CORPORATE FINANCE

MARCH INSIGHTS PAPER:
REDEFINING DRUG DEVELOPMENT: THE RISE OF NEXT-GEN CROs
MARCH 2025

The drug development pathway

The Increasingly Important Role of Contract Research Organisations

The COVID-19 pandemic and subsequent lockdowns had a transformative impact on the pharmaceutical industry. Half a decade on, there is a heightened focus on improving efficiencies during the drug development phase, with an emphasis on reducing costs and accelerating timelines to bring products to market.

The traditional 10-to-15-year drug development timeline was drastically shortened during the pandemic to enable the rapid launch of lifesaving vaccines. This was made possible by the resilience of drug research pioneers and unprecedented international collaboration. The Phase III clinical trials of the Pfizer/BioNTech vaccine demonstrated promising results within a year — a remarkable achievement that was previously considered unattainable. This milestone has set a new benchmark for the future of drug development.

The increasingly competitive nature of the pharmaceutical industry has further intensified the pressure on developers to accelerate R&D and shorten timelines. However, this has also led to higher costs for launching new drugs, which continue to suppress Returns On Investment (ROI). Additionally, the complex regulatory landscape and advancements in emerging therapeutic areas (gene and cell therapies, mRNA, GLP-1's etc.), have added layers of complexity to the development process, driving the need for more efficient and streamlined approaches.

To address these challenges, the industry is increasingly turning to Contract Research Organisations (CROs).

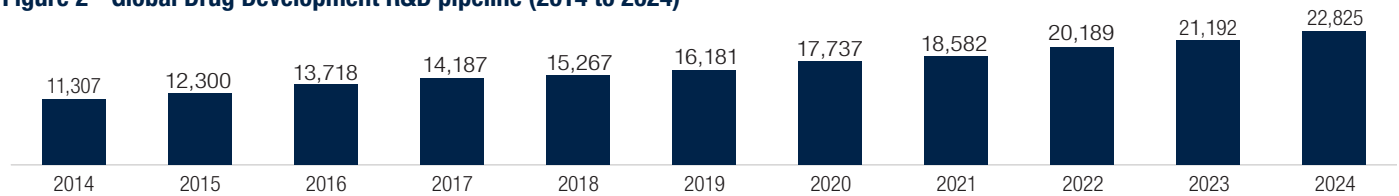
These specialist businesses take on various aspects of the development process, including coordinating clinical trials, undertaking pre-clinical research and even supporting at early discovery phases such as target validation. CROs play a critical role in optimising development timelines and budgets, helping sponsors navigate the intricate and resource-intensive drug development pathway.

Drug development is inherently complex, with multiple stages that require careful management to avoid inefficiencies and cost overruns. Estimates suggest that the average cost of conducting a Phase III clinical trial can reach up to $53 million,[3] with costs rising even higher for therapies involving complex protocols or specialised patient populations, such as oncology treatments.

Engaging a CRO offers significant advantages for pharmaceutical companies. Beyond cost optimisation, CROs bring specialised expertise and technical capabilities that help overcome bottle-necks in the development process. They also enable faster patient recruitment, integrate real-world data and mitigate risks, making clinical development more predictable and efficient. CRO services can be tailored and scaled to meet specific needs, allowing budget holders to adjust R&D capacity as needed while focusing on core activities such as drug discovery, commercialisation and strategic planning.

Figure 1 – Est. Average cost to bring a drug to market[1]

Figure 2 - Global Drug Development R&D pipeline (2014 to 2024)[2]



Sources:

[1]London School of Economics Estimated Research and Development Investment Needed to Bring a New Medicine to Market (March 2020) Olivier Wouters,
[2]Clearview Health Partners,
[3]Key cost drivers of pharmaceutical clinical trials in the United States, April 2016

The Growing Market for Contract Research Services

The development phase of drug creation is increasingly being outsourced, with the pharmaceutical industry relying on a wide range of providers to support nearly all stages of R&D. These providers range from full-service partners to specialised experts. Large CROs, such as **IQVIA**, offer broad therapeutic coverage and a "partnership-style" approach across the entire development pathway. Meanwhile, niche-focused providers like UK-based **TMC Pharma** specialise in areas such as rare diseases. While there is often overlap in the services offered by different providers, they can generally be categorised by the phase of development as outlined below:

