

# How Real is the Recovery in Contract Services?

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Interphex 2011

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# How Real is the Recovery in Contract Services?

## Agenda

- Year in review
- 2011 outlook
- Key trends
- Final thoughts

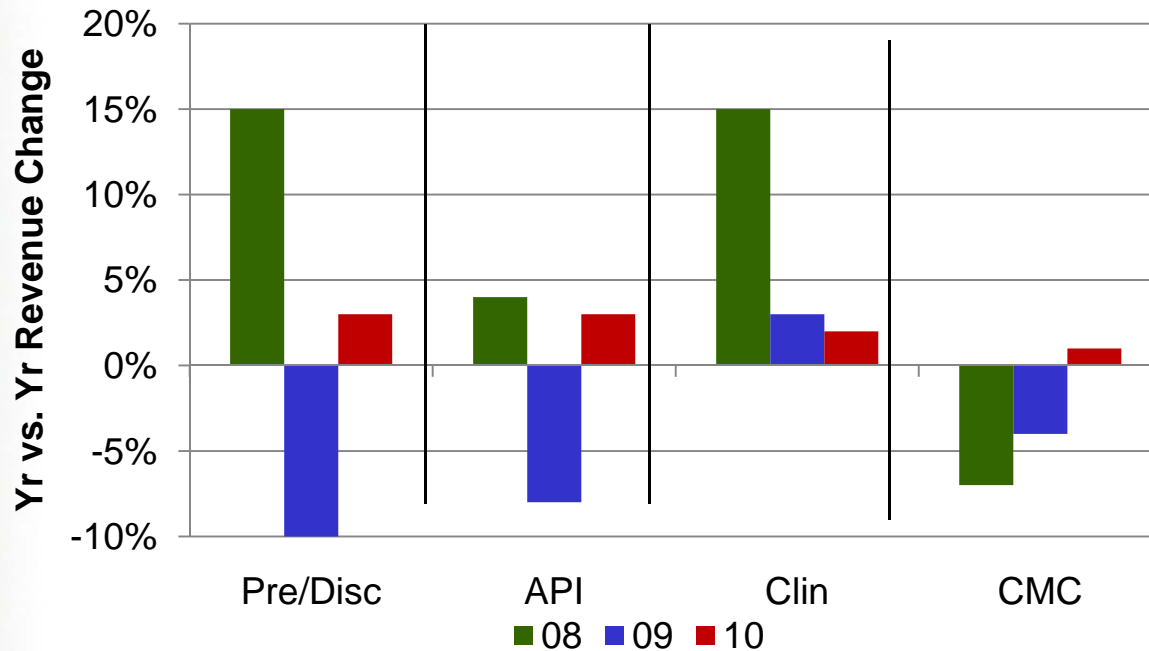
## Main points

- Market stabilized in 2010
- 2011 looks much stronger
- Key trends: Integrated service model, supply chain focus

