



PHARMA SERVICES DUE DILIGENCE:

Identifying the Commercial Factors Impacting
a Successful Private Equity Transaction

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Identifying the Commercial Factors Impacting a Successful Private Equity Transaction

Maximizing return on invested capital (ROIC) for private equity-owned contract research, development, manufacturing, and services organizations (CXO) certainly requires strong business fundamentals – buy-side confidence in the underlying assets will make or break a transaction. Triangle Insights believes that most PE-owned, CXO companies are capable of generating low-to-mid double-digit growth over a brief period of time. The greater challenge for PE-owned CXO companies lies in projecting future growth, which may or may not dovetail with their CXO assets' past experience at their current (and often limited) scale. Conversely, with the average CXO transaction approaching 15-20x EV/EBITDA,^{1,2} buy-side stakeholders have become more discerning, particularly in the wake of the substantial enthusiasm for CXO companies over the past decade and the more recent 2022 trends in inflation and interest rates.³ Furthermore, opportunities for revenue growth have become more fragmented⁴ and sell-side must carefully understand the market to ensure continued success.

Triangle Insights Group has increasingly supported PE firms and CXO companies to pressure test growth projections against CXO capabilities and identify essential capabilities and key partnering opportunities. Over the past 48 months, Triangle has conducted over 50 PE/CXO engagements, with a focus on market sizing and segmentation, commercial due diligence, and investment thesis validation. In the three case studies that follow, we outline the need for both buy- and sell-side clients to:

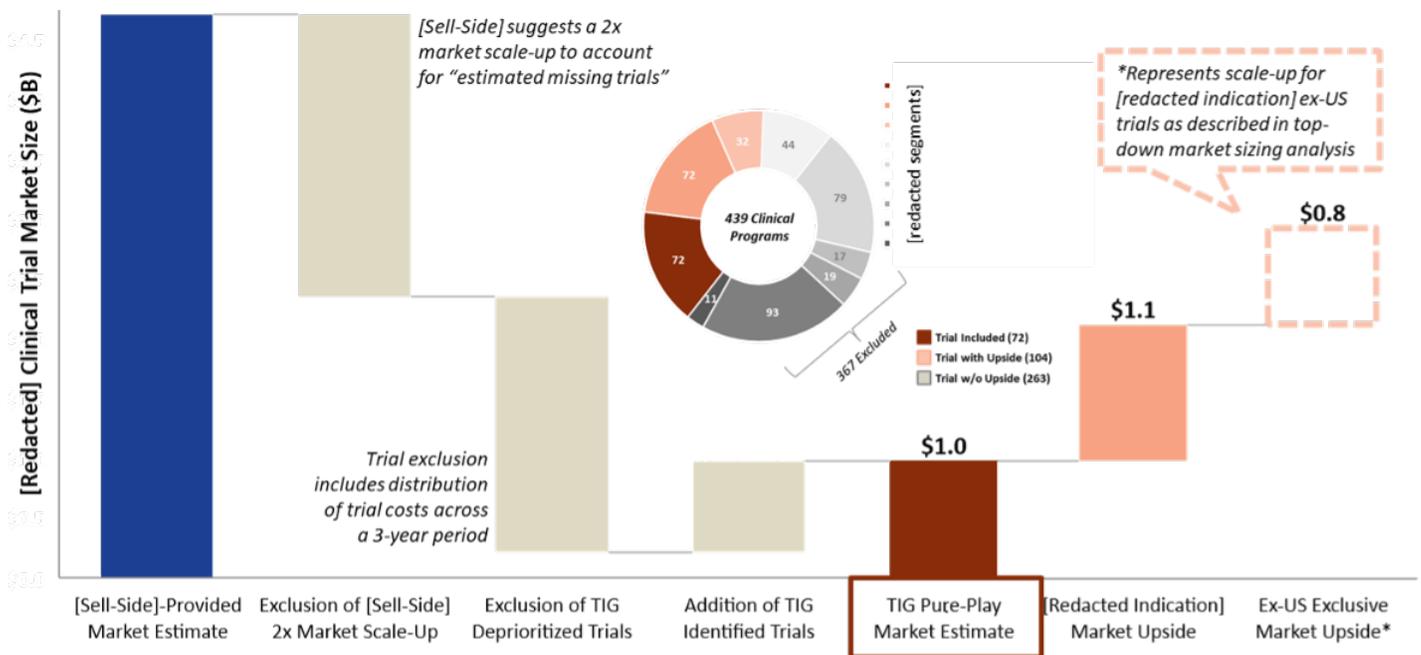
- ▶ Gain a deep understanding of the sources of their future growth,
- ▶ Identify key capabilities and partnerships that will manifest that future growth, and
- ▶ Develop a value proposition that marries past performance with future opportunities in a compelling narrative.

