CORPORATE FINANCE

DECEMBER INSIGHTS PAPER:

CONTRACT DEVELOPMENT AND MANUFACTURING ORGANISATIONS

Crafting a new era of Life Sciences

Market overview

Pharmaceutical companies and MedTech OEMs are increasingly outsourcing services to CDMOs

New innovative therapies and medical technologies, accelerated by AI, are creating opportunities for CDMOs to expand their service offering

Consolidation opportunities in the fragmented CDMO market are ever-present with a high number of specialised SME players

Aging populations, demand for personalised medicines and increasing drug and regulatory complexity provide secular tailwinds for CDMOs

Introduction to CDMOs

Contract Development and Manufacturing Organisations (CDMOs) provide essential services in both pharmaceutical (Pharma) and medical device & technology (MedTech) value chains, helping companies efficiently develop, manufacture, and bring products to market.

Pharmaceutical CDMO activities

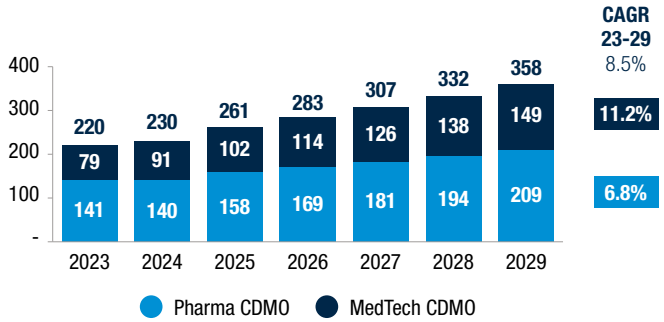
- **Drug Development:** Assist with formulation and early-stage development
- **Clinical Trials and Testing:** Produce test batches and ensure regulatory compliance
- **Large-Scale Manufacturing:** Scale-up production
- **Quality Control and Compliance:** Ensure products meet quality and regulatory standards
- **Packaging and Distribution:** Handle the packaging and safe delivery of products

MedTech CDMO activities

- **Design and Development:** Help design, prototype, and test devices
- **Tooling:** Mold design and production for industrial processes
- **Component Manufacturing:** Produce components using various techniques and materials
- **Assembly and Integration:** Assemble devices in controlled environments
- **Regulatory Guidance:** Navigate regulatory requirements for compliance
- **Lifecycle Management and Innovation:** Manage device updates and integrate new technologies

In both sectors, CDMOs offer flexibility and scalability, allowing clients to focus on core competencies

Fig. 1 – Global Pharma[1] and MedTech[2] CDMO market size (billions USD)



Source: [1]Grand View Research - Pharmaceutical CDMO Market Size & Trends; [2]Markets and Markets – Medical Device Contract Manufacturing Market

Pharma CDMOs – Market Trends

The Pharma CDMO market is forecast to experience robust growth with various trends providing opportunities to secure outsourced spending from established Pharma and emerging biotech companies. In the UK there is significant government support for the life sciences sector, with up to £520m committed for life sciences manufacturing announced as part of the UK October 2024 budget, a public-private clinical trials investment programme of up to £400m announced in August 2024, and a £650m Life Sciences Innovative Manufacturing Fund (LSIMF) announced in 2023 under the previous administration.[1,2]

Select major trends impacting the CDMO sector include:

1. Adoption of agile manufacturing practices

CDMOs are increasingly moving away from batch manufacturing and adopting continuous manufacturing practices to enhance flexibility and responsiveness to market changes. Traditional batch manufacturing involves many steps often across different sites, whereas the continuous method includes the use of multi-use manufacturing platforms that allow for rapid changeovers between products. CDMOs that adopt continuous manufacturing processes can offer benefits to clients such as lower costs, accelerated routes to market, reduced contamination, scale-up flexibility, and reduced supply chain disruptions.

Pharma companies with in-house batch manufacturing capabilities can avoid significant upfront investments from shifting to continuous manufacturing by outsourcing to CDMO partners with these capabilities already in place.

2. Shift toward more complex and personalised medicines and away from low-margin generics

As personalised medicines often involve complex biologics or gene therapies, CDMOs are enhancing their capabilities to handle specialised manufacturing processes. The shift towards smaller batch sizes tailored to individual patients requires flexible manufacturing systems within CDMOs. This customisation can lead to more operational complexity but also offers opportunities for CDMOs to differentiate themselves by providing tailored solutions to Pharma clients.