Year in review

# Modest rebound in 2010

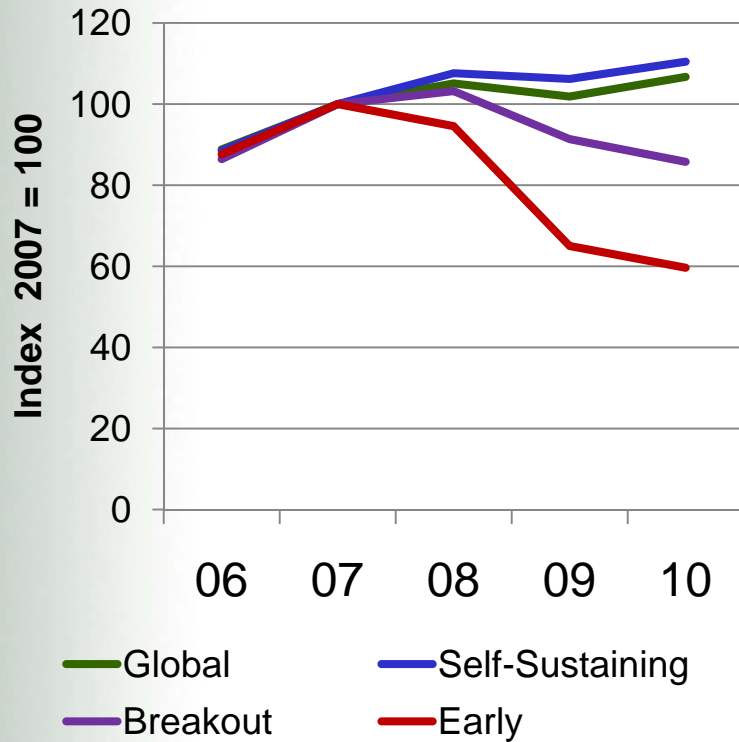
### Contractor Performance 2008-10



Year in review

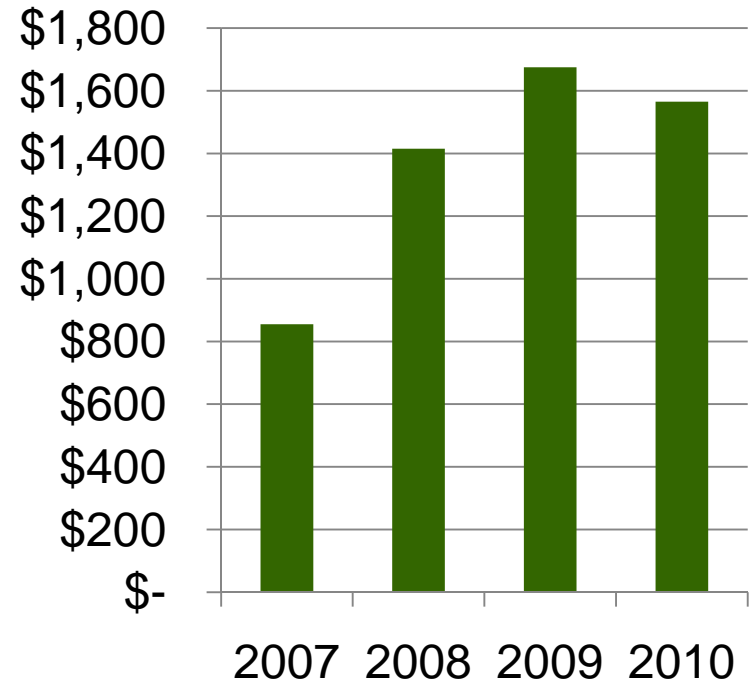
# Smaller companies continued to struggle

