CDMOs and Private Equity : Still Attractive but More Challenging

The Data

The table shows that a significant proportion of the leading CDMO companies are owned by Private Equity companies (PE). Some large corporates, such as Catalent, now Novo, had their key growth stage under PE, in this case the Blackstone Group.

Company	Ownership	Revenues $ mn 2023/24	No of Employees	Revenues / Employee $000
Patheon NV	Corporate - Thermo Fischer	$ 9,900	NA	NA
Lonza	Public - LONN	$ 6,700	15,500	$ 432
Catalent	Corporate - Novo Nordisk	$ 4,380	16,900	$ 259
WuXi STA (Shanghai) Co Ltd	Public - XHKG: 2269	$ 2,400	12,000	$ 200
Siegfried Holding AG	Public - SFZN	$ 1,500	3,700	$ 405
Recipharm AB	P.E. - EQT	$ 1,430	8,700	$ 164
Vetter Pharma-Fertigung GmbH & Co KG	Private	$ 1,125	6,100	$ 184
Delpharm SAS	Management	$ 1,100	6,500	$ 169
Almac Group Ltd	Private	$ 1,000	7,500	$ 133
Corden Pharma International GmbH	PE - Astorg	$ 1,000	3,000	$ 333
Aenova	PE - Kuhn Holding	$ 915	4,000	$ 229
Fabbrica Italiana Sintetici SpA	PE - Bain Capital	$ 800	2,070	$ 386
Sterling Pharma Services	PE - GHO Capital	$ 360	900	$ 400
PolyPeptide Group AG	Public - PPGN	$ 355	1,200	$ 296
Rottendorf Pharma GmbH	Private - Foundation	$ 140	1,300	$ 108
PCI Pharma Services	PE - Kohlberg	NA	5,000	NA

Revenues are from latest report available, which may be 2022/3 or 2023/4. Employee numbers from public sources, rounded to nearest 10. Patheon is Thermo Fisher's Life Science division which is a proxy for CDMO activities.

As well as these larger companies, there are many smaller PE backed CDMOs that are aiming to get past the $100mn level. For example, Ascend Advanced Technologies, which is buying up capacity in the Cell Gene Therapy area.

Why?

What makes the CDMO segment attractive to Private Equity? PE typically looks for businesses with the following characteristics

Market Growth – the long-term trend in healthcare is well known, growth due to population ageing and increased spending on healthcare. According to Mordor Intelligence the CDMO market is expected to grow at about 6% per year to 2029. This is not spectacular but higher than OECD economic growth and provides a comfortable base.

Acquisition Opportunities – PE uses acquisitions to grow. In Pharma individual plants frequently come up for sale. Big Pharma has sold off first its small molecule capacity and now even biologics plants are available, for example Roche's sale of its Vacaville Plant. Recipharm itself has just sold plants to Blue Wolf Capital, a PE group hoping to replicate their success.

Opportunities To Improve Operational Efficiency – Pharma manufacturing has never been at the top of the efficiency leagues. PE, with experience in other businesses, is not shy to bring in improved techniques at a faster rate than the industry norm. The table shows significant variations in revenues per head – not a perfect measure of efficiency but a useful starting point.

Clear Exit – PE always likes to know where the "exit" door is. In pharma there is a well developed pattern of selling out to the large players. Thermo Fisher bought Patheon and Catalent was sold to the Novo Foundation. Recently BC Partners, having built up Aenova, sold it to the Kuenhe & Nagel PE/Family office.

"**Don't Touch The Patient**" – this point may be controversial, but certain PE companies limit their exposure to patient risk. PE owned plants operate to the same high industry standards but ultimately the CDMO is rarely the Market Authorisation Holder.

The Future: Harder Work

We believe that PE will continue to play an important role in the future but it will be more challenging for the following reasons:

Loss of Economies of Scale

At first the US BioSecure act looks like a golden opportunity to profit from reshoring CDMO activity from India and China. But as one CDMO client said, "Our customers want Western produced Products at China Prices". CDMOs will have to have a more decentralised footprint with plants in US and Europe and, possibly, China.

European Productivity Challenge

Particularly in Europe there is a productivity challenge, recognised by the EU Commission in the Draghi Report "EU Competitiveness: Looking Ahead". US productivity compared to Europe has increased by 30% since the financial crisis. Many of the newer Cell Gene therapies are highly labour intensive. Certainly, CDMOs can move more to the US but they will still have to produce a certain amount in Europe where energy prices are high and labour productivity lower.

Increased Complexity

More therapies with smaller patient numbers is an industry trend. It is easy to overstate this. There is not an executive in the industry that does not want to have a GLP-1 product with a high dose x high population. But the trend is towards smaller batches at a reduced scale.

Industry 4.0 Easier Said than Done.

The high number of parameters in pharma production makes it attractive for data mining but the physical collection of them is not easy. It requires sustained investment in hardware.

Challenging Business Environment

Tax reduction and lower interest rates have been significant drivers of Corporate and PE profitability in the last 20 years. These benign conditions can no longer be counted on.

In short, PE will have to work harder to realise the returns that it seeks. The opportunities include more involvement in the Development arena, better portfolio management, even more focus on operational improvement and, for the brave, a continued bet on China and Asia.

Pharmagro provides operational improvement, portfolio management and transformation services. Its clients include both Private Equity and Publicly owned companies. For more information contact

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