Globally, the advanced therapies CDMO market is projected to grow at a CAGR of 18.9% from $5.6bn in 2023 to $18.8bn in 2030, presenting a strong growth opportunity for CDMOs with advanced therapy capabilities.[4] With more emerging biotech companies launching new drugs and personalised medicines requiring smaller batch sizes, there is ample opportunity for both small and large scale CDMOs to grow. As emerging biotech companies have less experience in manufacturing, they often look to partner with CDMOs earlier on in the value chain, further increasing outsourced spending.

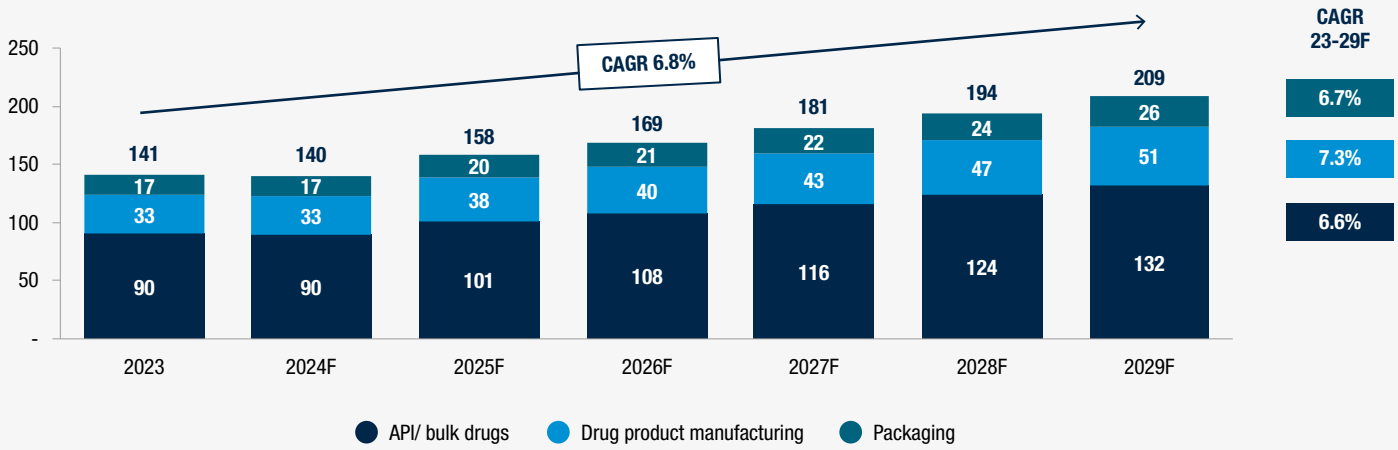
3. Demand for end-to-end services

CDMOs that offer end-to-end services encompassing everything from early-stage development through to commercial-scale manufacturing across various modalities is becoming more important to clients. This integrated approach helps streamline processes and reduce time-to-market for new therapies. By providing comprehensive support across the entire value chain, CDMOs can enhance their value proposition to Pharma clients and increase the amount of outsourced development and manufacturing spend.

4. Use of Pharma CDMOs to navigate complex regional regulatory frameworks

Navigating the global regulatory landscape is a core part of the production pathway and can be particularly challenging around advanced therapies as the sector evolves at a rapid pace. CDMOs are enhancing their regulatory expertise and digital capabilities to support clients to continuously adapt to evolving regulatory frameworks. As drugs continue to become more complex, Pharma companies are expected to increasingly outsource this function and rely on CDMO partners to reduce the regulatory risk.

Fig. 2 – Global Pharma CDMO market size (billions USD)[3]



Source: [1]ABPI; [2] UK Government – Chancellor reveals life sciences growth package to fire up economy; [3]Grand View Research - Pharmaceutical CDMO Market Size & Trends; [4]Grand View Research – Advanced Therapy Medicinal Products CDMO Market Report 2030

Pharma CDMOs – M&A Activity

The increasing reliance placed on CDMOs by Pharmaceutical companies as a result of the trends outlined on the previous page mean that Pharma CDMO assets are becoming increasingly more attractive to both strategic and financial investors.

