalence of outsourcing within the R&D process should continue to boost demand for CRO and CDMO providers

Total R&D Spend as % of Rx Revenue



- Surging demand, patent cliffs, and biotech booms have led to increased R&D spending relative to Rx revenue, increasing the need for cost-effective outsourcing solutions across the drug development continuum
- Pharma and biotech firms can increase the speed and efficiency of discovery efforts by utilizing the specialized expertise of CROs

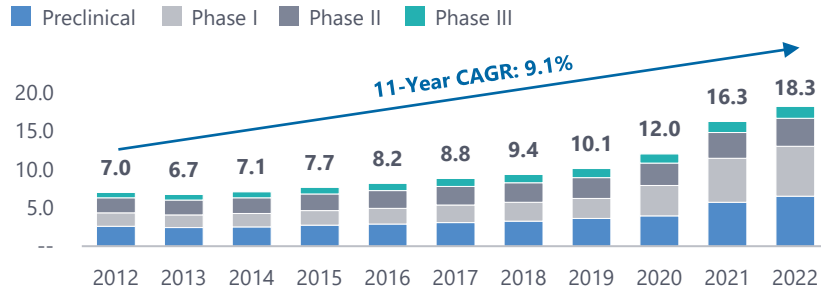
Propelled by increased drug development complexity, rising R&D investment is fueling demand for specialized expertise offered by outsourced research organizations

Pharma Services Outlook: As the Drug Landscape Continues to Grow in Volume and Complexity, Pharma Services Providers Will Become Even More Essential

3 Drug Development Pipeline

Global Drug Trials per Year

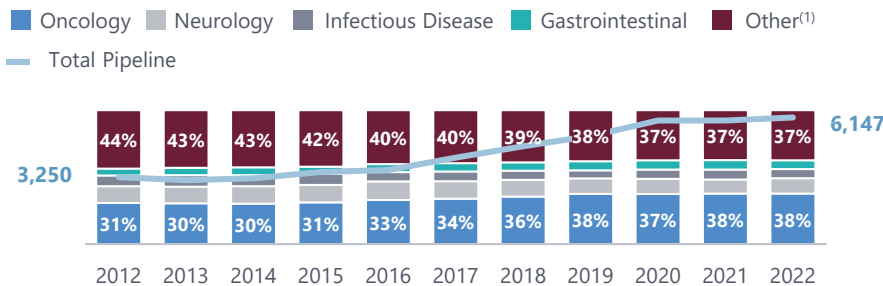
(# of total trials in thousands)



- New drug launches and a surging pipeline fuel pharma outsourcing as companies strive to monetize discoveries

Drug Pipeline Allocation by Indication

(# of drugs in global pipeline in thousands; % of total pipeline)



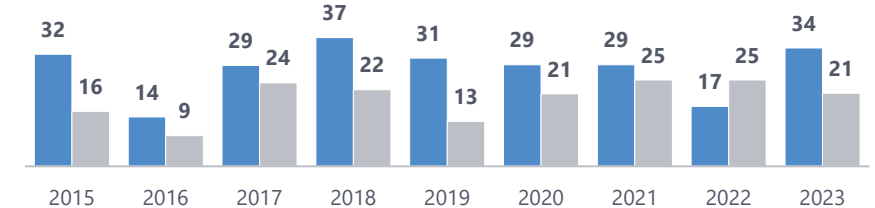
- Emerging biopharma (EBP) drugs have increased from 29% to 59% of the pipeline since 2011, necessitating sizeable investments in outsourcing solutions
- Oncology, neurology, and immunology have surged to 49% of new drug launches since 2018, driving the need for specialized contract manufacturing and research providers

Driven by a surge in new drug launches and pre-pandemic levels of drug development, pharma and biotech companies are increasingly turning to outsourcing solutions

4 Drug Approvals

FDA Approvals for Novel Therapeutics

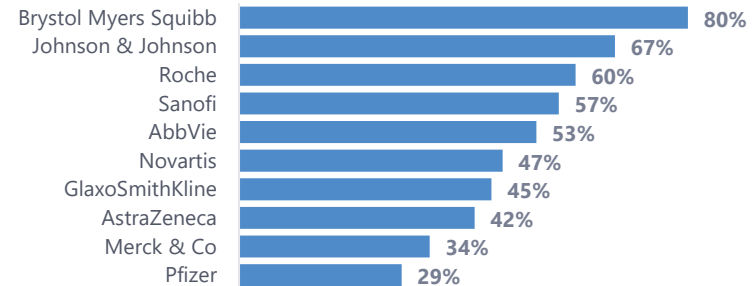
Total Small Molecule Approvals Total Biologics Approvals