Drug Discovery

Drug Discovery CROs operate at the earliest stage of development, specialising in identifying, validating and optimising drug candidates before they enter the pre-clinical phase. Emerging technologies, including AI-driven drug discovery, are revolutionising methods in target lead identification and subsequent validation. The 2024 Nobel Prize in Chemistry was awarded to **DeepMind**, a subsidiary of Google comprising a British team of developers at the forefront of AI research. Their team have developed a groundbreaking AI-based system that accurately predicts protein structures, offering revolutionary applications for drug discovery. Other notable innovations in this space include **Orbit Discovery**'s specialised peptide discovery platform, which uses advanced technologies to deliver peptide-based therapeutic leads. Similarly, UK-based **Human Data Sciences** has developed Livingstone®, a proprietary cloud-based patient data analysis tool that can be leveraged to better inform drug development.

Pre-clinical Research

Pre-Clinical CROs evaluate the safety, efficacy and potential side effects of a target compound or medical intervention before any human testing takes place.[4] For instance, Hereford-based CRO **ProPath** offers molecular pathology as part of its broad service offering, analysing drug interactions at the molecular level to ensure readiness for clinical trials. Many Pre-Clinical CROs specialise in specific therapeutic areas, providing cost-effective and reliable studies. Outsourcing this phase allows pharma companies to avoid the need for intensive in-house testing facilities and specialised teams, enabling better budget management and faster progress to the clinical phase.

Clinical Research

Clinical CROs oversee and conduct the highly regulated and resource-intensive clinical trials required for drug approval. Delays in this phase can be costly, increasing competitive, financial, and regulatory risks. CROs bring efficiency, regulatory expertise and tailored solutions to improve trial success rates. Some are wide ranging and cover multiple therapeutic areas, while others, like **EMAS Pharma** (recently acquired by Kester Capital), offer bespoke global support across particular capabilities, including oncology and rare disease. Leading CROs are also increasingly leveraging innovations such as cloud-based data management and decentralised clinical trial technology to enhance patient access, improve data quality and accelerate development timelines.

Ancillary Services

In addition to full-scope and specialised CROs, ancillary "fourth-party" providers address niche needs within drug development. Site Management Organisations (SMOs) have become valuable partners to CROs, streamlining clinical trials by efficiently managing research sites and stakeholders in a cost-effective manner. UK-based **Panthera Bio** operates a nationwide model with a strong presence in the country's most populated cities, while companies like **FutureMeds** have expanded their services to provide pan-European site coverage. Similarly, **EMS Healthcare**, a UK mobile clinical infrastructure provider, has recognised the need for flexible site solutions and has expanded its offering to cover the clinical research segment - offering flexible sites to improve trial speed and patient representation. Clinical Trial Supply (CTS) providers, such as **Midwinter Solutions**, specialise in the sourcing, storage, and distribution of trial materials, ensuring smooth logistics and uninterrupted studies. These ancillary services allow CROs to focus on core trial elements while ensuring operational efficiency.

Table 1 – Average cost for each trial phase[5]

	Est. Average Cost	
Trial Phase	USA	Western Europe
I	$1m - $2m	$1m - $3m
II	$7m - $20m	$5m - $15m
III	$20m - $100m+	$15m - $50m

Table 2 – Core areas of focus for major providers[6]

	Charles River	ICON	IQVIA	PPD	Syneos
Drug Discovery	●	●	●	●	●
Pre-clinical Research	●	●	●	●	●
Clinical Research	●	●	●	●	●
Ancillary Clinical Services	●	●	●	●	●

Note: *Examples are not exhaustive and may have overlap with other market segments*

Sources:
[4]https://www.ppd.com/what-is-a-cro/--studies-in-drug-development/ *(accessed 13th February 2025),*
[5]*Sofpromed - 2025*
[6]*A&M Research*

A Backdrop of Supportive Industry Trends

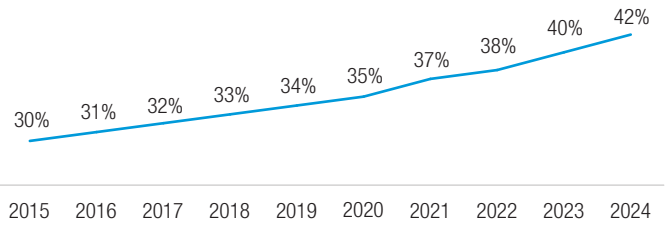
The broader outsourced pharmaceutical services market has seen remarkable growth in recent years, driven by several key factors - many of which were highlighted in our *Outsourced Pharma Services Insights Paper* published last year. The CRO industry, in particular, has expanded significantly due to the growing drug development pipeline and increasing pressure to accelerate product launches. These pressures are fuelled by heightened competition and fragile ROIs. As illustrated by *Figure 3*, the percentage of outsourced R&D spending by drug makers has steadily been on the rise, growing from 30% in 2015 to 42% in 2024.[7] Further growth is expected as incumbent players drive further innovation in their offering, amplifying efficiency gains and optimising development processes.