Date	Target	Acquiror	Deal rationale
		Private Equity Platforms[2]	
Nov-24	AVID BIOSERVICES	Ampersand / GHO CAPITAL	Recently announced and expected to close in Q1 2025, GHO and Ampersand intend to use their deep industry expertise to drive future growth in Avid, which produces complex biologics for leading pharmaceutical and biotech innovators at both the clinical and commercial stages.
Jul-24	MedPharm / Tergus Pharma (Think Topicals, Think Tergus)	Ampersand / BOURNE PARTNERS / Great Point Partners	MedPharm (Ampersand and Bourne Partners portfolio company) and Tergus Pharma (Great Point Partners (GPP) portfolio company) merged to form a topical and transepithelial CDMO, establishing a leading, end-to-end CDMO with scientific, clinical trial manufacturing and commercial production capabilities.
Jun-24	LYO CONTRACT GmbH	Great Point Partners	GPP acquired Lyocontract GmbH, a Germany based CDMO providing aseptic liquid filling, lyophilization, and packaging services, with the aim to further scale, broaden Lyocontract's service offering and expand global capabilities.
Jul-23	cam bioceramics	SHSCapital	A consortium of investors led by SHS Capital invested in CAM Ceramics, a manufacturer of calcium and phosphate solutions for MedTech and Life Science applications. CAM is expected to benefit from the experience and network of SHS to build its partnership and customer base.
		Strategic Acquisitions / PE-backed Trade[2]	
Jul-24	GTP Bioways	olon s.p.a.	Olon, the Italy based API supplier acquired GTP Bioways. GTP's services are seamlessly integrated with those of the Olon Biotech division, allowing Olon to expand and diversify its technological offerings, supporting every stage of the lifecycle through microbial and mammalian fermentation and biotherapeutics.
May-24	Small molecule API pilot plant and development laboratories owned by: Pfizer	ASYMCHEM	China's Asymchem acquired the former Pfizer U.K. small-molecule API pilot plant to establish a footprint in the European market. The plant is best known for the discovery site of the established medicine Viagra.
Jan-24	ABL inc. (ADVANCED BIOSCIENCE LABORATORIES)	Oxford Biomedica	The acquisition of ABL provides Oxford Biomedica with multi viral vector (cell entry technology) CDMO capabilities, reinforcing Oxford Biomedica's position as a world leading cell and gene therapy CDMO.
Sep-23	PEPCEUTICALS (Peptides | Antibodies | GMP Synthesis)	BIOSYNTH / KKR	Biosynth AG, the Switzerland based provider of life science reagents and CDMO services, acquired Pepceuticals Ltd, the UK based bespoke peptides manufacturer, in order to bolster its existing peptide offering.

Source: [1]Logo of primary capital backer also included; [2]MergerMarket – reflects only publicly disclosed deals

MedTech CDMOs – Market Trends

MedTech CDMOs are increasingly becoming a core part of the supply chain for MedTech strategics and the market is projected to have strong growth at an 11.2% CAGR from $79bn in 2023 to $149bn in 2029.[1] Recent UK government funding initiatives are also positively impacting the MedTech CDMO sector, such as a £33m investment out of the £650m LSIMF fund in 2023 to support Kindeva with its complex drug delivery device development and manufacturing.[2]

Key trends expected to continue influencing the sector in the coming years include:

1. OEMs focusing on core competencies by further outsourcing manufacturing development capabilities

- Historically, MedTech OEMs have typically outsourced the manufacturing of products and devices to CDMOs whilst retaining the development activities in-house. However, as product design and development requires significant upfront capital, OEMs are increasingly involving CDMOs further up the value chain and outsourcing development, freeing up resources and focus on growth in core competencies. Involvement throughout the entire process allows for greater efficiency (and cost savings) when transitioning from the development to the manufacturing phase. As a result, OEMs are expected to increase the outsourcing of development and manufacturing activities to MedTech CDMOs.

2. Regionalisation of supply chains

- Using local supply chains facilitates regulatory compliance and typically decreases time to market for OEMs. This is partially offset by growing low-cost competition in the APAC region, however, following a period of supply chain disruptions and geopolitical uncertainty, regionalised supply chains are more attractive to reduce risk and minimise the impact of disruptions. Companies are increasingly focused on the local sourcing of materials and components, also lowering supply chain risk and their carbon footprint by reducing transportation distances. This supports the return of spending from regional OEMs, many of which moved much of their supply chains offshore in the past few decades.

