

The Current State of the Pharmaceutical Outsourcing Industry

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Interphex 2009

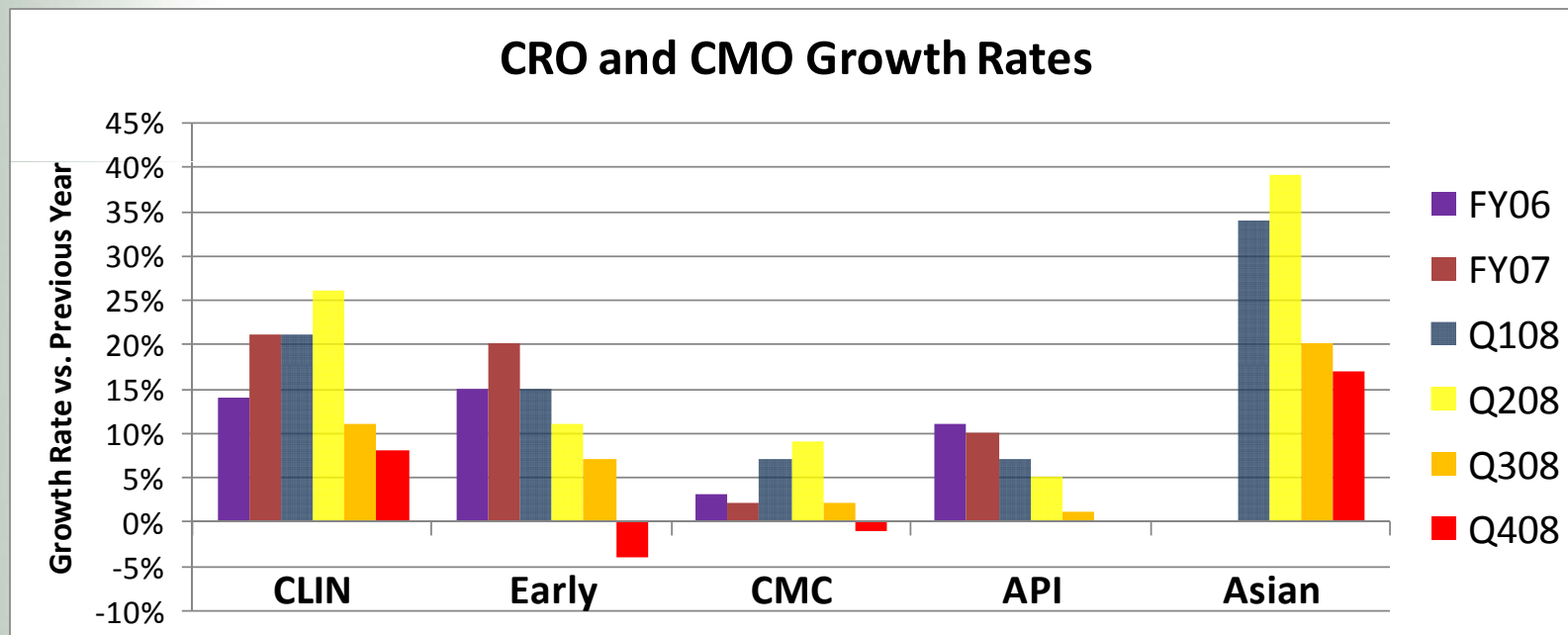
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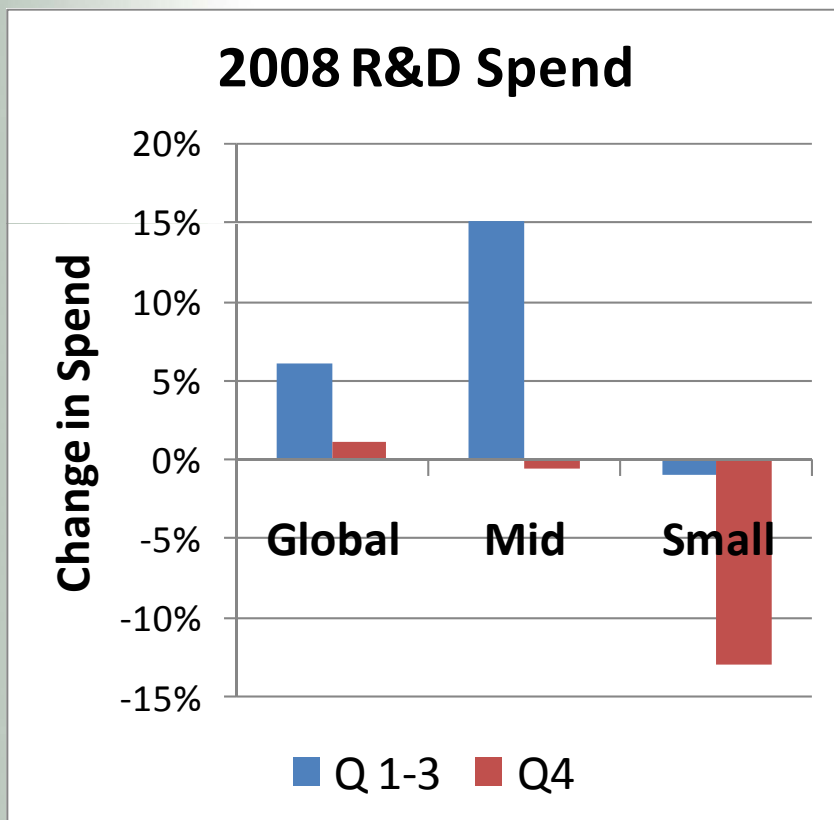
Market conditions