## R&D Spending Trends



## CRO Cancellations

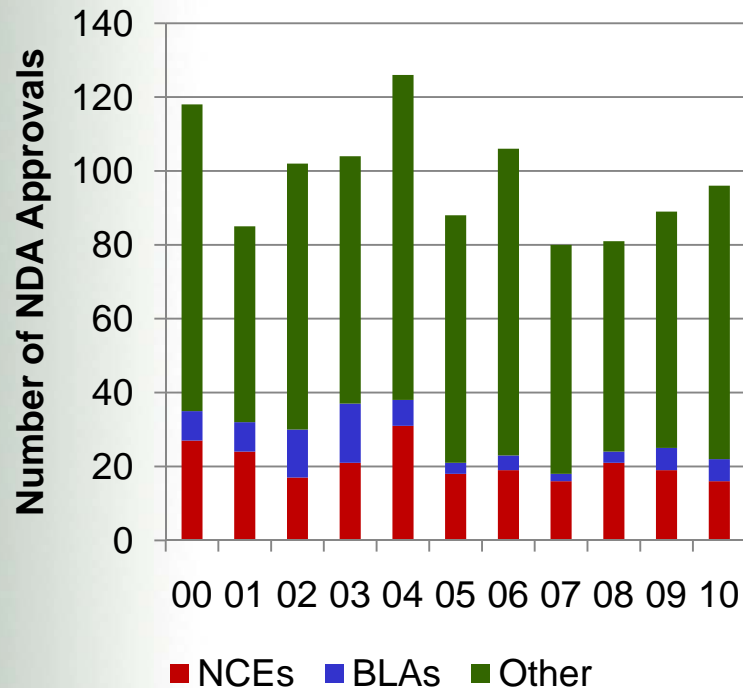
\$ Millions



Year in review

# NME approvals remain low

**NDA Approvals by FDA  
2000-2010**

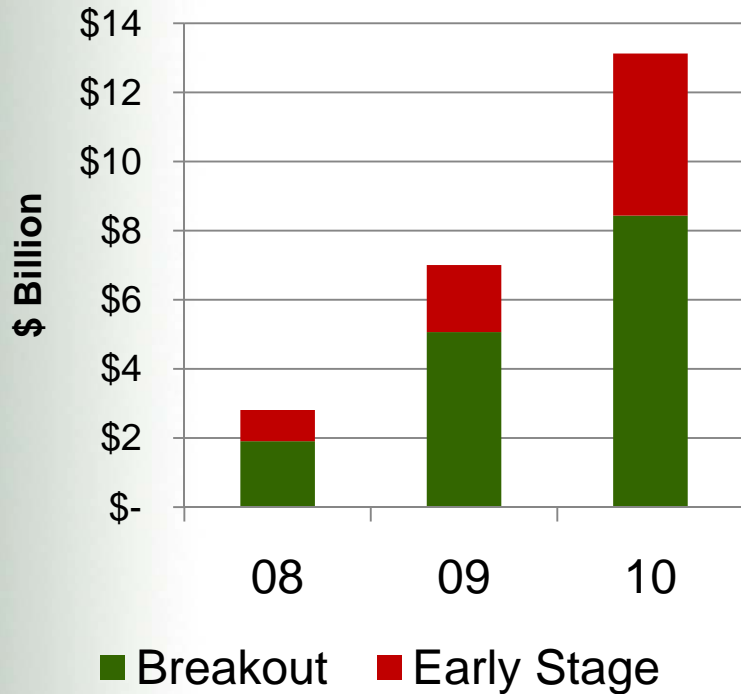


- NME approvals drive CMO business
  - New forms less likely to be outsourced
- Late clinical failures, FDA conservatism

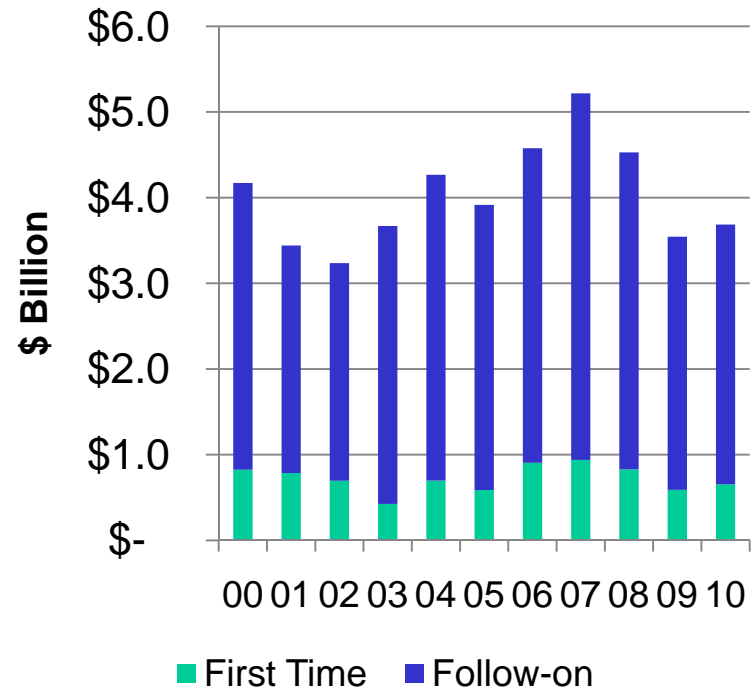
## Outlook

# Public markets open up, VC stable

### Funding of Public Bio/Pharma Companies



### US Venture Capital Investment



Source: PharmSource Lead Sheet

## Outlook

# Indicators suggest more R&D spending

Company	2011 Outlook
Pfizer	-10%
Merck	+ 2%
BMS	+ 5%
Lilly	Flat
GSK	Flat
Roche	Down
Amgen	+ 5%
Celgene	+31%
Cephalon	+20%
Gilead	flat