Understand the Sources of Future Growth

Post-transaction growth can be challenging for CXO companies, especially as they increase in scale and require broader market penetration. Oftentimes, they may find that large market opportunities in the aggregate may involve increasingly unfamiliar market segments at the source, potentially placing unrealistic BD expectations on the CXO. These considerations were essential to Triangle Insights' engagement by a PE firm for a buy-side opportunity in clinical trial site management. Critical bottom-up analysis of the target's business development pipeline

uncovered that the majority of trials were in therapeutic areas outside of the CRO's focus, and that a remaining plurality was for indications in which the CRO had not previously conducted trials (Figure 1). Triangle was able to help our client focus on the most credible market segments for near-term growth based on robust bottom-up understanding of the future needs of the cell therapy market. The analysis also resulted in clearly identifying sell-side upsides that were very unlikely to manifest given emerging market trends.

Figure 1. Clinical Trial Market Size: Triangle Insights vs. [Sell-Side] Estimates



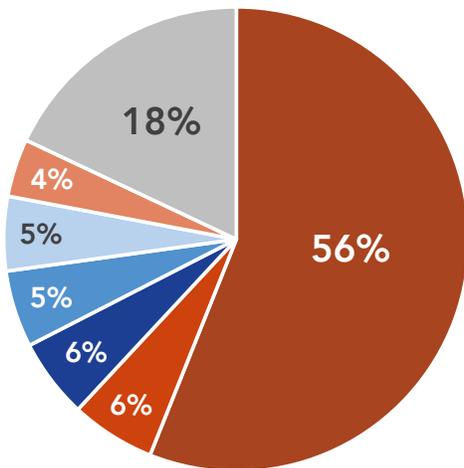
Understanding the Sources of Future Growth. Triangle Insights was able to clarify for buy-side PE the true sources of the proposed market opportunity in [redacted indication], allowing them to refine their expectations for market penetration and arrive at a transaction value with greater confidence.

A deep understanding of the sources of future growth can also support identification of key capabilities and partnerships, as Triangle Insights highlighted after engaging with a PE firm for a buy-side diligence in the cell therapy market. Induced pluripotent stem cells (iPSC) represent the future of cell therapy, allowing for broader penetration into new therapeutic areas due to the variety of cell types that can be induced at

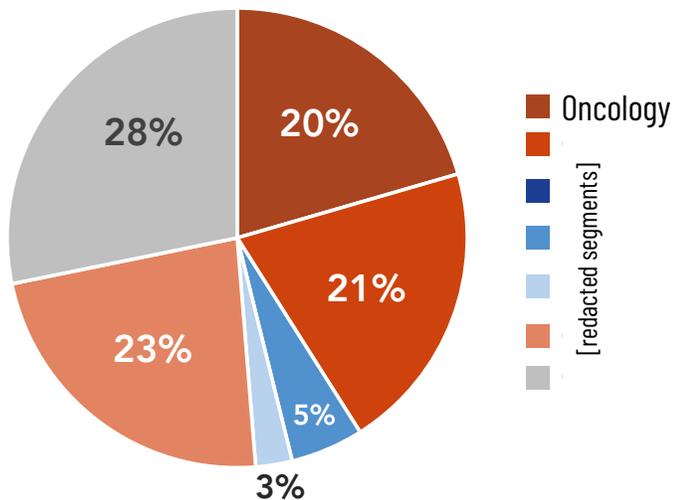
a much lower cost. By identifying the most promising therapeutic areas for market expansion (Figure 2), and capturing biotech stakeholder insights on outsourced share and spend by development phase, Triangle was able to focus its client’s scope for future partnering, develop a nuanced model of the cell therapy market, and avoid buying into specific upsides that would ultimately never manifest.

Figure 2. Cell Therapy Market Segmentation: Influence of iPSC on [Sell-Side] Opportunity⁵

Target Cell Therapy Market



Target iPSC Therapy Market



Identifying Key Capabilities and Partnerships. Triangle Insights uncovered the capabilities needed and partnerships available for iPSC therapies, and developed a nuanced cell therapy market model to inform the value presented by specific upside opportunities for a buy-side PE client.