Services experiencing sharp slowdown



Market conditions

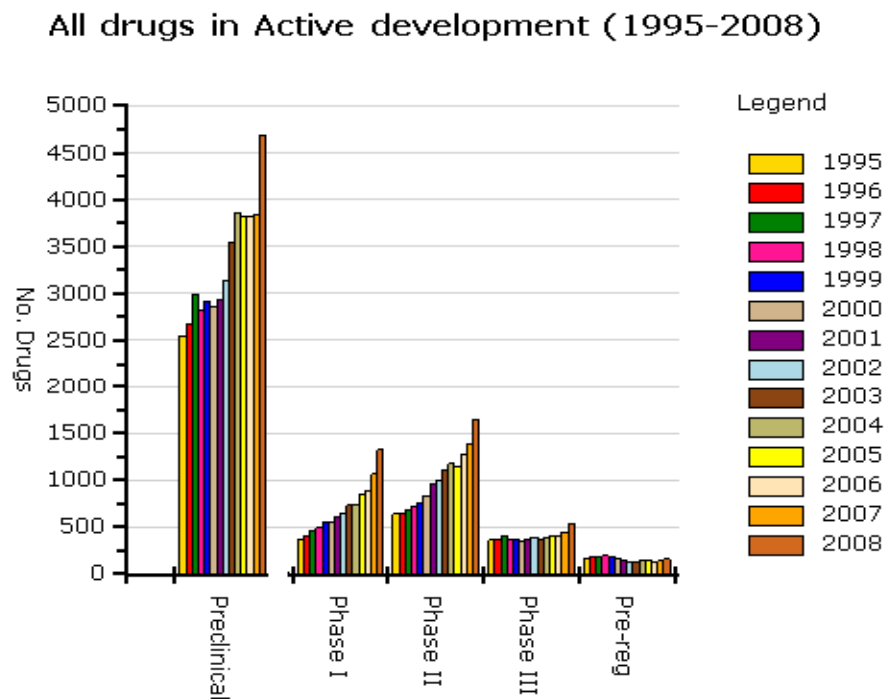
R&D spending scaled back in Q408



- Big pharma restructured and delayed spending to enhance earnings
- Small and mid-pharma cut back to conserve cash