- Steady drug approvals for both small molecules and biologics fuel demand for contract manufacturing and supply chain providers

Patent Cliffs

(Relative share of 2021 global sales at risk due to patent expiry in the next five years)



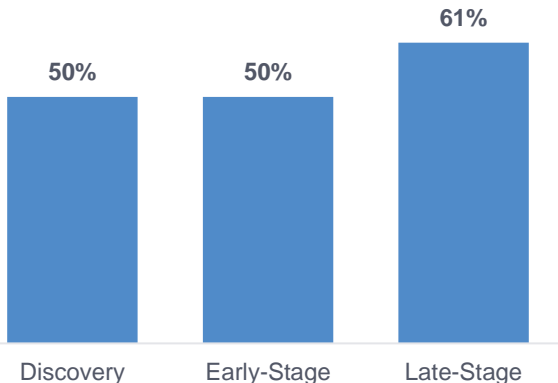
- A wave of major patent expirations are ahead, larger than the 2–3x historical drop, which will drive demand for manufacturing and outsourcing of generics
- Large and specialty pharma firms will seek to acquire R&D assets to fill pipelines due to innovation funding constraints

2023's patent cliff paves the way for biosimilar players to conquer previously exclusive markets, with more blockbuster drug patents anticipated to expire in the next five years

5 Pharma Services Outlook: Outsourcing Penetration Has Rapidly Expanded Across Primary Segments, Driven by Long-Term, Sustainable Demand Drivers

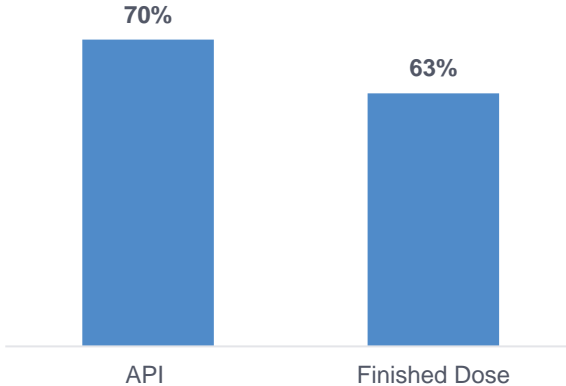
BioPharma Companies Are Actively Engaging With Pharma Services Providers to Simplify the Drug Development Process

CRO Outsourced Penetration by Stage



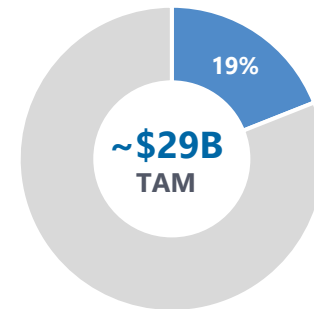
The increase in discovery outsourcing is largely driven by an uptick in outsourcing among small biopharma firms; across the segment, firms still see substantial room for additional outsourcing growth in the next 10 years

CDMO Outsourced Penetration by Format



Small and mid-sized firms tend to outsource both API and finished dose production of their drugs more than larger competitors, but large pharma outsourcing has also increased

Commercialization Outsourced Penetration Rate and Opportunity



As commercialization firms continue to gain expertise across the industry, more clients will seek outsourced services, driving further penetration in the commercialization segment

What Are Key Drivers of Increased Outsourcing Penetration?

Focus on Core Business

Larger pharmaceutical companies are focusing increasingly on core competencies and therefore are looking to outsource functions outside of these roles

Increased Approvals

Innovative biotech firms continue to drive increases in drug approvals but lack the infrastructure to do the manufacturing work themselves, driving demand for outsourcing

Risk of Investment

Firms developing new drugs are facing higher investment risk due to tighter funding and greater competition, and look to outsourcing to hedge costs

Complexity of Process

The overall complexity of the drug development process and the time to market are all key drivers leading firms to outsource components of these processes