Develop a Compelling Value Proposition

While drilling down to the core opportunity for buy-side PE is valuable, it remains just as essential to understand when a CXO may truly be at the forefront of significant upside. A recent diligence conducted by Triangle Insights was indicative of just such a compelling value proposition, where a PE-backed CDMO with industry-leading capabilities sits at the forefront of what has recently been termed a “treatment

revolution” in formulation development.⁶ Through case studies in various therapeutic areas, Triangle highlighted how early entry into previously under-developed indications could lead to substantial mid- to long-term volume opportunity (Figure 3).

Figure 3. Topical Treatment Innovation in Psoriasis and Atopic Dermatitis: Potential Spillover Effects Into Other Indications

Current / Future Key Auto-Immune Indications for:

2021+: Companies Developing Novel MoA:

- ▶ Psoriasis
- ▶ Atopic Dermatitis
- ▶ Vitiligo
- ▶ Contact Dermatitis
- ▶ Seborrheic Dermatitis
- ▶ Radiation Dermatitis
- ▶ Bacterial Infections
- ▶ Fungal Infections
- ▶ Parasitic Infections
- ▶ Acne
- ▶ Rosacea
- ▶ Pruritus/Itch
- ▶ Melanoma
- ▶ Skin cancer (non-melanoma)
- ▶ Wound healing
- ▶ Burns
- ▶ Orphan diseases
- ▶ Combination products

 JAK-1/2 (Marketed)	 TAMA (NDA) JAK (Phase 1)
 PDE-4 (Phase 2) Microtubules (Phase 2b)	 PDE-4 (NDA)
 ROS/Kinase (Phase 2)	<p><small>*Joint Venture</small></p>  TYK-2* (Phase 2) PDE-4 (Phase 2)
 JAK-3 (Phase 2)	 ROS/Nf-κB/TGF-β (Phase 2)
 ROS/Interleukin (Phase 1)	 TNF-α (Phase 1)
 Microtubules (Phase 1)	 Antimicrobial (Phase 1)

... and many others in preclinical/clinical stages

Developing a Compelling Value Proposition. Triangle Insights showed how the growth in novel MoA development necessitated industry-leading capabilities, and how mid- to long-term volume opportunity could be realized by the client.

Feedback from Triangle Insights Clients

In addition to the selected insights shared above, Triangle Insights takes pride in its client relationships and the strategic guidance that is offered, underscored by an

average client satisfaction score of 9.4/10 and feedback shared by clients themselves (Figure 4):

Figure 4

"The work enabled us to confidently negotiate significant, impactful changes to the structure of our transaction. This was our firm's first project with TIG, and we immediately booked you all for a second, so that should tell you everything!"

"Very professional, quick learners, and excellent strategic guidance."

"[TIG is a] top quality organization- extremely professional, great working dynamics, quality work, great insights, and able to adapt very well."

"From start to finish, all stakeholders at [Client] were highly impressed with the level of knowledge and understanding brought to the project."

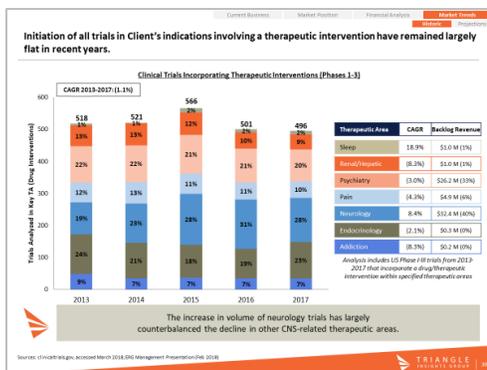
"TIG was very responsive to our needs and displayed a great amount of flexibility while also keeping focused to what was most important."

"The TIG team members were great strategic partners. I would strongly recommend them to my colleagues and absolutely work with them again in the future!"

Feedback from Triangle Insights Clients. Post-engagement feedback from PE/CXO clients underscores high client satisfaction scores (9.4/10 overall) as well as Triangle's commitment to strategic support for new and existing relationships.

CXO Acquisition Due Diligence: Summary of Foundational Approaches by Triangle Insights Group

MARKET SIZE, SEGMENTATION, AND TRENDS



Taking stock of historical trends allows for a better understanding of CXO market power concentration, segment performance, and drivers of market trends.

STAKEHOLDER INTERVIEWS

Customers express that TARGET is a leader in the CNS space with validated abilities to successfully recruit patients and execute on trials across the development timeline.

TARGET Customer Perceptions: Key Strengths

- Therapeutic Area Expertise:** CNS capabilities that support all phases of development, with a particular focus in early phase development.