Market indicators

Rapid pipeline growth fueled services

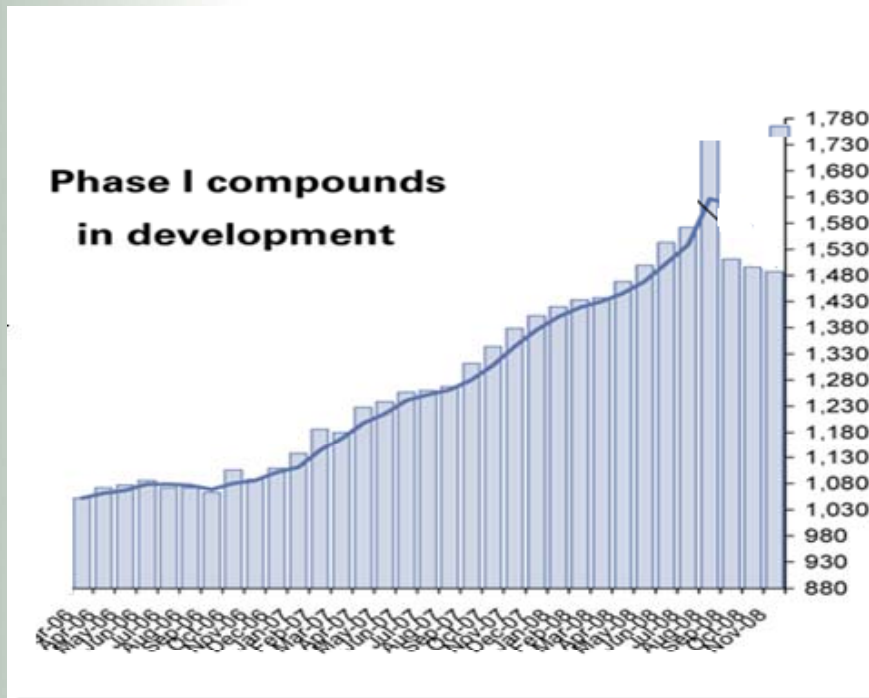


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- Reflects POC focus
- Rise in P3 candidates notable

