



Investment Opportunities in Pharma: A Data-Driven Exploration of CDMO Appeal

The report discusses the current state of the contract development and manufacturing organization (CDMO) market within the pharmaceutical industry, emphasizing the increased interest from private equity (PE) investors.

The pharmaceutical industry has shown consistent growth, driven by factors such as an aging population and rising incomes. This has led to a surge in demand for specialized development and manufacturing expertise, prompting pharmaceutical companies to turn to strategic outsourcing, particularly in the CDMO sector.

The trends in the pharmaceutical outsourcing space highlight the growing demand for external providers due to the increasing complexity of drug development, especially in areas like biologics and cell and gene therapies. The COVID-19 pandemic has further accelerated the reliance on external resources for drug discovery and development. Challenges, such as excess capacity and reduced biotech funding, have impacted CDMOs, but trust, transparency and high-quality service remain crucial for maintaining strong relationships with clients.

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The report also delves into market drivers accelerating CDMO growth, including partnerships, bioprocessing excellence, research and development (R&D) laboratory infrastructure, sustainability, digitalization, supply chain resilience and regulatory compliance expertise. The analysis of mergers and acquisitions (M&A) trends in the CDMO space reveals a recent slowdown in transactions and values, but the overall 10-year trend indicates sustained interest and private capital inflow. PE transactions represent close to 80% of all M&A activity in the last three years, with a majority of cross-border deals.

From 2017 to early 2021, the biopharma CDMO index experienced substantial growth, surpassing the Standard and Poor's (S&P) 500 due to increased demand and capacity shortages. However, from 2021 onwards, CDMO multiples fluctuated and decreased. Despite this, the mean EV / EBITDA and EV / Revenue multiples from January 2019 to August 2023 were 19.8X and 3.7X, respectively, still representing a 30-40% increase over the S&P 500 multiples during the same period.

Factors driving PE interest in CDMOs include product class differentiation, strategic portfolio growth, efficiency, digitization, development and manufacturing capabilities and global footprint and accreditation. The report also provides insights into how CDMOs can adopt branding and messaging strategies to position themselves as attractive PE targets.

In conclusion, despite recent challenges such as the "COVID-19 cliff," CDMOs are well-positioned to contribute to the evolving pharmaceutical landscape. PE interest underscores the attractiveness of CDMOs as investment opportunities, and the report anticipates a positive outlook for the industry, aligning with the broader trends in pharmaceutical outsourcing.

The report is a collaborative effort between ramarketing and Lincoln International, highlighting their expertise in life science marketing and investment banking advisory, respectively.

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