The Pharma Services Landscape Is Broad, Diverse, and Growing

Research

Discovery



Pre-Clinical



Clinical



Manufacturing and Supply Chain

Development



Drug Substance



Drug Product



Packaging



Supply Chain Products and Services



Commercialization

Pricing and Market Access



Medical Communications



Promotional Marketing



Health Economics and Outcomes Research



Strategic Consulting

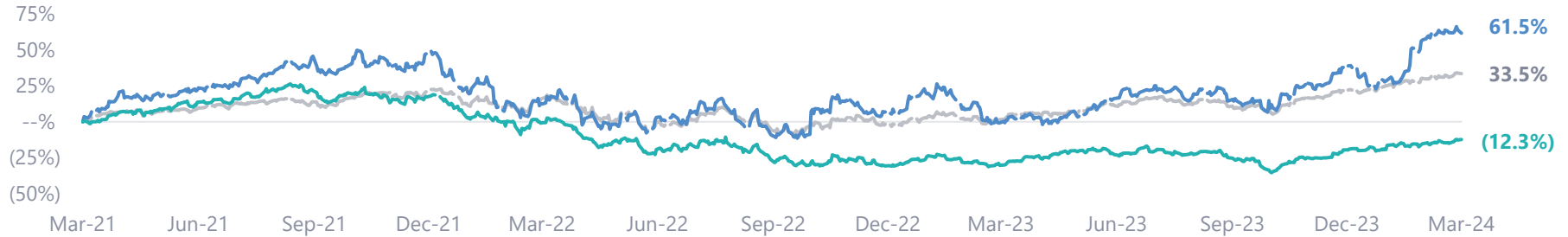


Relevant Public Company Performance

Following a peak in 2021, CRO and CDMOs have maintained valuations above pre-COVID-19 levels.

CROs Continue to Outperform the Broader Market

	3Y	2Y	YTD	L6M
■ CRO ⁽¹⁾	61.5%	45.8%	16.4%	37.7%
■ CDMO ⁽²⁾	(12.3%)	(12.1%)	9.3%	17.3%
■ S&P 500	33.5%	14.9%	10.0%	20.3%



EV/LTM EBITDA Multiples



Period	Average EV / LTM EBITDA ⁽³⁾	
	CRO	CDMO
2019	18.2x	9.0x
2020	19.3x	12.0x
2021	24.9x	15.7x
2022	19.0x	11.5x
2023	16.5x	11.1x
2024	18.0x	12.4x

Source: S&P Capital IQ data as of 03/25/2024.

(1) CRO peer group includes Charles River Laboratories, Fortrea, ICON, IQVIA, and Medpace.

(2) CDMO peer group includes Evonik, Fujifilm, Lonza, Piramal, and Siegfried.

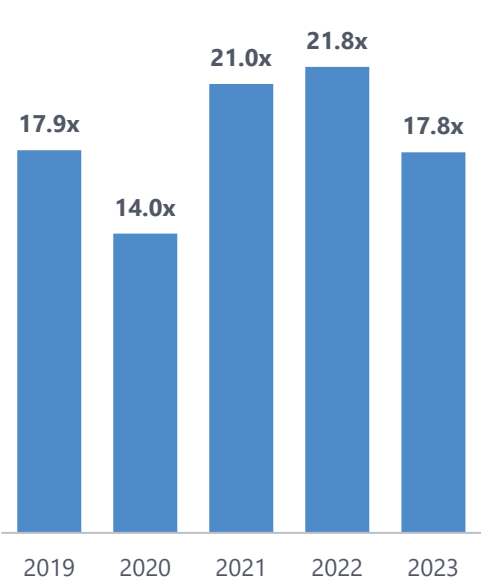
(3) Multiples represent the average of each calendar year.

Favorable Investor Sentiment Toward Pharma Outsourcing

Investors are bullish on quality outsourcing platforms, as evidenced by the premium valuations in both public and private markets.

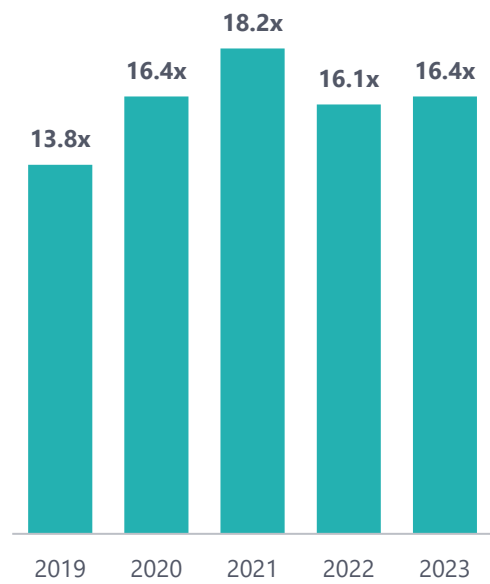
Median Transaction Multiples Remain Strong Across Key Segments Within Pharma Services