1. Rising Demand for Specialised Services

Advancements in the understanding of disease mechanisms and drug-target interactions have led to the diversification of new drugs entering the market, including novel modalities such as gene therapies and complex biologics. These advancements have added layers of complexity to the development and testing phases, necessitating the involvement of specialised providers.

Specialised CROs are uniquely equipped to handle the intricate requirements of developing complex drugs. Their expertise and technical capabilities enable them to overcome roadblocks and adhere to tight development timelines. Additionally, CROs focused on specific therapeutic areas bring deep regulatory knowledge; streamlining processes and acting as strategic partners to sponsors.

Figure 3 – % R&D spend outsourced each year[7]



2. Disruptive Tech-Underpinned Development

Technological innovation has become a cornerstone of progress across all stages of drug development, from the discovery of new therapeutics to faster and more comprehensive pre-clinical and clinical testing. These advancements not only facilitate successful drug launches but also improve patient outcomes.

AI and machine learning have catalysed the discovery of groundbreaking therapeutics, as previously discussed.

Beyond discovery, technology has been integrated into later stages of research to enable more informed testing. One of the most transformative advancements has been the adoption of Decentralised Clinical Trials (DCTs), which leverage digital technologies to address logistical challenges, enhance patient engagement and improve trial outcomes. It is estimated that up to 90% of the industry[8] will incorporate some element of DCTs in clinical trials moving forward, underscoring the critical role of technology in modern drug development.

3. Increasing R&D Contributions from Small and Mid-sized Pharma

The dominance of large pharmaceutical companies in R&D has been steadily eroded by the rise of Small and Mid-sized Developers (SMIDs). In 2023, SMIDs accounted for more than half of FDA approvals *(Figure 4)* and led activity in both Phase II and Phase III trials, representing a significant portion of the industry's development efforts *(Figure 5)*.[9]

This shift marks a new era in the pharmaceutical landscape, creating fresh opportunities for CROs. While SMIDs are driving innovation in therapeutics, they often lack the infrastructure to conduct pre-clinical and clinical research. By partnering with outsourced research providers, these smaller developers can focus on discovery while leveraging the expertise of CROs to manage the complex post-discovery phases, ensuring successful drug launches.

4. The Rise of Asia Pacific (APAC) Region

The APAC region has emerged as a major growth driver for the CRO industry, establishing itself as a key hub for clinical R&D. The market size in the region is projected to grow from approximately $13 billion in 2025 to $35 billion by 2034.[10]

Currently, over 50% of global clinical trial activity takes place in APAC, driven by several inherent advantages. Trials conducted in the region are 30-40% less expensive than those in the US or Europe, thanks to lower patient recruitment and staff costs, reduced procedural expenses, and lower regulatory fees.[11] Local CROs such as **WuXi AppTec**, **Novotech**, and **Syngene** dominate the regional landscape, competing aggressively with Western providers.

The combination of cost efficiency, a growing talent pool, and increasing investment in infrastructure has positioned APAC as a critical player in the global CRO market, further fueling the industry's growth trajectory.

Figure 4 – FDA drug approvals by size of developer[9]

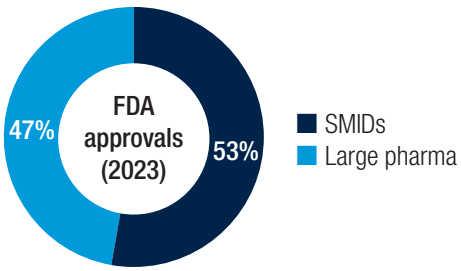
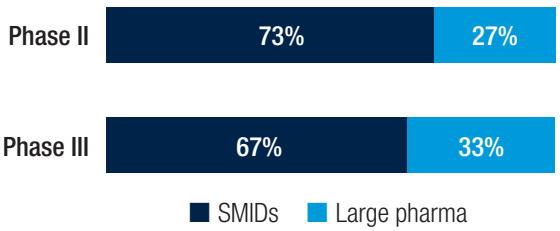