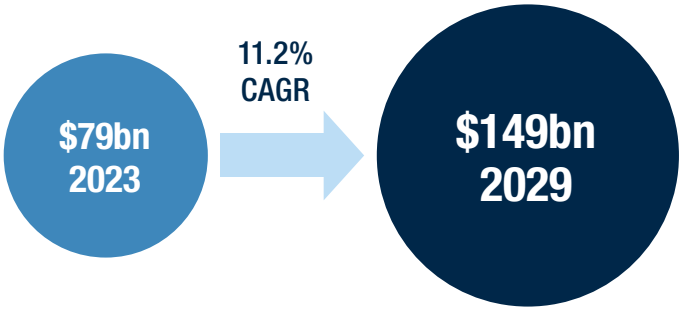
3. Increasing investment and growth in cutting edge technologies

- Advancements in areas such as robotic assisted and Minimally Invasive Surgeries (MIS) continue to fuel development and growth in the MedTech sector. A snapshot of the innovations across the vast MedTech sector include wearable neurological monitoring devices, miniaturised heart implants, and 3D printed orthopedic implants. Continued technological advancement bodes well for CDMOs as they offer specialised and bespoke capabilities that can support both early-stage innovators and mature OEMs that are looking to capture new market share. Integration of AI by CDMOs is expected to further optimise processes and advance development capabilities, the impacts of which are expected to be profound, albeit hard to accurately forecast due to AI's nascency.

4. Stringent regulatory requirements

- Currently, up to 25% of manufacturing costs can be consumed by regulatory compliance for medical devices.[3] With recent regulatory changes in the EU and UK, transition costs to comply with the updated standards are driving further CDMO outsourcing activity as OEMs look for CDMO partners that can efficiently navigate the complex regulatory pathway.
- The UK MDR was announced in 2023, which comes into full effect in 2025. Current provisions allow CE-marked medical devices compliant with EU IVDD and MDD regulations to remain on the market in the UK until 2028 and 2030 respectively, providing a transitional period for manufacturers to adopt the new UK MDR and IVDR requirements. The EU implemented the EU MDR in 2021, with deadlines from 2026 – 2028, varying based on device class.
- To help streamline the process, regulatory compliance technologies that can reduce costs and compliance risk are being adopted by CDMOs, This presents an opportunity for CDMOs to provide valuable regulatory navigation capabilities to OEMs and is expected to drive increased outsourced spending.

Fig. 3 – Global MedTech CDMO market size (USD)[1]



Source: [1]Markets and Markets – Medical Device Contract Manufacturing Market; [2]UK Government – £33 million joint investment to boost skills, support jobs and bolster green manufacturing in UK life sciences industry; [3]Straits Research – Global Medical Device Contract Manufacturing Market

MedTech CDMOs – M&A Activity

MedTech CDMOs are becoming increasingly sought after by both strategic and financial investors as their services are becoming more and more embedded in OEM value chains.

Date	Target	Acquiror	Deal rationale
		Private Equity Platforms[2]	
Feb-24	ZEUS	EQT	EQT Private Equity acquired Zeus, a leading supplier of custom polymer components to innovative medical device and industrial companies, with operations in the US, Ireland and China. EQT will support with investments in additional capacity and R&D to support the rapidly growing medical fields that leverage minimally invasive technologies.
Nov-23	KOSCHER & WÜRTZ GMBH	Gilde HEALTHCARE	Koscher & Würtz (K&W) joined as a group company next to Gilde's existing CDMO portfolio company, Chr. Diener. The enlarged Group will be able to benefit from sharing expertise and best practices whilst offering their clients a broader portfolio of products. The vision is to create a leading CDMO in precision medical instruments.
Jul-22	SteriPack CONTRACT MANUFACTURING	inflexion	The investment from Inflexion was made to support SteriPack in continuing to scale globally as it looks to capitalise on strong market growth and further international expansion opportunities. SteriPack is also well placed to undertake further acquisitions with the support of Inflexion.
		Strategic Acquisitions / PE-backed Trade[2]	
Sep-24	Gilero Medical. Innovation. Together.	SANNER / GHO CAPITAL	Sanner, a global healthcare packaging and MedTech CDMO backed by GHO acquired Gilero, a US based CDMO. The addition of Gilero will enhance Sanner's offering, positioning it as a leading provider of end-to-end services in drug delivery, diagnostics and MedTech sectors.
Sep-24	XL Precision Technologies	SPECTRA LEADING EDGE MEDICAL DEVICES / QHP CAPITAL	Spectra Medical Devices (backed by QHP Capital), a US based manufacturer of procedural needles acquired XL Precision Technologies, a UK based manufacturer of precision micro-components, complex tubular components, and sub-assemblies. The acquisition aims to enhance Spectra's development and manufacturing capabilities.
Jan-24	Springboard	SANNER / GHO CAPITAL	Sanner acquired Springboard, which holds a reputation for fast and cost-effective regulated device development. The acquisition of Springboard will boost Sanner's in-house medical device development capabilities and help establish a new UK Design Center of Excellence.
Dec-23	KLiNGEL	ELOS Medtech	Elos Medtech successfully acquired Klingel Holding GmbH, enhancing its capabilities in the medical device market. This acquisition positions Elos Medtech as one of the top global players in the CDMO market, expanding its workforce to over 1,500 employees across multiple countries.
Jul-23	hg medical partnering for performance	astorg.	Astorg invested in HG Medical to enable the Company to expand its service offering and capacity to address the increasing demand for outsourced production in the orthopaedic space, while actively executing an external growth strategy in a fragmented market.

