

MARKET INSIGHT

CDMOs



Introduction

After lower than expected M&A activity in Q1 2018, Bourne Partners expects to see an increased consolidation of small- to mid-size companies in the pharma services sector, more specifically with CDMOs.

We believe that Big Pharma will continue to pursue fewer, longer-term, reliable relationships, favoring large CDMOs who also have the capacity and means to manage and cultivate complex, niche technologies. While valuations remain slightly above their 3-year average in 2018, expect to see large CDMOs looking to acquire companies with novel development and analytical testing capabilities to bolster their value-chain.

In this report, we discuss market landscape, M&A and capital drivers, current valuations, and what the CDMO sector can expect to see throughout the rest of 2018.

We hope this is a helpful resource and look forward discussing what we're seeing in the space and ways we may be able to add value to your company's strategic priorities.

2017 Year in Review

While the number of transactions decreased in 2017, the aggregate deal value increased, mainly due to the number of very large transactions (>\$1 billion).

Top 2017 CDMO M&A Headlines

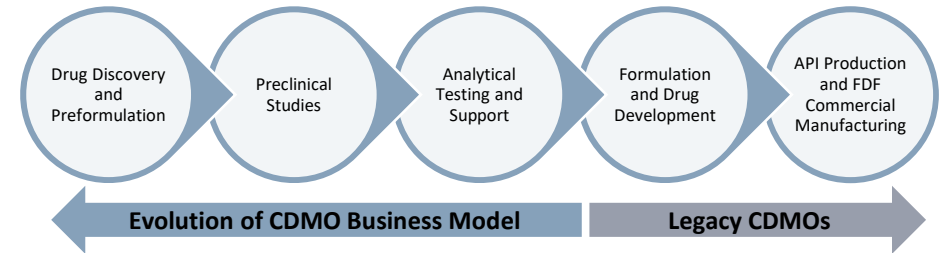
- Catalent** → **COOK**
Cook Pharmica LLC
Catalent Acquires Cook Pharmica for \$950M
- THE CARLYLE GROUP** → **amri**
Complex Science. Expert Solutions.
The Carlyle Group and GTCR Buy AMRI for \$1.6 billion
- ThermoFisher SCIENTIFIC** → **Patheon**
A HEALTHIER WORLD DELIVERED.
Thermo Fischer Buys Patheon for \$7.2 billion
- LONZA** → **Capsugel**
Lonza Acquires Capsugel for \$5.5 billion
**announced in Dec 2016 and closed in Jul 2017*

Top 10 players represent <20% of \$40bn global market

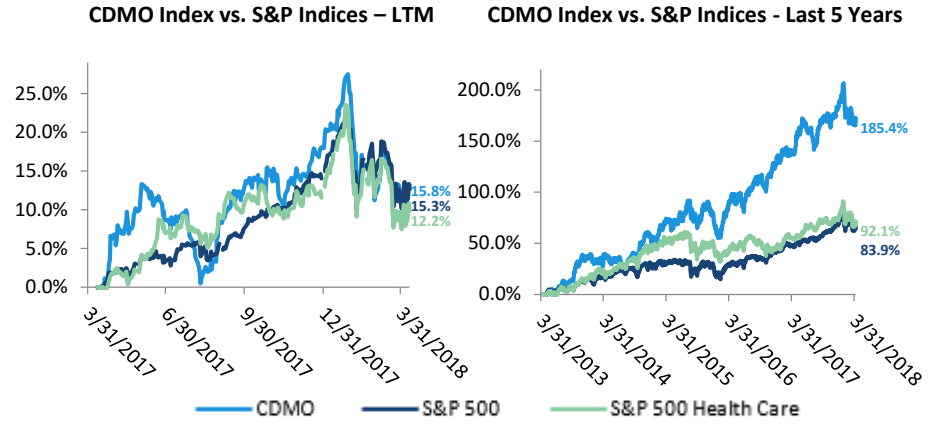


2018 Industry Segmentation

While traditional CDMO services focus on core competencies (API manufacturing and drug formulation), CDMOs have moved into adjacent segments further up the value chain previously covered by CROs.¹



CDMO Equity Performance²



CDMOs collectively generate ~\$40.0 billion in revenue annually, and markets are forecasted to grow by 5% to 6.5% per year over the next five years.

In the last 12 months, the CDMO index has been in line with the S&P 500 index.