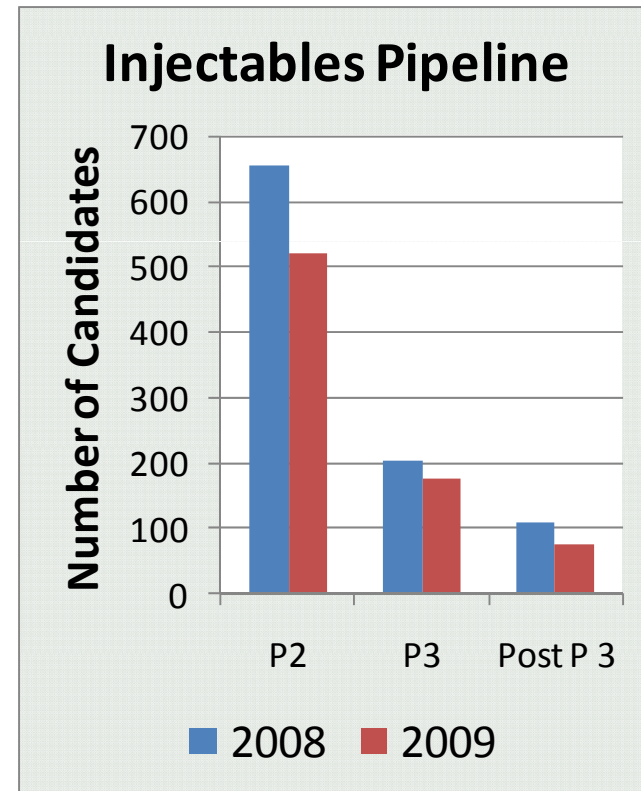
Market conditions

Development pipeline is shrinking



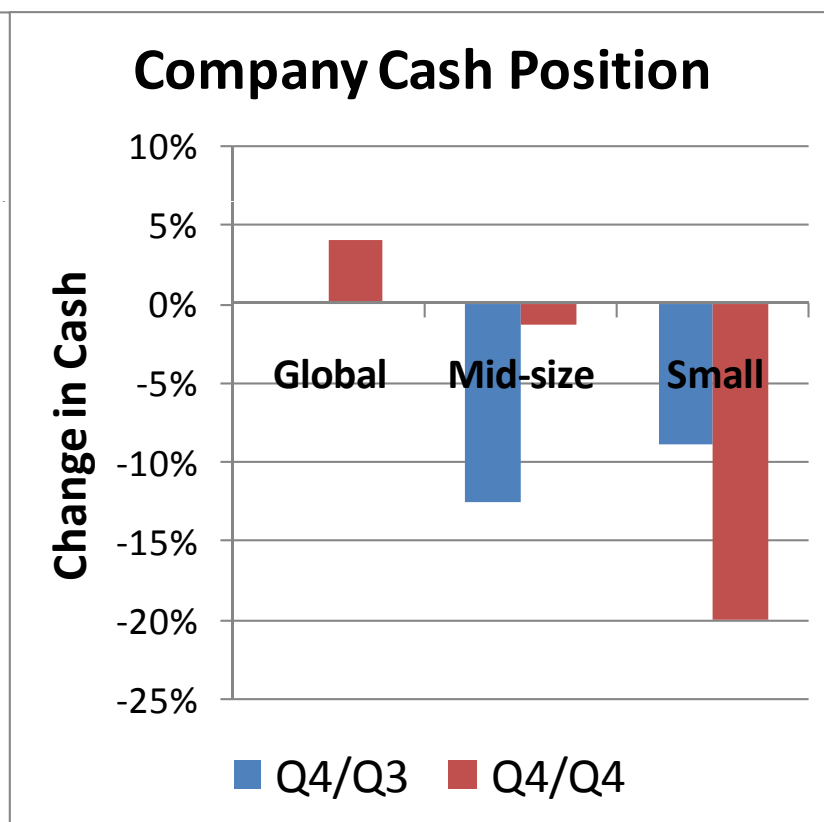
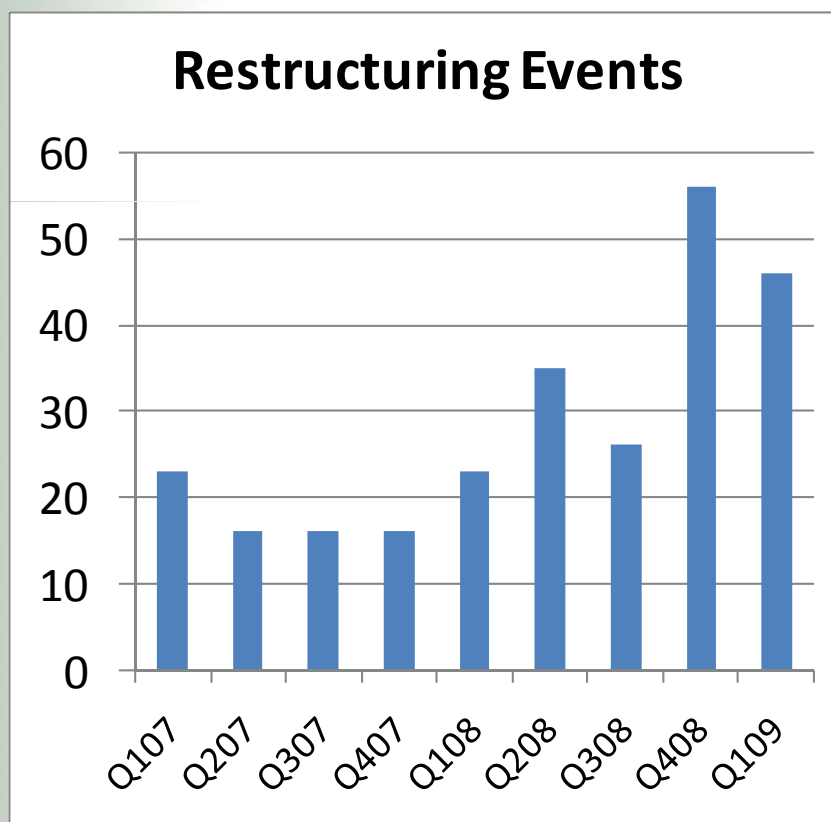
Source: Pharmaprojects.