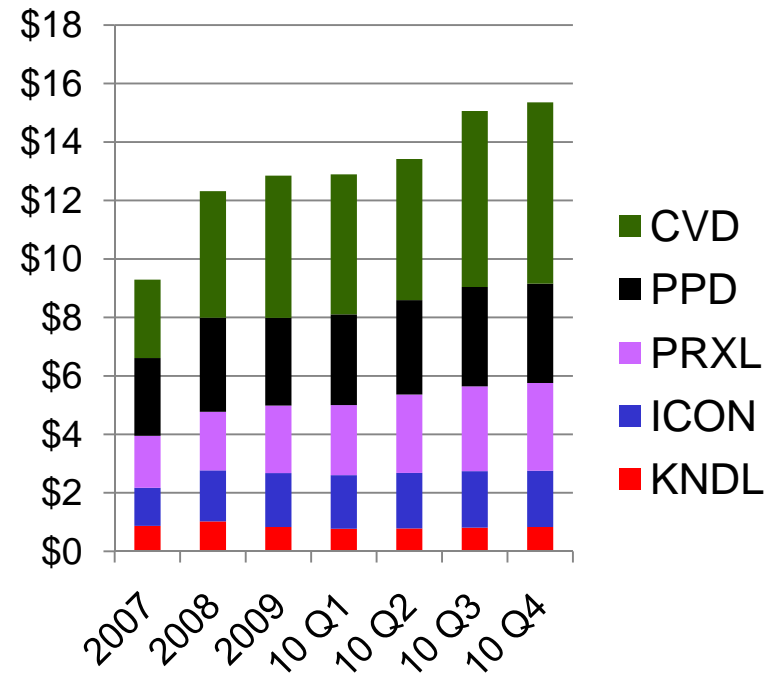
- Better funding should support smaller companies
- Self-supporting companies will continue to spend
- Global pharma will outsource more

## Outlook

# CRO/CMO sentiment cautious

CRO guidance	Mid-single digits for clinical, flat for preclinical
SOT survey	Not much improvement yet
Informex/DCAT	More RFP flow, faster decisions,, still not robust

### CRO Backlog \$ billion

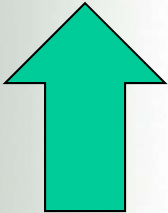
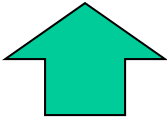
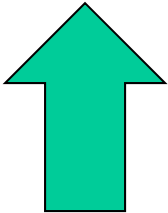
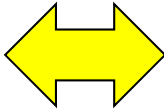




## Outlook

# Macro-economic factors could play a role

<b>US economy</b>	<ul style="list-style-type: none"><li>• Generally positive outlook for new investment</li><li>• Possible government cutbacks to NIH, CDC</li><li>• Possible oil shock impact</li></ul>
<b>EU economy</b>	<ul style="list-style-type: none"><li>• Austerity programs to hurt pharma revenues</li><li>• PIIG problems could spook investors</li><li>• Possible oil shock impact</li></ul>
<b>ROW economy</b>	<ul style="list-style-type: none"><li>• Generally strong growth prospects</li><li>• Possible oil, food shock impacts</li></ul>

