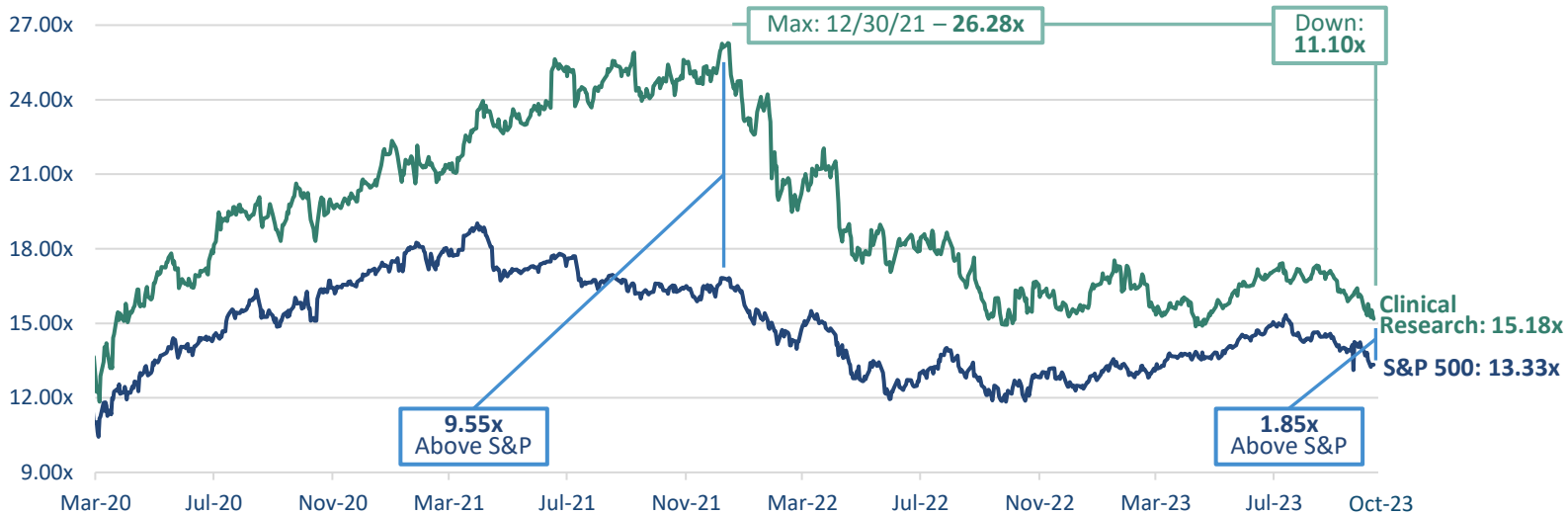


## Navigating Tailwinds & Headwinds in Clinical Research Services

With the current high cost of capital, buyers seem more hesitant to pay for growth than they have been in the past two years, so there's a slight disconnect now between more risk adverse buyers and sellers still expecting 2021 level valuations

**BOTTOM LINE:** Investor discipline and macro industry dynamics have compressed multiples

### Daily EV/EBITDA Multiple—Clinical Research Index vs. S&P 500



### It's been a dry bed of venture capital for the last two years

It is currently a **complicated environment** because of the broader **capital markets** and rising interest rates. Before, there was an abundance of funding for biotech sponsors, but **mid-last year**, more **hesitancy** emerged around signing new contracts, and the zeitgeist **shifted to delaying current contracts**. Biotech funding hit a 5-year low in 2Q22, prompting sponsors to prioritize Tier 1 development programs. That **same uncertainty** seems to have **dampened deal activity** as well.

For CRO-adjacent service providers, early-stage tech platforms that once showed promise are now struggling to secure further funding. The **pandemic** significantly **boosted tech platform adoption** in an industry where regulation has historically hindered tech adoption. However, the multitude of options has overwhelmed CROs and Sponsors, suggesting a **need for a few clear winners**. Providers with unique technology, approach, or platform are likely to be consolidated into a more sophisticated service suite capable of handling multiple sites or studies. **Clients** are increasingly **favoring a single integrated service offering**.

**On the other hand**, **biotechs** seemingly **prefer** to pair with midsize to **smaller providers in the initial development stages**—versus the big CROs that have all merged and bundled their service offerings—because they're seeking more agile partners with shorter startup negotiations and specialized capabilities tailored to prove proof of concept faster.

**What's yet to be seen is whether a solitary site with an expert team, great leadership, and a long track record of success will offer greater advantages to clients over a mass consolidation of sites run by a team that's potentially spread-too-thin.**

The eyes of greater society, not just fund managers and analysts, appear to be opening to the **value of pharmaceutical research as an investment** vehicle, especially **after the catalyst** of the **pandemic**. This may **drive more sophistication in investing** and will likely push more **waves of consolidation**. But in this age of specialization—whether geographic, service offerings, or technology—, there are still **plenty of pieces of the pie to go around**.

### Overarching Trends

#### External Consolidation

**Consolidation is disruption**, at least initially.

Right now, some of the largest players are rolling sites up, so it's a very appealing investment. When a competitor consolidates, even its relatively small peers will be asked to rescue potentially dozens of studies that their consolidating competitor had been running before the disruption.

#### Internal Professionalization

While externally this wave of consolidation will likely continue to strengthen, internally the trend of sites professionalizing is poised to swell as well, as that model has driven a great deal of success. Collectively, the channeled effort toward professionalization should result in better processes, tools, and data.

### Bourne Takeaway:

The course forward for small to midsize players seems to be turning their bows toward a focus on profitability and professionalization. And through that professionalization, developing a novel specialization that stands above the whitecaps as the tide of consolidation rises.

But professionalization means doing what is currently being done better, not just bigger.

It's not all stormy skies ahead. In the past few months, there's been a new resurgence of proposals coming in from biotechs. Biotech sponsors look to have a better understanding now of where they are and where they're going, and a little more confidence has begun to peak over the horizon as dawn starts to break over the period of economic panic that had been fogging the CRO landscape in gloom.