Analysis by Goldman Sachs

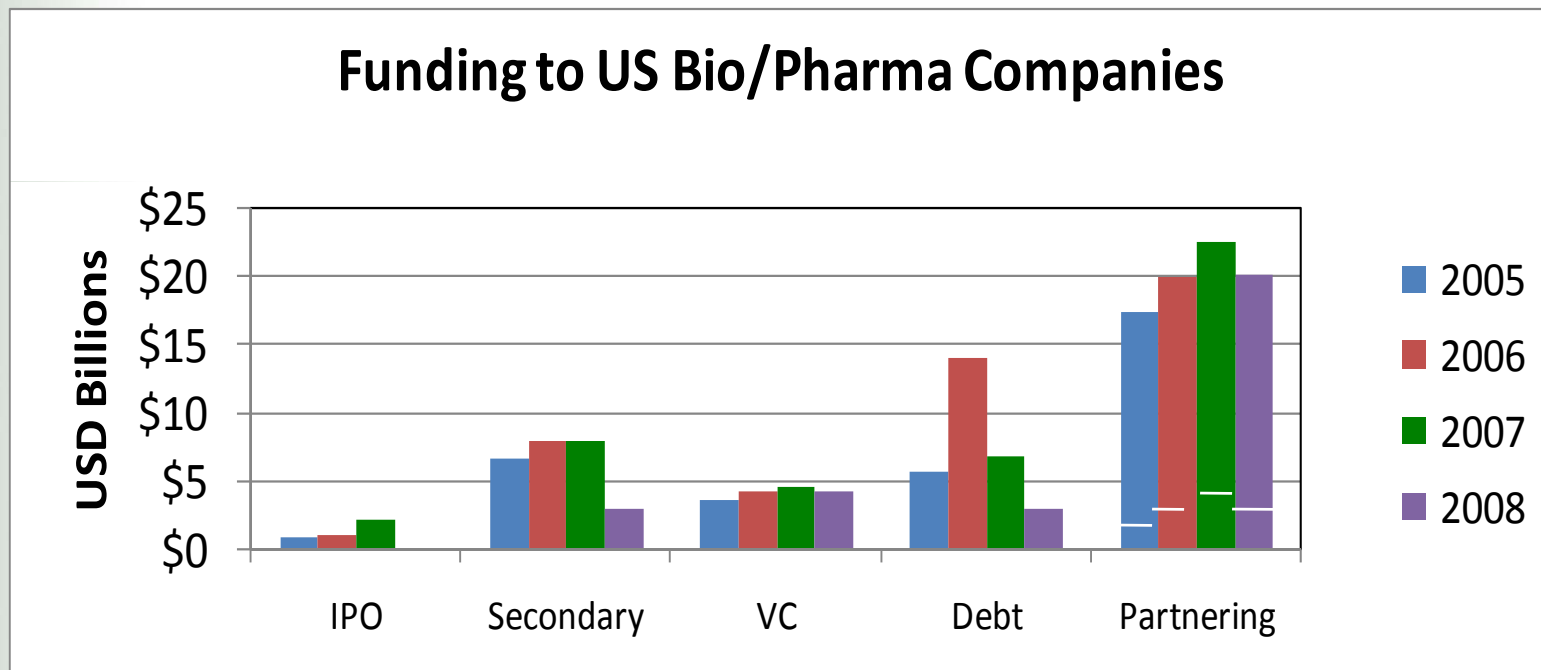


Market conditions