In the last 5 years, CDMOs have vastly outperformed the S&P 500 and S&P 500 Health Care indices, with a 185.4% increase in equity value. Drivers of CDMO growth include:

- More robust pipeline of drug candidates and increasing rate of FDA approvals for NDAs and ANDAs
- Increasing generics competition is driving a need for cost efficiencies and specialized manufacturing
- Entrance of small, virtual pharma startups in the market with no manufacturing capacity and/or limited development expertise
- Big Pharma continues to turn toward outsourcing while selling off their facilities

"A key implication of consolidation is increased demand for those CDMOs that can provide measurable added value that sponsor organizations cannot realize on their own. This will create challenges for traditional CMOs and CDMOs"
- That's Nice

M&A Transaction Snapshot

In 2016 and 2017, leading global providers as well as smaller, specialty service providers were the target of acquisitions efforts to dominate market share. The CDMO market saw a series of larger M&A transactions in an attempt to expand capacity, enhance capabilities in more complex areas including biologics, and to attempt to differentiate business in a highly competitive industry. Due to these factors, companies were willing to pay significant premiums.³

In Q1 of 2018 there were fewer ‘mega-mergers’. We noted that there were small- to mid-size transactions with contract manufacturers looking to expand into adjacent CMO categories.

We expect CDMO activity in the second half of 2018 to ramp up significantly due to the big tax overhaul in the US, and the increasing trend of international players seeking to build a footprint in the US.

Announced Date	Target	Buyer	Geographic Location	Enterprise Value	LTM Revenue	LTM EBITDA	EV / LTM Revenue	EV / LTM EBITDA
Sep-17	Cook Pharmica	Catalent	USA	\$950.0	\$177.8	NA	5.3x	NA
Jun-17	AMRI	The Carlyle Group	USA	1,593.5	628.7	71.8	2.5x	22.2x
May-17	Patheon	Thermo Fisher	USA	7,205.3	1,933.0	351.2	3.7x	20.5x
Dec-16	CMC Biologics	Asahi Glass Co.	Denmark	514.3	NA	NA	NA	NA
Dec-16	Capsugel	Lonza Group	USA	5,500.0	1,000.0	344.0	5.5x	16.0x
Sep-16	PharmaCore	Cambrex Corporation	USA	25.0	17.0	45.4	2.7x	12.9x
Aug-16	Ash Stevens	Piramal	USA	53.0	18.3	NA	2.9x	NA
Jul-16	Gland Pharma	Fosun Pharma	India	1,588.6	188.2	NA	8.4x	NA
May-16	Euticals	AMRI	Italy	353.1	243.1	26.8	1.5x	13.2x
Apr-16	Kemwell Biopharma	Recipharm	India	120.9	35.0	5.8	3.5x	20.9x
Jan-15	Coldstream Laboratories	Piramal Healthcare	USA	28.9	13.1	NA	2.2x	NA
Sep-14	Shasun Pharmaceuticals	Strides Arcolab	India	295.1	213.0	26.3	1.4x	11.2x

USD in millions, except for per-share

NA - Not Available

Median	\$433.7	\$188.2	\$45.4	3.2x	16.0x
Mean	1,519.0	406.1	124.5	3.7x	16.7x

Capital Raise Snapshot

The select capital raises highlight both growth equity and venture capital used to invest in general corporate purposes as well as specific investments in various aspects of the CDMO business.

Capital raises are important for small- to mid-sized CDMOs seeking scale to compete with larger competitors or looking for specialized, niche technologies that provide an advantage. Expect to see continued growth equity and venture capital investments as companies look to expand manufacturing facilities, improve analytical testing labs and capabilities, and to bring additional products into the pipeline.⁴

Announced Date	Target	Investor	Investment Size	Notes
Mar-18	CMIC	Development Bank of Japan	\$80.0	Growth equity to achieve business growth capital investments
Mar-18	Cmab Biopharm	C-Bridge Capital Partners	38.0	Venture capital to fund general corporate business efforts
Feb-18	Cognate BioServices	Tennenbaum Capital	NA	Growth equity to accelerate Cognate's commercial activities
Feb-18	Avid Bioservices	Public Offering	23.2	Growth equity to expand development capabilities
Dec-17	MaSTherCell	Federal Holding	5.9	Growth equity to expand facilities with five new clean rooms
Nov-17	ZCL Chemicals	Morgan Stanley PE Asia	25.0	Growth equity to expand its API product portfolio
Dec-16	Pharmaceutics	Signet Healthcare Partners	93.0	Growth equity and convertible debt to fund its formulation capabilities
Aug-16	Gland Pharma	Fosun Pharma Industrial	62.4	Growth equity for general corporate purposes in the CDMO business
Jul-16	Frontida Biopharm	Private Investors	10.0	Venture capital for general corporate purposes in the CDMO business
May-16	New Zealand Pharma	Archer Capital	34.1	Growth equity for general corporate purposes and API manufacturing
Mar-16	Pharmaron	Citic M&A Fund	280.0	Growth equity used to strengthen its development service platform
Dec-15	Suanfarma	ProA Capital de Inversiones	28.5	Growth equity to strengthen its growth organically and inorganically
Oct-15	Samsung Biologics	Samsung Electronics	112.2	Venture capital to facilitate investment and acquisitions

USD in millions

NA - Not Available

Sources:

(1) Contract Pharma: Changing Dynamics: The CDMO Landscape; April 2018

(2) Capital IQ as of May 4, 2018; CDMO basket consists of the following: Bachem (SWX:BANB), Balchem (NasdaqGS:BCPC), Cambrex (NYSE:CBM), Catalent (NYSE:CTLT), Jubilant (BSE:530019), Recipharm AB (OM:RECI B), Siegfried (SWX:SFZN), West Pharmaceutical Services (NYSE: WST)

(3) EY: The Pharmaceutical CDMO Industry is Consolidating; September 2017

(4) Contract Pharma: Pharma Year 2017 in Review; March 2018.