Figure 5 – Clinical trial activity by size of developer[9]



Sources:

[7]Jefferies Equity Research on Wuxi (November 2023), [8]ObvioHealth: A look ahead at decentralised clinical trials in 2023, [9]IQVIA: Global Trends in R&D 2024 - February 2024, [10]Market Research Future, [11]Clinical Leader

US CROs: Navigating Challenges and Driving Innovation in a Transforming Landscape

The US plays a pivotal role in global research and biopharmaceutical development, underscored by its vast R&D infrastructure and robust market. In 2023, US biopharma firms spent approximately $96 billion on R&D, with foreign-owned companies contributing an additional $26 billion, according to the industry group PhRMA.[12]

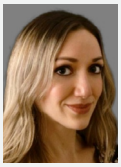
As of February 2025, the US accounts for 35% of all clinical trials registered on ClinicalTrials.gov, with 156,097 studies registered exclusively in the US.[13] This is supported by a diverse population of nearly 347 million, extensive healthcare facilities, and a significant biotech presence, with about 20,000 mid-sized biotech companies, 1,350 large firms, and numerous smaller enterprises.[14] Additionally, the US hosts around 4,230 CROs,[15] which are integral to the nation's substantial R&D output, meeting the high demand for clinical research across various therapeutic areas and drug development stages.

The US biopharma market remains a global leader, though it has encountered significant challenges recently. During the pandemic years, the sector enjoyed a surge in funding driven by low interest rates and economic stimulus from the US government. However, the subsequent economic slowdown, fuelled by high interest rates and tighter capital access, has dampened fundraising efforts. Facing patent expirations and cooler markets, many biopharma companies have tightened budgets, leading to cost reductions and layoffs, affecting both the companies and their associated CROs.[16] Smaller and medium-sized firms, in particular, have struggled with securing necessary funding, prompting some to narrow their focus or cut back on less essential projects.

In 2025, trends of high interest rates are likely to persist due to ongoing inflation, and political uncertainty may restrain investment. The government's plans to reduce federal spending could decrease public funding for biomedical research, potentially stifling innovation and resulting in fewer new medicines in the biopharma sector over time.

Despite headcount reductions and reorganizations in 2024, there's optimism for the US biopharma sector driven by advances in technology such as AI, which promises to improve processes like site selection, trial matching, patient recruitment, and analysis of real-world evidence. Numerous startups and technology partnerships have recently emerged in this field. For instance, in January 2025, **NVIDIA** partnered with **IQVIA** to develop AI tools aimed at boosting clinical trial efficiency and optimizing therapy launches by leveraging IQVIA's extensive healthcare data.[17] Additionally, with no significant M&A among large CROs in 2024, there may be an increase in M&A activities targeting tech platforms in 2025.

Frank Orlowski
Managing Director
Life Sciences Practice, A&M US
forlowski@alvarezandmarsal.com



Marcela Preininger
Senior Associate
Life Sciences Practice, A&M US
mpreininger@alvarezandmarsal.com

Sources:

[12]*SelectUSA https://www.trade.gov/selectusa-biopharmaceuticals-industry;*
[13]*ClinicalTrials.gov https://clinicaltrials.gov/about-site/trends-charts;*
[14]*BoldData https://bolddata.nl/en/companies/usa/biotech-companies-usa/;*
[15]*IBISWorld https://www.ibisworld.com/united-states/number-of-businesses/contract-research-organizations/5708/;*
[16]*BioSpace https://www.biospace.com/job-trends/layoffs-continued-across-biopharma-in-2024;*
[17]*IQVIA Press Release https://www.iqvia.com/newsroom/2025/01/iqvia-and-nvidia-collaborate-to-transform-healthcare-and-life-sciences*

Driving Growth and Innovation Through M&A

The M&A landscape for CROs has been highly active in recent years, driven by the increasing complexity of drug development and the growing demand for specialised services. Investors, both strategic and financial, are seeking opportunities to consolidate capabilities, expand geographic reach and enhance service offerings to meet the rising R&D expenditure across the pharma and biotech sectors. With the global drug development pipeline diversifying into new therapeutic areas and modalities, M&A activity has become a key strategy for CROs to remain competitive, achieve scale, and address the evolving needs of sponsors. This trend has also been fuelled by the need for integrated solutions, as sponsors increasingly prefer end-to-end service providers capable of managing the entire development lifecycle.