# Outlook

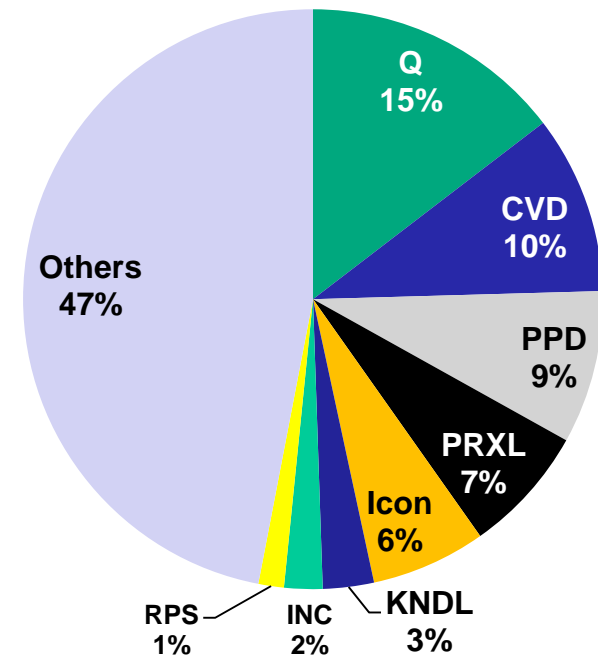
Finance Access	CRO Guidance	R&D Outlook	NDA Approvals	Macro Economy	Overall Industry Outlook
					

## Key trends

# Preferred providers consolidating market

Pharma	Preferred Providers
Sanofi	Covance
Lilly	Covance, Quintiles, Icon, i3, Parexel, Fisher Clinical
GSK	PPD, Parexel
BMS	Icon, Parexel
Eisai	PPD
Otsuka	Covance
Elan	PPD
Takeda	Covance, Quintiles

**CRO Market Share**  
\$14 B Market



Key trends

# Integrated models for early development

	Services								
Business Model	Discovery Chem/Bio	Solid State chem	API Proc Dev	Preclin Tox	API CTM	Anal. Dev/Test	Dose Form	Dose CTM	Clin Pkg
Fully integrated development	[Red block covering Discovery Chem/Bio through Dose CTM]								
Integrated CMC		[Purple block covering Solid State chem through API Proc Dev]			[Purple block covering API CTM through Clin Pkg]				
Integrated chemistry	[Blue block covering Discovery Chem/Bio through API Proc Dev]				[Blue block covering API CTM through Anal. Dev/Test]				
Integrated dose						[Yellow block covering Anal. Dev/Test through Clin Pkg]			
Niche/specialty provider	[Red]	[Blue]	[Purple]	[Yellow]	[Purple]	[Green]	[Red]	[Yellow]	[Light Blue]

A strategic response to supplier consolidation and quick to clinic/quick to fail

Key trends

## Diverging paths in India & China

### India

- Focus on generic market opportunity
  - API and dose
  - CRAMs is secondary
- Declining Western interest?
  - Foreign investment down 30% in 2010
  - IP, corruption, infrastructure