Financial uncertainty hurt R&D

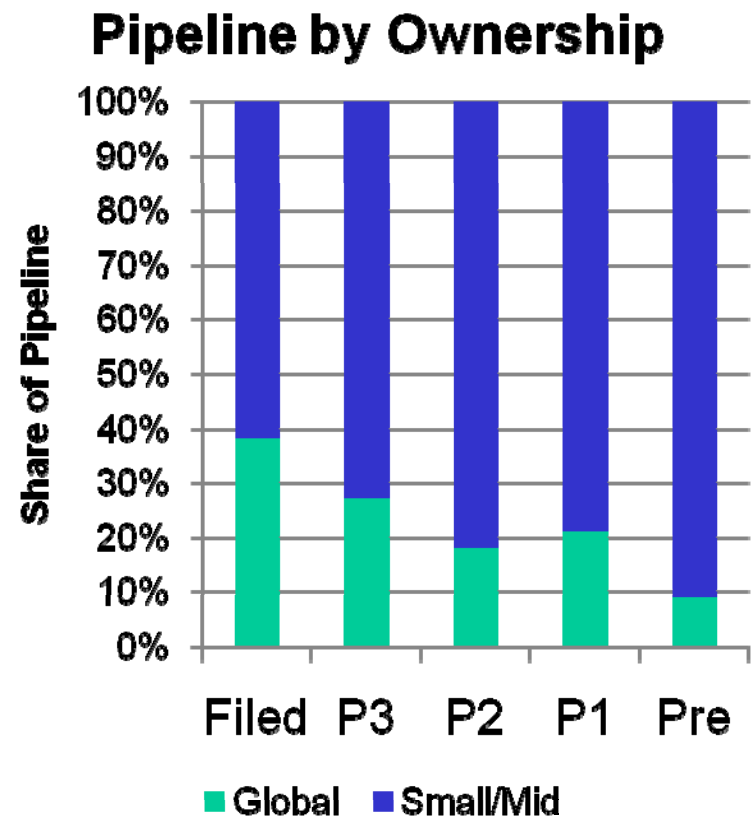
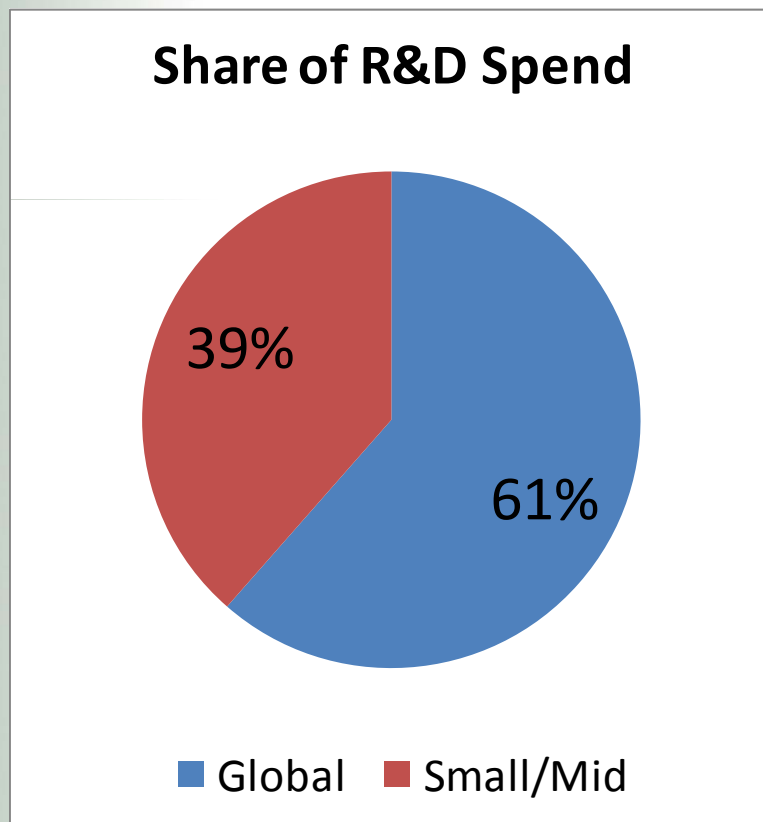