Earlier this year, the British early-stage CRO **hVivo**, which specialises in infectious and respiratory disease, announced its €10 million acquisition of two clinical research units from Germany-based clinical development partner **CRS**.

The acquisition expanded hVivo's services across the Phase I-II development pathway and also extended their footprint to afford greater coverage across the German and broader European market. The acquisition brought additional synergies, allowing CRS to in-source many of its previously outsourced services through hVivo's existing suite, benefiting margins.

Through a more niche lens, UK-based Toxicology CRO **Gentronix** was acquired by Danish-equivalent **Scantox** last September. Toxicology is a key component within the pre-clinical study phase, where providers work closely with sponsors to identify toxic compounds ahead of clinical studies. The acquisition expanded Impilo-backed Scantox's service offering and geographic footprint into the UK market, providing further capability coverage across the discovery and development lifecycle. The sale also provided an exit for former investor Mercia Ventures, who sold their stake for £14.8m —representing a 4.5x return on investment.

Key drivers of value

- **Platform of scale** – A larger, internationally-focused service provider can typically tender for larger, more lucrative contracts in high-profile drug development
- **Therapeutic expertise** – A more strategic role with specialised capabilities in specific therapies creates further opportunities to support and offer higher-margin services, especially as drugs become more complex
- **Diversified offering** – The ability to address various aspects of the development pathway, while cross-selling, creates a more loyal client base and opens up additional opportunities for growth
- **Tech-enabled offering** – Provides a competitive edge over less advanced service providers by enhancing development efficiencies and reducing resource needs
- **Established blue-chip client base** – Larger-scale development activity undertaken by blue-chip clients offers more lucrative contracts and a higher profile in the market for customer acquisition

Selected recent M&A

Date	Target	Acquiror	Deal rationale
Jan-25	CRS. CLINICAL RESEARCH SERVICES.	hVIVO	To expand its geographic footprint in Germany and increase market share in Europe.
Dec-24	emas pharma	KESTER CAPITAL	To acquire a scalable platform asset in the Clinical CRO market and drive growth through both organic expansion and acquisitions.
Sept-24	charnwood discovery Part of Concept Life Sciences	CONCEPT LIFE SCIENCES; LIMERSTON CAPITAL	To scale drug discovery research offering through the acquisition of scientific expertise and advanced manufacturing facilities.
Sept-24	gentronix	scantox Impilo	To expand capabilities in toxicology testing as well as increase geographic footprint, catering to more clients across the UK market.
Sept-24	DefiniGEN DISEASE MODEL INNOVATION	BGF (Series B funding leader)	To secure funding for the further development and growth of DefiniGEN's human disease model platform.
Jun-24	REACH SEPARATIONS	CatSci; KEENSIGHT CAPITAL	To expand chromatographic service capabilities for clients as part of drug development.

Sources: *MergerMarket, S&P Capital IQ, Press Releases, A&M Intelligence*

Private Equity's Role in Transforming the CRO Landscape

Private Equity (PE) investment in the CRO sector has reached record levels in recent years, driven by strong market fundamentals and the clear buy-and-build opportunities presented by the industry's fragmented landscape. With numerous niche providers specialising in different aspects of drug development, the sector offers significant potential for consolidation. Rolling up a diverse range of providers across the development lifecycle creates the opportunity for a more integrated, "stickier" revenue model, enabling companies to become one-stop shops for sponsors and capture income throughout the long-spanning drug development cycle.

PE institutions have been actively targeting scalable, high-value assets to build platforms that are able to expand capabilities and customer bases, capitalising on the growing trend of outsourcing in the pharmaceutical industry. The UK market, in particular, has attracted significant investor interest due to its strategic advantages. These include its prime geographical location bridging US, European, and Asian time zones, world-class academic institutions fostering potential partnerships, a thriving pharmaceutical sector with a strong focus on innovation, and a highly skilled workforce.

One of the leading platforms in this space, UK-based CRO **Sygnature Discovery**, has pursued a series of acquisitions since 2018 to strengthen its position as a discovery-focused platform. Formerly owned by Phoenix Equity and acquired by Five Arrows in 2021, Sygnature has expanded its integrated discovery offering by acquiring established businesses such as **Peak Proteins** and **SB Drug Discovery**, enhancing its capabilities for existing customers. Additionally, Sygnature has entered new geographic markets, including its 2023 acquisition of Canadian CRO **NuChem Sciences**, marking its expansion into North America and broadening its global reach.