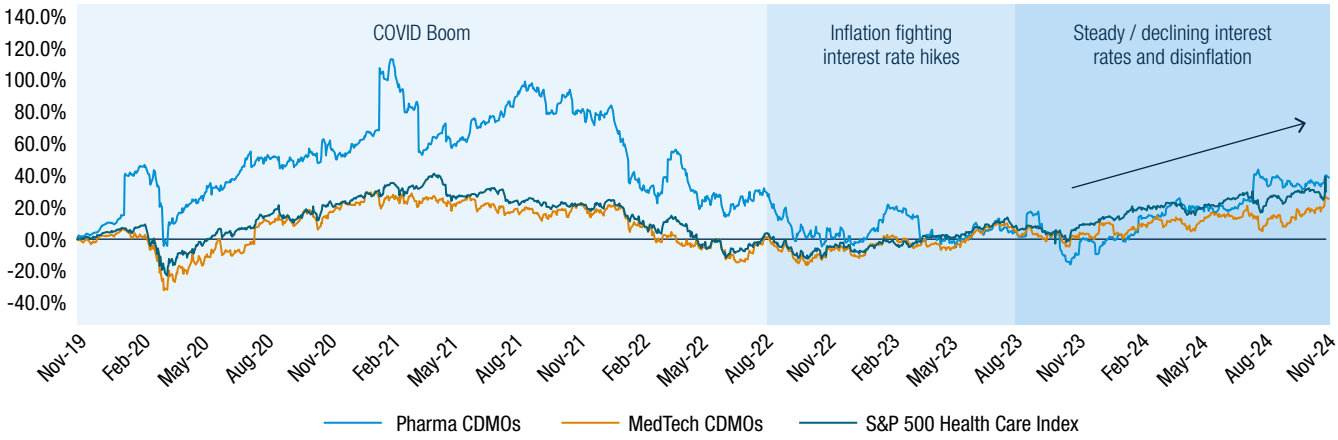
Source: [1]Logo of primary capital backer also included; [2]MergerMarket – reflects only publicly disclosed deals

Value Indications – Select precedent transactions[1]

Deal metrics are increasingly becoming less readily available however, as you can see from the select comparable transactions below, Pharma and MedTech CDMOs often command high multiples given the significant demand for from both strategic and financial investors.

Date	Target	Acquiror	Deal metrics	M&A Theme
Aug-24	SOCIETAL CDMO	core Rx	EV: £161m EV/EBITDA: 41x*	Corporate merger – take private of distressed asset*
Mar-24	ILC DOVER	Ingersoll Rand	EV: £1.8bn EV/EBITDA: c.17x	Corporate acquisition – life science capabilities expansion
Jul-23	KLINGEL	ELOS Medtech	EV: €370m EV/EBITDA: 13.7x	Corporate merger – capabilities and geographic expansion
May-23	SPECTRUM PLASTICS GROUP	DUPONT	EV: £1.4bn EV/EBITDA: 15.6x	Corporate merger – capabilities expansion

Fig. 4 – Last 5-year percentage change in Total Enterprise Value / EBITDA multiples[2]



From a comparable quoted company comparison perspective, publicly trading multiples for large, globally diversified companies can be a poor proxy for mid-market less-diversified assets. Rather than showcasing public trading multiples, the above chart instead focuses on multiple movement over the past five years and shows how CDMOs, especially Pharma CDMOs, can provide an alpha return to the market. A distinct rise in multiples was seen during 2020-21, especially for Pharma CDMOs as drug spend by Pharma skyrocketed due to COVID-19 with knock-on demand for Pharma CDMO services.