CRO



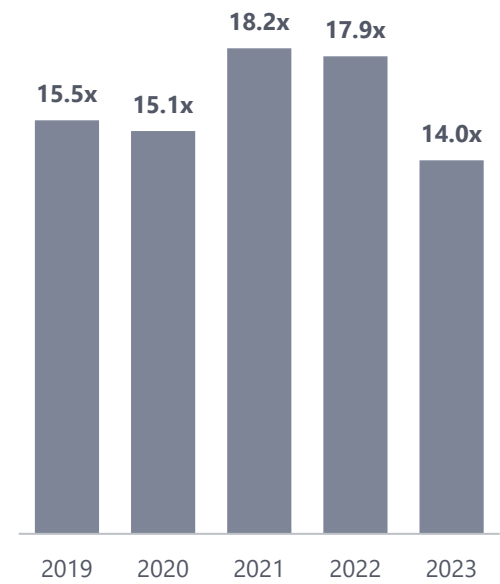
Analytics capabilities are in high demand among CRO acquirers who are willing to pay a premium for the right asset

CDMO



Increased drug development complexity and manufacturing processes drive premium valuations for highly specialized CDMOs

Commercialization



Continued need for data-driven commercialization insights fosters strong valuation performance

Source: WallStreet Research.

Selected Precedent M&A – Pharma Services

Target	Acquirer	Year	Subsector	EBITDA Multiple
SOCIETAL CDMO	core Rx Development & CxO CxO	Pending	CDMO	
Catalent	novo holdings	Pending	CDMO	
ERGOMED	PERMIRA	2023	CRO	
Syneos Health	ELLIOTT PATIENT SQUARE CAPITAL VERITAS CAPITAL	2023	CRO	
PHARMALEX	cencora	2022	Commercialization	
Corium	Webster Equity Partners	2022	CDMO	
metric contract services	Catalent	2022	CDMO	
Houlihan Lokey OPEN HEALTH	astorg	2022	Commercialization	
Emmes	NMC NEW MOUNTAIN CAPITAL	2022	CRO	
RITEDOSE	novo holdings	2022	CDMO	
PEPROTECH OUR SUPPORT. YOUR DISCOVERY	ThermoFisher SCIENTIFIC	2022	CDMO	
Houlihan Lokey medical knowledge group	novo holdings	2022	Commercialization	
BioAgilytix	Cinven	2021	CRO	
Houlihan Lokey Lockwood	ARES	2021	Commercialization	
LSNE	pci PHARMA SERVICES	2021	CDMO	
novasep passion & smart processes	PharmaZell	2021	CDMO	
NUVISAN	ALC	2021	CRO	
VECTURA	PHILIP MORRIS INTERNATIONAL	2021	CDMO	
parexel	IEQT	2021	CRO	
SYGNATURE DISCOVERY	Five Arrows Principal Investments	2021	CRO	
Symeres	KEENSIGHT CAPITAL	2021	CRO	
Houlihan Lokey UDG Healthcare plc	CLAYTON DUBLETT RICE	2021	Commercialization	
PPD	ThermoFisher SCIENTIFIC	2021	CRO	
Cognate Bioscience, Inc.	charles river	2021	CDMO	
SCA pharma	VISTRIA Excellere Partners	2021	CDMO	

Key Precedent Summary Statistics

CRO
Median
20.8x
Average
21.2x
CDMO
Median
18.3x
Average
24.9x
Commercialization
Median
21.5x
Average
20.2x

About Our Firm



Houlihan Lokey, Inc. (NYSE:HLI) is a leading global investment bank with expertise in mergers and acquisitions, capital markets, financial restructuring, and financial and valuation advisory.

Our firm is the trusted advisor to more top decision-makers than any other independent global investment bank.

We invite you to learn more about how our financial professionals can serve your needs:

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Corporate Finance

Financial Restructuring

Financial and Valuation Advisory

Our Industry Coverage

Key Facts and Figures



36
Locations worldwide

~2,000
Total financial professionals

312
Managing Directors⁽¹⁾

2,000+
Clients served annually

\$8.8B
Market Capitalization⁽²⁾

\$1.8B
Revenue⁽³⁾

Our Ranking by Service

Corporate Finance

2023 M&A Advisory Rankings
All Global Transactions

Advisor	Deals
1 Houlihan Lokey	352
2 Rothschild & Co	349
3 Goldman Sachs & Co	300
3 JP Morgan	300
5 Morgan Stanley	253

Source: LSEG (formerly Refinitiv). Excludes accounting firms and brokers.

No. 1 Global M&A Advisor

Leading Capital Markets Advisor

Financial Restructuring

2023 Global Distressed Debt & Bankruptcy Restructuring Rankings

Advisor	Deals
1 Houlihan Lokey	73
2 PJT Partners Inc	64
3 Rothschild & Co	51
4 Lazard	37
5 Evercore Partners	27

Source: LSEG (formerly Refinitiv).