In another recent development, Limerston Capital-backed **Concept Life Sciences** announced its acquisition of Loughborough-based **Charnwood Discovery** late last year. This acquisition bolstered Concept's discovery and pre-clinical service offerings while adding a portfolio of global pharmaceutical and biotech clients. Furthermore, Charnwood's clients now benefit from Concept's state-of-the-art manufacturing facilities, enabling seamless support for later-stage clinical trial drug manufacturing.

Selected UK-based PE Platforms

December 2024	November 2023	September 2023
Asset: emas pharma	**Asset:** RoukenBio	**Asset:** ERGOMED plc
Backer: KESTER CAPITAL	**Backer:** North Edge.	**Backer:** PERMIRA
Focus: Clinical	**Focus:** Discovery/Pre-Clinical	**Focus:** Clinical/Pharmacovigilance

April 2023	August 2022	June 2022
Asset: CONCEPT LIFE SCIENCES	**Asset:** TMC PHARMA	**Asset:** CatSci
Backer: LIMERSTON CAPITAL	**Backer:** LDC	**Backer:** KEENSIGHT CAPITAL
Focus: Discovery	**Focus:** Pre-Clinical/Clinical	**Focus:** Discovery

July 2021	July 2019	February 2019
Asset: SYGNATURE DISCOVERY	**Asset:** Quotient Sciences	**Asset:** SIMBEC-ORION
Backer: Five Arrows Principal Investments	**Backer:** PERMIRA	**Backer:** cbpe
Focus: Discovery/Pre-Clinical	**Focus:** Clinical	**Focus:** Clinical

Sources: *MergerMarket, S&P Capital IQ, Press Releases, A&M Intelligence*

Navigating Debt Financing in the CRO Sector

With a clear reason to exist and strong long-term fundamentals, the CRO space remains attractive for debt capital providers, whether healthcare sector specialists or generalists. There is a certain degree of cautiousness amongst investors when reviewing individual companies as asset performance has varied in recent years in spite of the overall market growth. A share of CROs experienced revenue churn as big pharma reshuffled and reprioritised development targets post the Covid-19 pandemic whilst biotech funding contracted. But lenders are far from being risk off and appetite will vary in line with business quality.

In the European mid-market, leverage levels range up to a maximum of 6-7x for the most stable, high-margin companies commanding EV multiples in the low-to-mid teens. Generally, debt levels for strong performing businesses are more likely capped at 4-5x Pro-Forma EBITDA. These businesses are highly entrenched into their client's processes, rely on the use of technology to improve efficiencies, have low operating leverage and charge a premium for their perceived value add services.

Other key areas impacting leverage include:

1. **Customer profile** (including split between big pharma vs. biotech, customer concentration, clients' pipeline and funding levels).
2. **Therapeutic areas addressed** (high profile therapeutic areas such as oncology generally appeal to a wider audience, whilst a select group will give benefit to competitive positionings in niche markets, e.g. rare diseases).
3. **Stage of development** (later stages of development generally commend higher leverage levels due to backlog visibility).
4. **Geographical reach** (incl. where appropriate, the ability to ensure consistent levels of quality across multiple jurisdictions).
5. **Availability of qualified personnel** (qualified medical, project management and admin staff with long tenure preferred).
6. **Availability of decentralised clinical trials**.
7. **Regulatory environment** (including ability to manage complexity across different regulatory frameworks, track record of successfully supporting clients through regulatory approvals).

Some specialised debt providers may have unique angles, for example favouring CROs active across therapeutic areas where they already have exposure to the underlying sector or CROs leveraging technology, particularly in the earlier discovery and pre-clinical stages.

Given the variance in lender appetite and nuances around key credit areas above, it is essential to position the credit story right up front and approach the most relevant subset of lenders in order to maximise terms.

Adina Bleotu
Director
Debt Advisory

ableotu@alvarezandmarsal.com

Valuation Trends in the CRO Industry: Key Drivers, Premiums, and Market Insights

Valuation trends of publicly traded CROs in recent years highlight the industry's strong fundamentals, which have remained resilient despite a challenging macroeconomic environment.

Whilst not fully comparable due to factors such as scale, liquidity and breadth of offering among others, EV/EBITDA multiples of these listed organisations can act as a good barometer for expected valuations for established, privately-held mid-market companies operating within the CRO space.

