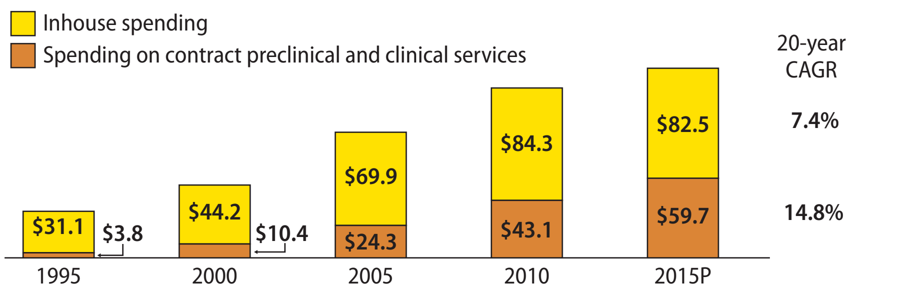
Private equity driving dynamic CRO growth

Enables CROs to pursue long-term strategies, while giving the space credibility

Private equity, which has been very active in the CRO space over the past five years, is reshaping the CRO landscape—giving the industry financial stability it might not otherwise have and providing the capital for CROs to expand, both organically and inorganically, to offer a broader range of services and greater efficiency to support R&D innovation.

Outsourcing spend as a proportion of total R&D spending

U.S.$ billions



Source: EvaluatePharma; William Blair & Wells Fargo Securities

During the past five years, private equity (PE) has acquired about a dozen U.S.-based CROs—including INC Research, PPD, inVentiv and Theorem Clinical Research—with many investors purchasing and consolidating mid-tier CROs, which have been largely left out of the move toward more integrated and strategic relationships, to build the capacity and expertise needed to compete with market leaders.

The financial impact of PE investment has been significant. The surge of consolidation and change of ownership among mid-tier CROs over the past five years has been driven largely by PE, which has been involved—either directly or indirectly—in the majority of CRO acquisitions during the past decade, which totaled more than $100 million in value. Investment capital also has allowed CROs of all sizes to round-out portfolios, globalize operations and invest in new technology.

According to a Fairmount Partners outsourcing report, while the three largest companies in the pharmaceutical outsourcing industry are publicly held—Quintiles, Covance and Parexel—11 of the next 20 largest companies are controlled by PE investors. Without this source of growth capital, the Fairmount Partners report said the CRO industry would not be "as prosperous or as dynamic" as it has become.

"One thing that private equity has done, which you can say has changed the look of the industry over the past 10 years, is that it has added a level of credibility to the space by being willing to buy an asset like a CRO," said Greg T. Bolan, former senior research analyst at investment banking firm Sterne Agee. "They also have enabled some of these CROs to pursue areas that might not have been available to them under just straight bank debt."

But that's only part of the story. Being private allows executives the unique ability—away from the oversight of public shareholders and Wall Street analysts—to pursue long-term growth strategies that could redefine integrated drug development services in the future. Particularly as sponsors look to outsource their R&D operations to a smaller number of integrated and strategic partners, private CROs have the ability to build more comprehensive, integrated portfolios and potentially move into new domains—such as early development or the investigative site business—as they try to develop even deeper strategic relationships with their sponsors.

As the outsourcing landscape evolves, fueled in large part by PE investment, CROs will move toward providing a greater breadth and depth of services to support R&D innovation and development.

"We're just starting to appreciate how changed the landscape is, and we are starting to consider how all of this affects our go-forward strategy," said Mark Shapiro, vice president of clinical development of privately held Clinipace Worldwide. "Should we