"TARGET is good across the board. They have inpatient and outpatient capabilities across all phases of development, and distributed around the US. They're my first choice [for CNS]."
- Patient Recruitment:** Extensive patient database with reliable and timely recruitment of special populations (e.g., Alzheimer's).

"For CNS indications, TARGET has very rich experience - few other SMOs can compete."
- KOL Quality:** KOLs are known leaders in trial management that provide expertise at the site level.

"TARGET is very knowledgeable in the field particularly in epilepsy and sleep studies. We would award them 100% of epilepsy trials in the future."
- Clinical Trial Logistics:** Robust experience informs complete understanding of clinical trial logistics from patient recruitment to enrollment and study completion.

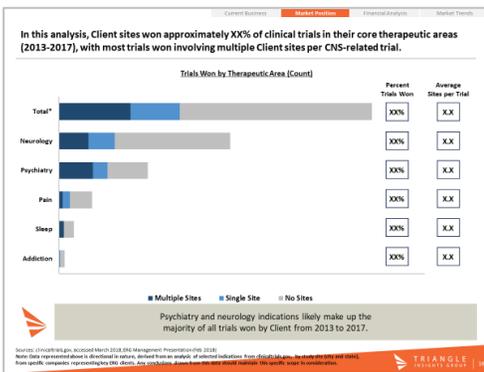
"A key reason we engaged TARGET was their knowledge of the intricate details of our study. We needed to select a site with expertise and robust experience in CNS for unique trial elements and nuances (e.g. patient questioning)."
- External Services:** Clients note that often clinical trials have elements beyond traditional study components and TARGET's widespread knowledge of the CNS space reinforces their position as a leader in CNS research.

TARGET's core strengths appear to be well-aligned with the factors that are most important in the site selection decision.

Source: 4 Interviews, Conducted by Triangle Insights Group 08/2018

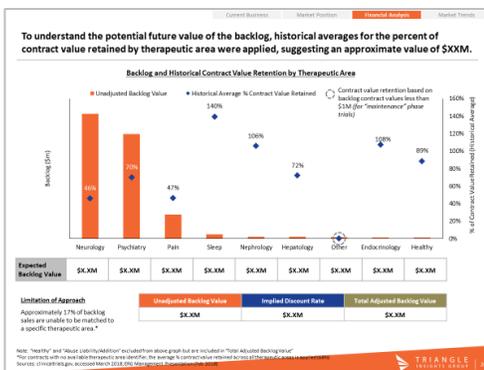
Interviews with CXO stakeholders uncover their rationale for partnerships and what clients should focus on to win their business or enable switching.

MARKET POSITIONING



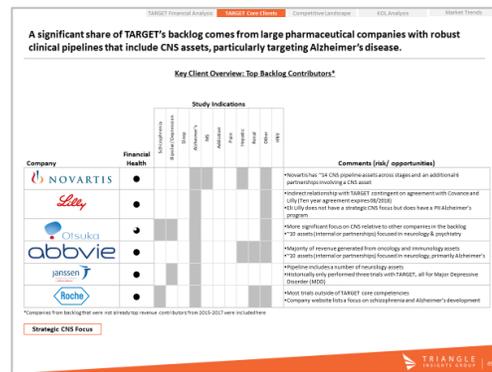
Understanding average market performance enables clients to calibrate expectations for CXO and create practical post-transaction revenue projections.

CONTRACT VALUE ANALYSIS



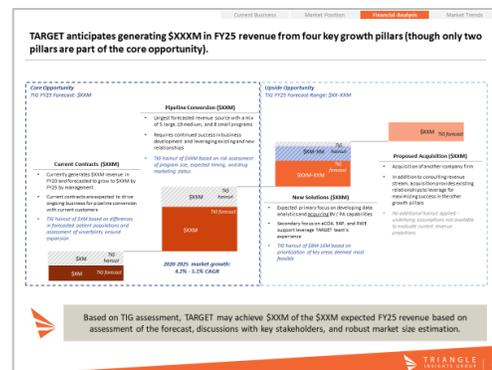
Measuring true contract value by accounting for things like backlog adds reliability to forecasts.

CLIENT PIPELINE ANALYSIS



Pipeline analysis facilitates understanding of launch timelines, competitive threats, and collaborative opportunities for CXO across the industry.

FORECASTING AND KEY GROWTH LEVERS



Knowing which levers to pull is as much about measuring the size of an opportunity as it is deciding where to devote limited resources.

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