Reduced funding hits small bio/pharma



Source: Burrill and Company

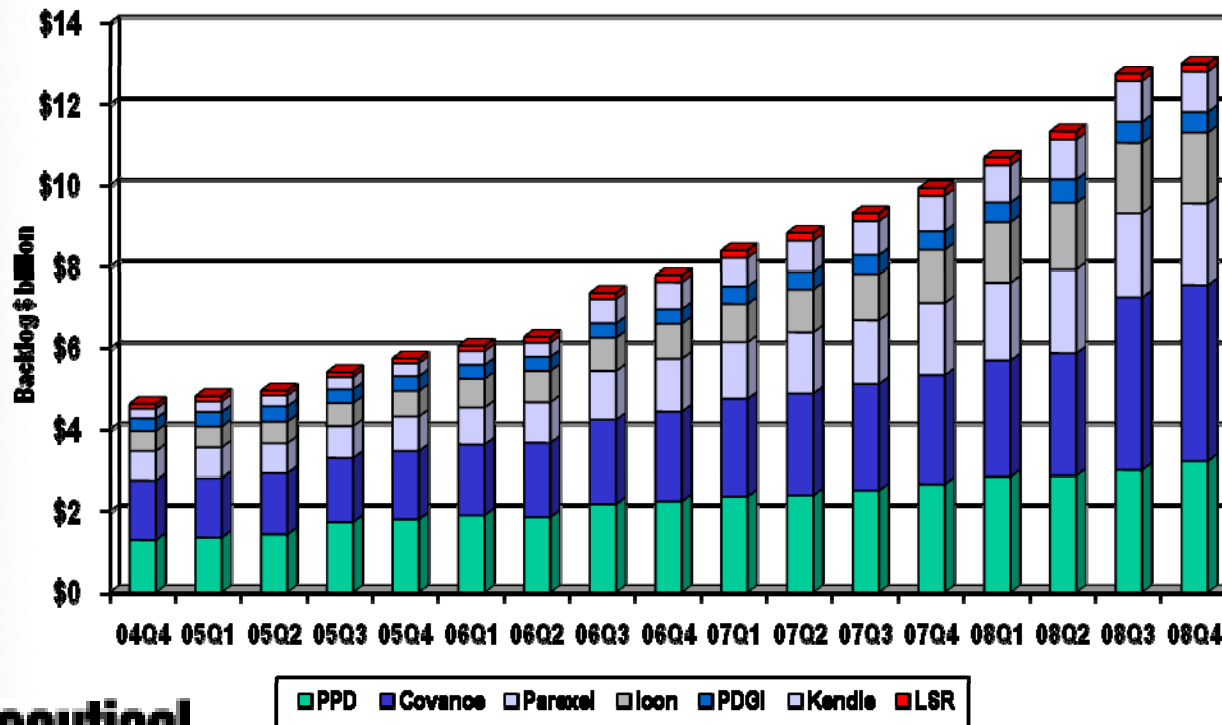
Small/mid-pharma critical to pipeline



Market conditions

Late phase development retains some strength

Clinical CRO Backlogs



Market conditions

R&D slowdown likely to continue

	Preclin	Phase 1	Phase 2	Phase 3	Commercial
H2 08	Negative	Cautious	Positive	Positive	Commercial
H1 09	Negative	Negative	Positive	Positive	Commercial
H2 09	Negative	Negative	Cautious	Positive	Commercial
2010	Cautious	Cautious	Cautious	Positive	Commercial
2011+	Positive	Positive	Positive	Cautious	Commercial

Outlook for service providers



Restructuring leading to consolidation

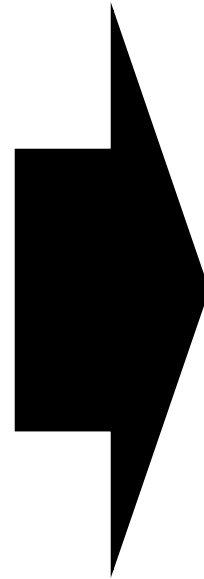
Fewer companies

Fewer candidates

Fewer R&D dollars

Fewer approvals

Preferred vendor
strategies



Fewer
CROs
and
CMOs

Consolidation

Gap widening among clinical CROs

CRO	Rev	Margin	GR
Quintiles	\$ 1,500	?	?
PPD	\$ 1,415	20%	11%
Parexel	\$ 1,056	9%	25%
Covance	\$ 883	19%	15%
Icon	\$ 865	12%	37%
MDS *	\$ 482	1%	1%
Kendle	\$ 475	12%	19%
PharmaNet	\$ 358	1%	-1%
PRA *	\$ 350	?	?
Inventiv	\$ 217	8%	16%