Since interest rate hikes ceased, CDMO multiples have trended up over the past 12 months along with the broader market.

As public comparable multiples rise, listed strategics are able to pay higher multiples whilst still making the acquisition earnings accretive. Private equity buyers are also better able to underwrite higher exit multiples and thus able to pay more to acquire new platforms and make tuck-in acquisitions to existing portfolio companies. The significant strategic and PE interest in CDMOs increases competition for deals and helps drive up transaction multiples. Certain factors drawing PE interest in the CDMO sector includes recurring revenues from blue-chip customers, specialised capabilities creating high barriers to entry, and a fragmented market offering the opportunity to build platforms of scale.

Source: [1]MergerMarket – reflects only publicly disclosed deals; [2]Capital IQ

Debt Perspectives

Broadly the UK debt market to support M&A activity and Private Equity transactions is relatively buoyant. This is based on a desire by lenders to deploy capital and increase returns following a suppressed level of borrowing activity, given the increased interest costs. We remain cautiously optimistic for the debt market into 2025 as inflation stabilises and we see a slow reduction in pricing.

Debt appetite in the CDMO market is quite polarised, with lenders who have sector focus teams, specific experience and a high degree of understanding in both wider Healthcare and the sub-sector demonstrating keenness and issuing competitive debt terms. But equally for some more sector agnostic lenders this is a challenging sector given the potential regulatory and perceived reputational risk, particularly at the development and testing stages.

Lenders active in the sector range from traditional high street banks, through to challengers and credit funds. Key areas of focus include mix of products across the lifecycle, product and client concentration, end-user markets, strength of IP and critically maintainable cash generation post R&D and capex spend. All of which will form part of the credit story when approaching lenders.

Sector outlook

With a trending increase in outsourced development and manufacturing in Pharma and MedTech along with broader sector tailwinds from an aging population and the resulting rising instances of chronic diseases, the CDMO market growth outlook is positive for the foreseeable future.

The increasing M&A momentum in the CDMO market is expected to continue due to the following additive factors:

- The CDMO European market is highly fragmented with many specialised small players, lending itself to mass consolidation
- CDMOs continue to look to acquire additional complementary capabilities, especially in drug development and advanced therapeutics, to provide an end-to-end service as desired by clients
- Continued strong financial performance from CDMOs as Pharma and OEMs continue to outsource services, specifically to help navigate and mitigate the risk of the increasingly complex Pharma and MedTech regulatory environments
- Regionalisation of supply chains supports acquisitions of CDMOs closer to existing customers of strategics, helping to secure supply chains and reduce carbon footprints
- Additional bolt-on acquisitions from recently established private equity platforms keen to deploy capital to scale operations prior to an exit

Integration of AI into development, manufacturing and regulatory compliance processes will have untold impacts on how CDMOs deliver services to clients. With continued technological advancement in a highly fragmented market and a much more consolidated market in the US, we can expect to experience a dynamic European CDMO landscape over the coming years.

How can A&M help you

We are a specialist mid-market M&A team supporting owner-managers, entrepreneurs and private equity clients to achieve their growth and value realisation goals. We work shoulder-to-shoulder with our clients to drive transactions from conception to closing, providing independent advice and a holistic approach.

Led by Al-Munther Sultan, A&M's Healthcare and Life Sciences M&A division is a fully resourced team of 12 dedicated individuals with extensive market and transaction knowledge. Supported by over 10,000 deal practitioners worldwide, we have a proven track record of executing sell-side and buy-side transactions.

Our wider international network of Healthcare and Life Sciences specialists comprises seasoned industry and advisory executives across the globe, able to deliver unparalleled access to the latest global market insights. We hold close relationships with companies across the industry, maintaining regular dialogue, providing access to key decision makers.

If you are interested in exploring value realisation options or would like to find out more about our team and services, please get in touch with our Healthcare and Life Sciences specialists.

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We bring operating and management expertise combined with top-tier consulting and specialised industry experience to meet the changing needs of companies and investors.

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- Senior-led, dedicated specialist team
- Hands-on approach to value creation
- Strong operational heritage
- Free from audit-based conflicts

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