Our Experience

Bourne Partners is an investment banking and strategic capital firm focused exclusively in the healthcare space covering the full spectrum of Pharma Services including a significant focus on CDMOs, CMOs, clinical and non-clinical CROs, SMOs, analytical lab/testing; as well as labeling, packaging, distribution, and supply chain management services. We help companies execute M&A (selling their business or buying another) and raise capital to finance growth or recapitalize their business. Below is a snapshot of our recent industry deal experience:

Select Deal Experience

2017
\$1,620,000,000

THE CARLYLE GROUP
amri

Bourne Partners served as the exclusive buy-side advisor to The Carlyle Group in its acquisition of Albany Molecular Research, Inc.

BOURNE PARTNERS

Objective: Bourne Partners has worked in partnership with The Carlyle Group since January 2016. Through this joint venture, Bourne advises and invests alongside Carlyle on various pharmaceutical and related services opportunities.

Process: Bourne Partners utilized its relationships and knowledge of the CDMO and pharmaceutical sectors to provide counsel to and invest alongside The Carlyle Group, contributing to the evaluation and negotiation of the AMRI transaction.

Result: Bourne Partners co-invested alongside The Carlyle Group and GTCR LLC who successfully acquired AMRI at a value of \$1.62 billion.

2018
Undisclosed

accelovance
Linical

Bourne Partners served as the exclusive financial advisor to Accelovance, Inc. in the sale of its clinical CRO business to Linical.

BOURNE PARTNERS

Objective: Accelovance engaged Bourne Partners to identify an acquirer for the remaining clinical CRO business after the successful carve-out of Accelovance's SMO segment, Optimal Research, in late 2017.

Process: Bourne Partners used their international network to run a highly strategic process and structure a transaction that was ideal for all parties.

Result: With the advice of Bourne Partners, Accelovance signed a merger agreement with Linical to sell all remaining assets. The combined companies will now boast a strong international CRO presence reaching through North America, Europe and Asia Pacific. Pending closing conditions, the transaction is set to close in in the second quarter of 2018.

2016
Undisclosed

Reliable Biopharmaceutical
BLUE DIAMOND CAPITAL

Bourne Partners served as the exclusive financial advisor to Reliable Biopharmaceutical in its equity raise from Blue Diamond Capital.

BOURNE PARTNERS

Objective: Reliable Biopharmaceutical, a US-based CDMO focused on API and HPI, engaged Bourne Partners to act as its exclusive financial advisor to find an acquirer and maximize value during this sell-side process.

Process: Bourne Partners utilized its deep industry relationships and knowledge to market, solicit interest, negotiate, and drive the equity raise for Reliable Biopharmaceutical.

Result: As advisors to Reliable Biopharmaceutical, Bourne Partners helped the company and its private equity owner during a sell-side process that led to this transaction.

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Bourne Partners' experienced execution team, deep domain knowledge and extensive strategic and PE relationships were critical in maximizing the value of the sale of Accelovance and Optimal Research. I highly recommend them as a sell-side advisor in the Clinical CRO and Sites Network space.

- Steve Trevisan, Founder, President & CEO, Accelovance, Inc.

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The Bourne team worked diligently and added value in the evaluation and negotiation phases of the AMRI transaction. Their insight, experience, and understanding of the CDMO and pharma sectors proved extremely useful and insightful. We also look forward to their investment and involvement alongside Carlyle in AMRI's future growth strategy.

- Steve Wise, Founder, Managing Director and Global Head of Healthcare, The Carlyle Group

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The above testimonials may not be representative of the experience of other customers and is no guarantee of future performance or success.

About Bourne Partners

As an industry-focused advisor of companies seeking capital markets solutions, such as raising capital or exploring M&A opportunities, we provide value-added insight and transaction services to maximize client value. Exclusively focused in healthcare, our team has a deep track record of transaction success, together raising over \$2 billion in equity and debt capital and executing over \$5 billion in healthcare and pharmaceutical M&A transactions. We hope this market snapshot is a helpful reference and please feel free to reach out with any questions or to discuss ways Bourne Partners may be able to add value to your company.

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BOURNE PARTNERS