- 5 largest CROs grew revenues and backlog
- Next 5 shrank, forced into PE hands
- Smaller CROs need clear niche to survive

Consolidation

2 CROs dominate preclinical

Company	Revenues	Sq. Ft.
Covance	\$ 800M	2,000 K
CRL	\$ 684 M	1,800 K
LSR	\$ 242 M	830 K
MPI *	\$ 200 M	830 K
Wil Res. *	\$ 130 M	469 K
LAB	\$ 58 M	269 K

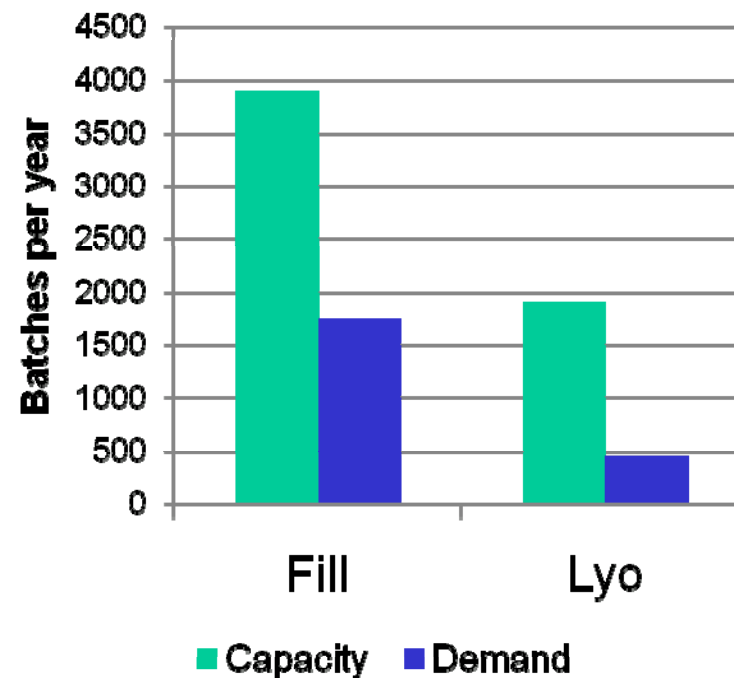
- CVD and CRL dominate
 - massive capacity increases
 - Preferred by Big Pharma
 - Capacity reservation deals
- Second tier struggled at year end
 - Depend more on small/mid bio/pharma

Consolidation

CMC services ripe for consolidation

Segment	Companies
CMC development	165
Analytical chemistry	200
Injectables manufacturing	146
Solid/semi-solid manufacturing	172

P1/2 Injectable CTM Capacity



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Consolidation

Consolidation dynamics

Demand side

- Centralized sourcing
- 1-3 principal vendors
- Specialty providers as needed

Provider side

- Trusted performance
- Established relationships
- Global networks
- Large capacity facilities
- Financial strength
- Bolt-on acquisitions to broaden network and capabilities
- Limited exposure to small bio/pharma

Consolidation

How will CMC consolidate?

	Clinical	Commercial
Winners	<ul style="list-style-type: none">• Strong record of performance• Solid financing	<ul style="list-style-type: none">• Broad offering of basic dose forms• Presence in major geographies
	<ul style="list-style-type: none">• Global capabilities• Specialty capabilities	<ul style="list-style-type: none">• Financial strength• Specialty capabilities• Imaginative deal-making
Losers	<ul style="list-style-type: none">• Loss of emerging company client base• Ineligible for preferred vendor due to experience, scale and financing	<ul style="list-style-type: none">• Simple offerings• Small scale• Limited capital

Final thoughts

- The tide is going out
- Even the biggest clients aren't sure what the future will look like