
Top Trends in the Contract Research Organization Industry

Top Trends in the CRO Industry

In this Provident Perspective, we will discuss our thoughts on the main trends driving the contract research industry. Through discussions with industry executives, private equity groups, and proprietary research, we have established a list of eight definitive insights into the space and how they are affecting the current M&A marketplace.

The Largest Grow Larger

While the entire Contract Research Organization (CRO) market is expanding, this growth has been disproportionately benefiting the largest companies. The CRO space has historically been controlled by roughly the top six companies, accounting for nearly 50% of industry revenue. In the coming years, the market share of these top six CROs is expected to grow to an excess of 60% of industry of revenue. Strategic partnerships, in addition to size & scale, are the main drivers behind this growth. We foresee a potential for further consolidation as the top few groups look to acquire mid-sized competitors, demonstrated by Quest Diagnostic's acquisition of Quintiles.

Focus on Niche Providers

Although the largest CRO's continue to expand their share of the overall market, companies with a niche focus are increasingly being relied on to meet specific requirements of clinical trials. Biotech companies in particular have favored outsourcing specific steps of their clinical trials instead of outsourcing the entire program to a more broad-platform CRO. Quintiles recent acquisition of Japan-based Clio Sciences demonstrates their interest in finding niche providers (oncology) to broaden their platform.

E-Clinical Efficiencies

CRO's are increasingly recognizing the benefits of e-clinical technologies that allow for faster, more precise, more trackable, and more productive studies. CRO's are implementing platforms that improve how they perform clinical trials, control and share data, track and report patient outcomes, and manage regulatory information. Genstar Capital acquired eResearchTechnology in 2012 and recently announced they will sell ERT to Nordic Capital. We expect to see this trend continue as groups invest more money into technology that both improves the quality of studies as well as cuts costs.

A New Type of Globalization

The industry is experiencing a shift in the way CROs utilize foreign geographies to operate on smaller budgets. Pharmaceutical companies benefit from globalization due to lower costs associated with running studies in countries with lower labor costs. Historically, pharmaceutical companies have utilized CRO's wholly based overseas particularly for high-volume projects where quality and controls can be partially sacrificed for cost. However, many of these companies struggled due to issues with communication and project management during the drug discovery programs, which led to this concept being revisited. We are now seeing CRO's combat these issues by maintaining business operations in the U.S. or Europe while still performing certain clinical work in areas such as Asia and South America.

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Growth in Biosimilars

With more biosimilars in the pipeline than ever before due to the FDA expediting the regulatory processes through 351(k), CROs will be relied on more heavily to assist in clinical and analytical services. In addition, as sponsors seek approval in the U.S. there will be an increased demand for regulatory support. Drug developers have relied heavily on CROs throughout the approval process of biosimilars, having played a role in the development of nearly every biosimilar currently on the market. We have recently seen an increase in biotech companies acquiring biosimilar focused CROs. This can be seen in Sartorius Stedim Biotech's recent acquisition of UK-based BioOutsource.

Greater Number of Partnership Agreements

For many years, CROs have sought to move beyond the role of fee-for-service provider, and branch out into strategic alliances with pharmaceutical companies. The benefits of such an agreement allows for greater synergy between teams, partnering on laboratory research, and collaboration on best practices. Increased industry investment into biosimilars is creating an environment that will benefit greatly from such partnerships. These collaborations will allow the companies to leverage innovation from one another in order to advance biosimilar drug development. Partnerships haven't stopped at the pharmaceutical level either, however, as recent M&A and JV initiatives have seen the largest laboratory players in the U.S. align themselves strategically with top CROs.

Shortage in Personnel

Both pharmaceutical companies as well as CRO's have noted a shortage of experienced personnel to conduct various activities in CROs. Many CROs simply do not have sufficient personnel to fulfill the R&D demands of vendors. This continues to be a main challenge in the market, however seemingly a bigger issue for the larger players than small to mid-sized CROs that are more creative in the ways they attract and retain talent.

Growth in Safety Assessment

We continue to see a strong demand for safety assessment and toxicology services as a result of an increase in funding for early stage pipeline and companies. Safety assessment and toxicology services continues to be highly fragmented, but Charles River Lab's acquisition of WIL Research demonstrates the industries focus on investing in additional capacity. We expect to see heavy activity in the space, both from a pipeline and M&A standpoint.

To the extent that it is of interest, members of the Provident team would be happy to elaborate on any of these trends & provide specific insights on particular CRO niches, specialties, and industry verticals. Please feel free to call (617) 742-9800 for additional information.



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Boston:

260 Franklin Street, 16th Floor
Boston, Massachusetts 02110
617-742-9800

Los Angeles:

315 S. Beverly Drive, Suite 504
Beverly Hills, California 90212
310-359-6600