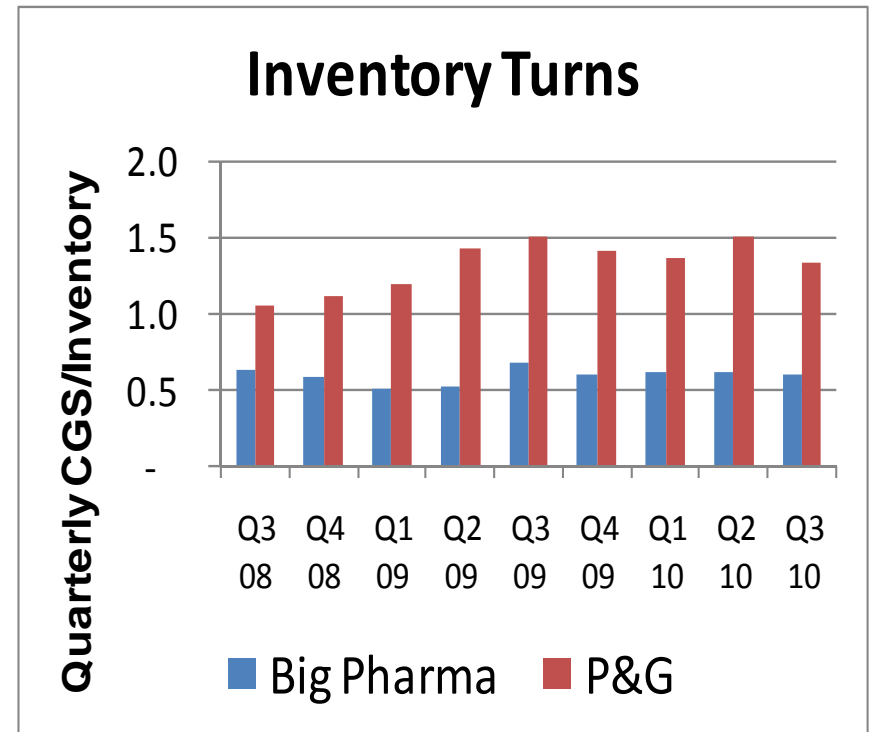
### China

- Western investment taking off
  - Global R&D operations
  - Manufacturing and sales for local market
- Costs increasing
  - Inflation
  - Tighter regulation
  - Appreciating Renminbi

## Key trends

# Focus on the supply chain

- Recent events
  - Catalent Corby fire
  - Japan earthquake
  - Vial glass delamination
- DCAT insights
  - Teva: manufacturing lead time from 3 months to 2 weeks on some products
  - PRTM: 100-240 day cycle times for API



Final thoughts

## Global pharma gets it

- CFO of sanofi-aventis on composition of R&D cost between fixed and variable:
  - In R&D, the aim is to be in the range of 50-50.
  - We are not yet there. We were around 70/30 let's say end of 2008.
  - This year, we are more around 64 to 65.
  - This ratio will continue to decrease.
  - Of course also it depends upon how much we spend externally because if you increase the external spending, you more easily improve the ratio.

Final thoughts

## Can CMOs and CDOs make this statement?

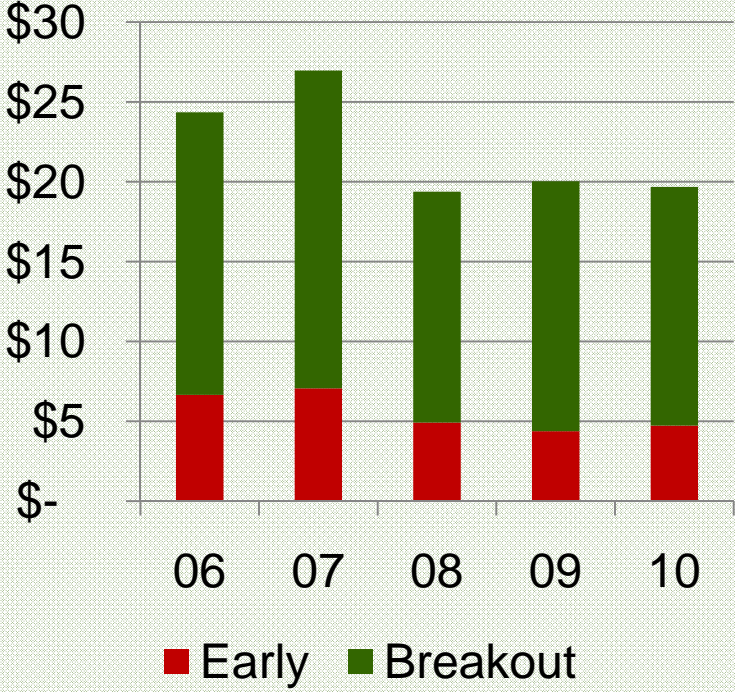
I think every C suite executive in the top 30 pharma clients now knows and understands what CROs are.

I think they are understanding that the CRO industry has eclipsed their internal capabilities in terms of size, growth, geographic reach, tools, and systems and speed.

Joe Herring  
CEO, Covance  
January 2011

# Cash Position

\$ Billion



## Capital expenditure \$ billion