The valuation multiples of select leading CROs below show notable variations based on the stage of development they serve. The US Clinical CRO **Medpace**, trading strongly relative to peers at 20.4x, has demonstrated a robust growth profile – delivering an impressive three-year revenue growth rate of c.20%. Medpace operates primarily across later-stage clinical trials in contrast to its peer **Charles River** – servicing predominantly the Discovery/ Pre-Clinical market. As we made reference to earlier on in this paper, the SMID segment is rapidly gaining ground in the broader R&D pipeline. Medpace's approach of fostering strong partnerships with emerging biotech companies and strategically supporting the most promising drug candidates ensures a consistent flow of opportunities in later-stage development, where the risk is considerably lower.

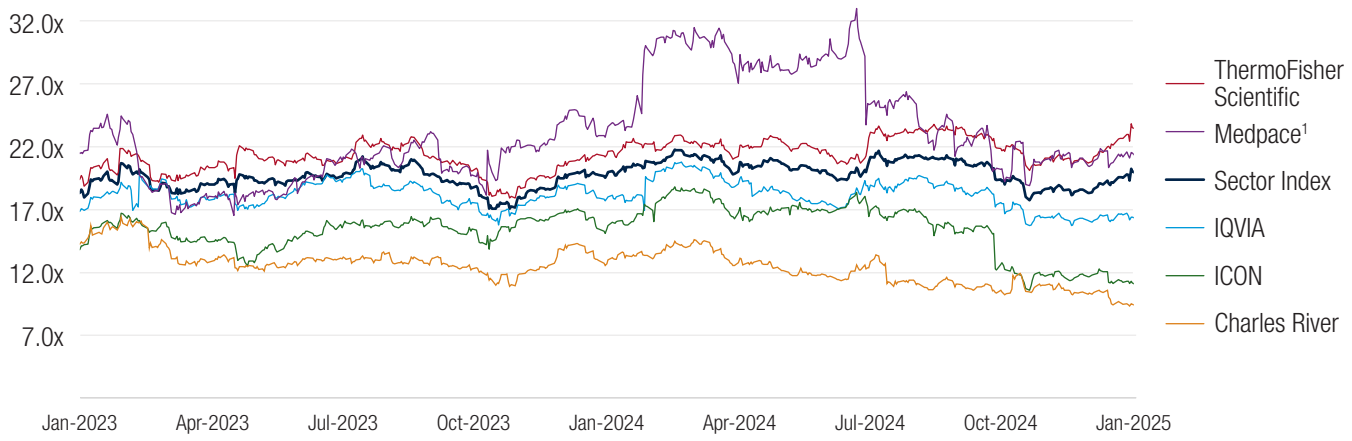
In reference to large-scale transactions in the space, **ThermoFisher**'s $20.9 billion acquisition of US CRO PPD back in 2021 remains the largest ever transaction within the industry. PPD is a full-service CRO, offering end-to-end development ranging from laboratory services through to clinical trials and onwards regulatory support. The acquisition significantly enhanced ThermoFisher's CRO services offering, for which it paid a multiple of approximately 27x PPD's EBITDA.

In 2023, the British investment firm Permira announced its acquisition of diversified, global pharma services business **Ergomed** in a £703 million buyout deal, valuing the business also at around 24x adjusted EBITDA. Ergomed operates within two distinct units — a Clinical CRO specialising in oncology and rare diseases as well as an established pharmacovigilance business, with roughly an equal split between the two in terms of revenue. The transaction demonstrates the premium valuations on offer for CRO platforms of scale with an international footprint.

Table 3 – Trading metrics for major listed CROs

Company	Revenue (£m) / (Growth on PY %)	3-Year Revenue CAGR %	EBITDA Margin	Enterprise Value (£bn)	EV/EBITDA multiple
ThermoFisher Scientific	34,198 (0.1%)	-2%	25.3%	187.8	21.5x
Medpace	1,682 (11.8%)	20%	22.6%	7.8	20.4x
IQVIA	12,286 (2.8%)	3%	22.0%	38.0	14.0x
ICON	6,605 (2.0%)	3%	20.3%	14.6	11.2x
Charles River	3,125 (-2.4%)	1%	23.1%	8.1	10.6x