No. 1 Global Restructuring Advisor

1,700+ Transactions Completed Valued at More Than \$3.5 Trillion Collectively

Financial and Valuation Advisory

1999–2023 Global M&A Fairness Advisory Rankings

Advisor	Deals
1 Houlihan Lokey	1,247
2 JP Morgan	1,035
3 Duff & Phelps, A Kroll Business	977
4 UBS	884
5 Morgan Stanley	716

Source: LSEG (formerly Refinitiv). Announced or completed transactions.

No. 1 Global M&A Fairness Opinion Advisor Over the Past 25 Years

2,000+ Annual Valuation Engagements

Fully Integrated Financial Sponsor Coverage

29 | Senior officers dedicated to the sponsor community in the Americas and Europe

1,100+ | Sponsors covered, providing market insights and knowledge of buyer behavior

730+ | Companies sold to financial sponsors over the past five years

Houlihan Lokey Is a Global Firm

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Frankfurt Munich
London Paris

ASIA-PACIFIC

Beijing Shanghai
Fukuoka Singapore
Gurugram Sydney
Hong Kong SAR Tokyo
Mumbai

(1) As of December 31, 2023, excludes corporate MDs. (2) As of March 31, 2024. (3) LTM ended December 31, 2023.

About Our Healthcare Industry Group



Houlihan Lokey's Healthcare Group has earned a reputation for providing superior service and achieving outstanding results in M&A advisory, capital raising, restructuring, and financial and valuation advisory services.

We provide in-depth knowledge, proven transaction experience, and an exceptional level of service to our clients.

2023 M&A Advisory Rankings
All Global Healthcare Transactions

Advisor	Deals
1 Houlihan Lokey	34
2 Jefferies LLC	31
2 Rothschild & Co	31
4 Centerview Partners LLC	30
4 Goldman Sachs & Co	30

Source: LSEG (formerly Refinitiv).
Excludes accounting firms and brokers.

LEARN MORE ABOUT



Key Facts and Figures

No. 1

M&A Advisor for All Global Healthcare Transactions

120+

Dedicated Healthcare Financial Professionals

200+

Transactions Closed Since 2016, the Most by Any Firm

Industry Sector Coverage

We cover a broad array of sectors, with financial professionals dedicated to each of our primary coverage areas

Selected Healthcare Industry Transactions

Tombstones included herein represent transactions closed from 2020 forward.

Houlihan Lokey's Leading Pharma Services Team

Houlihan Lokey Has a Strong Global Presence

North America

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Salvatore Palazzo
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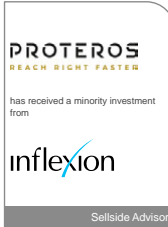





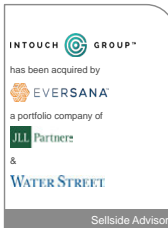

CONTACT US

Please reach out to us to schedule a call to discuss insights on the sector or to explore how we can serve your business needs.



- Commercialization Services
- Contract Research Organizations
- Safety and Regulatory Affairs
- Contract Development and Manufacturing Organizations

Selected Sector Transactions

CRO	CDMO	Commercialization
 <p>Management Buyout of CMIC Holdings</p> <p>Sellside Advisor</p>	 <p>has received a minority investment from</p> <p>inflexion</p> <p>Sellside Advisor</p>	 <p>has completed a continuation fund transaction for</p> <p>CATALYST CLINICAL RESEARCH</p> <p>Fairness Opinion</p>
 <p>has been acquired by</p> <p>BainCapital</p> <p>Financial Advisor</p>	 <p>has acquired</p> <p>CORDENPHARMA</p> <p>from</p> <p>INTERNATIONAL CHEMICAL INVESTORS</p> <p>Buyside Advisor</p>	 <p>has acquired</p> <p>Biofarma group</p> <p>a portfolio company of</p> <p>WATER STREET INVESTMENTS</p> <p>M&A Co-Advisor</p>
 <p>has been acquired by</p> <p>AMULET CAPITAL PARTNERS LP</p> <p>astorg.</p> <p>Sellside Advisor</p>	 <p>has been acquired by</p> <p>EVERSANA</p> <p>a portfolio company of</p> <p>JLL Partners & WATER STREET</p> <p>Sellside Advisor</p>	 <p>has received an investment from</p> <p>KNOX-LANE</p> <p>Sellside Advisor</p>

*Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company. Tombstones included herein represent transactions closed from 2021 forward.

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