Figure 4 – Through-the-cycle analysis of major listed CROs



Sources: *MergerMarket, S&P Capital IQ (accessed 14/02/25), Press Releases, A&M Intelligence*
Note: *[1]Medpace's valuation experienced a significant increase in the first half of 2024 due to robust financial performance and strong business growth in Q1 contributing to a favourable market perception and a higher valuation*

Positive Sector Outlook

The broader pharmaceutical services market has seen a surge of activity following the pandemic, as the industry sharpens its focus on eliminating inefficiencies to sustain ROI and accelerate the launch of successful therapeutics in an increasingly competitive landscape. The CRO industry is at the forefront of this transformation, bringing with it new technologies and innovative practices that are changing the ways that we discover, develop and test new drugs.

Despite the growth of full-suite providers, the industry remains highly fragmented, both in the UK and globally, as specialist players continue to find opportunities to address the diverse needs within the complex drug development landscape. M&A will play a vital role for scaled providers maintaining competitive advantage in a hotly contested market, as well as financial investors seeking to capitalise on the growing trend of outsourcing in an industry that shows no signs of slowing.

Abolition of NHS England

The recently announced abolishment of NHS England is poised to have far-reaching consequences for the pharmaceuticals industry and CROs, both in the short and long term. In the immediate future, the restructuring is expected to create disruption due to the uncertainty and changes to procurement processes affecting the sourcing of new medicines and budgeted ROI's. From a clinical trial perspective, the dissolution of NHS England may lead to staffing challenges, as job losses within the NHS — an essential partner for CROs managing UK clinical trials —could hinder operations. Additionally, the dismantling of existing frameworks for trial approvals, funding, and site management may result in delays and uncertainties for CROs as they navigate new regulatory processes during the transition period. In the long term however, the integration of NHS England with the Department of Health and Social Care (DHSC) has the potential to streamline operations by reducing bureaucracy, centralising functions and eliminating administrative redundancies. This restructuring could create opportunities for CROs, as a more efficient approvals process may enhance the UK's appeal as a destination for clinical research. The success of this transition will be critical in determining whether the UK can maintain its competitive edge in the global clinical research landscape.

Sector outlook

The CRO sector remains attractive to debt capital providers due to its strong fundamentals and integration into client processes, though investor caution persists due to varied asset performance and challenges like post-COVID revenue churn and biotech funding contraction. Leverage levels depend on factors such as customer profile, therapeutic focus, development stage focus, geographical reach, and regulatory environment exposure, making it crucial to tailor credit positioning to align with lender preferences and to maximise terms.

From a US perspective, the US biopharma sector remains a global leader, supported by extensive R&D infrastructure, a diverse population, and a significant biotech and CRO presence, though it faces challenges from high interest rates, reduced funding, and economic pressures. Despite these hurdles, optimism persists for 2025, driven by technological advancements like AI, which are improving clinical trial processes, and potential M&A activity focused on tech platforms to enhance efficiency and innovation.

In the near-to-mid-term, we expect the following M&A market trends to play out within the sector:

1. **Broadening of capabilities and therapeutic expertise** – Platforms of scale will seek new avenues for capturing sponsor R&D budgets through acquiring new capabilities across the development lifecycle and/or additional areas of therapeutic expertise.
2. **Further investment in technology** – The benefits of technologies such as AI are more clear-cut than ever. Providers will pay premium multiples for proven tech-backed capabilities in the drive for efficiencies.
3. **Greater focus on the SMID market** – As the pipeline of drugs in development from SMID sponsors grows, CROs with a strategic focus on this segment and well-fostered relationships with emerging biotechs will be especially appealing.
4. **Private Equity investment** – Whilst the number of PE-backed CROs have risen sharply over the past few years, there is still a plethora of opportunities in the lower mid-market space, where competition is expected to heat up.

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 11,000 people spanning six continents, 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.

About A&M

Alvarez & Marsal is a global consultancy who, for more than four decades, has set the standard for helping organisations tackle complex business issues, boost operating performance and maximise stakeholder value.

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

Why choose A&M

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

KEY CONTACTS

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.

Al-Munther Sultan
Managing Director,
Head of HLS M&A
asultan@alvarezandmarsal.com

Claire Edwards
Director, HLS M&A
claire.edwards@alvarezandmarsal.com

Lara Tentori
Associate Director, HLS M&A
ltentori@alvarezandmarsal.com

Priyesh Talati
Associate, HLS M&A
ptalati@alvarezandmarsal.com

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