



# Capstone Partners

Investment Banking Advisors

## PHARMACEUTICAL OUTSOURCING

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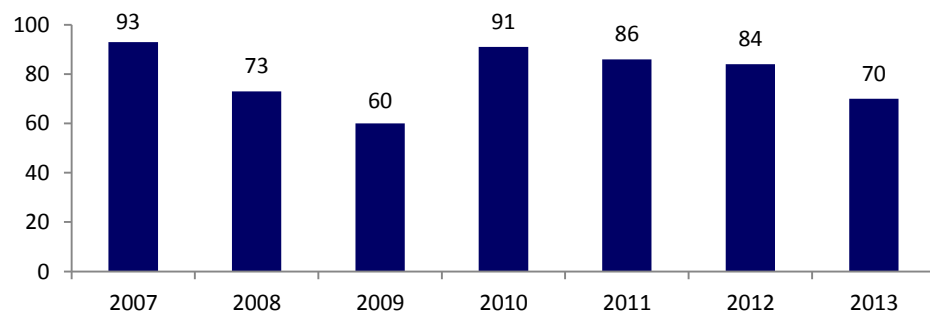
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### M&A REVIEW & OUTLOOK

The pharmaceutical outsourcing industry is broad, including not only traditional CROs and CMOs, but many other companies offering a diverse array of services to pharmaceutical manufacturers and biotech companies. These services include, but are not limited to, the following: sales and marketing support, efficiency and cost-saving consulting, supply chain management, business process design, contract packaging, testing and safety, training, market intelligence, account management, benchmarking tools and analysis, transportation & logistics, and FDA regulatory consulting to support product development, marketing and compliance.

Although this broad definition makes it difficult to quantify precisely, Capstone has identified 70 M&A transactions in the pharmaceutical outsourcing industry in 2013. This figure represents a slight decline from recent years, reflective of overall M&A trends. Following record-breaking activity in 2012, with buyers and sellers finalizing transactions before the capital gains tax rate increase, the deal pipeline was drained and activity turned sluggish in the first half of 2013. Since then, M&A activity rose quarter-over-quarter, and current activity now stands at healthy levels.

#### U.S. Pharmaceutical Outsourcing M&A Transactions



Source: Capital IQ and Capstone Partners LLC research

The current M&A market is exhibiting several factors that promote deal activity including healthy transaction valuations, low interest rates, readily available financing, and inherent need among private equity groups to deploy capital. Meanwhile, within the industry, Big Pharma is clearly focused on growing its pipeline, with an aggressive push to acquire Phase II compounds and revamped internal and external R&D programs, in an effort to replace revenue as patents expire or have expired on many blockbuster drugs. At the same time, these pharmaceutical manufacturers are becoming increasingly cost-conscious and have reduced headcount, and as a result are looking for outsourced service providers to help contain costs, provide specialized capabilities, increase productivity and provide greater staffing flexibility.

Backed by the continued acceptance of contract manufacturers and service providers by the pharmaceutical industry, and supported by healthy fundamentals, the outlook for M&A activity in the pharmaceutical outsourcing industry in 2014 is positive.

*A review of 2013 and early 2014 transactions in the pharmaceutical outsourcing industry indicates that activity is spread among many different types of companies offering a diverse array of services.*

## TRANSACTION TRENDS

The healthy deal flow in pharmaceutical outsourcing is a reflection of the industry's attractiveness, which is a direct result of the continued acceptance of the use of contract manufacturing and other outsourced services by the pharmaceutical industry. A review of recent transactions shows the following M&A trends in the industry:

- ▶ **Targets Represent a Wide Variety of Businesses:** We are witnessing acquisitions at every size level and across many different outsourcing segments including companies that provide core CRO and CMO services, as well as those that provide ancillary services such as packaging; auditing and accreditation services; training and process knowledge transfers; software & scientific consulting; contract & revenue management; compliance management; data analytics; market research; business process outsourcing; and others. Although some high-profile transactions have been completed, the majority of acquisitions in the industry involve middle-market targets.
- ▶ **Corporate Buyers are Active:** Corporate acquirers are actively making acquisitions in the industry, as they look to add strategic, value-added services that help to integrate themselves throughout the pharma companies' supply chains. This move is in response to pharma companies that prefer strategic partnerships with contractors that offer a "one-stop-shop" and are interested in consolidating their outsourced services with fewer vendors. Corporate buyers have strong balance sheets, with cash collectively estimated at \$1.5 trillion, and are well positioned to aggressively pursue targeted acquisitions to augment their growth.
- ▶ **Private Equity is Interested in the Sector:** Private equity groups are attracted to the highly fragmented nature of the industry, especially with regards to the ancillary services categories. In addition, PEGs are drawn to the growth potential of the industry, and they continue to make platform and add-on acquisitions in the sector. Generally speaking, PEGs look for investments with good market visibility, solid growth potential, a track-record of profitable growth and a strong management team. PEGs also have an abundance of cash that needs to be deployed, with an overhang position – funds raised less amount deployed – currently estimated at \$466 billion.
- ▶ **Foreign Buyers are Active:** With "globalization" one of the fundamental themes of the pharmaceutical industry, foreign companies are looking to acquire US-based outsource providers, as they strive to build their global footprint and gain access to the largest pharmaceutical market in the world.

The following table shows a selection of recent industry transactions, many of which reflect the above M&A trends.

PHARMACEUTICAL OUTSOURCING: SELECT M&A TRANSACTIONS

Date	Target	Acquiror	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
Feb-14	Int'l Pharmaceutical Excipients Auditing	NSF International Inc.	Provides excipient good manufacturing practice (GMP) auditing and accreditation services.	-	-	-
Jan-14	CeeTox, Inc.	Cyprotex plc (AIM:CRX)	CRO focused on in vitro toxicity screening of new drug candidates, chemicals, cosmetics and consumer products.	\$6.1	1.6x	-
Jan-14	Integrated Research Inc.	JSS Medical Research, Inc.	CRO that provides clinical research management services and assistance to pharmaceutical and biotechnology companies.	-	-	-
Jan-14	Community Research	CTI Clinical Trial and Consulting Services	Provides clinical trial services for the pharmaceutical industry in various therapeutic indications.	-	-	-
Jan-14	Entelos, Inc.	Rosa & Co. LLC	Provides predictive biosimulation for in silico drug discovery and development.	-	-	-
Jan-14	Resource Development Co.	PetroSkills LLC	Provides process knowledge transfer solutions and training for the pharma and other industries.	-	-	-
Dec-13	Certara, L.P.	Arsenal Capital Partners	Provides software and scientific consulting services with a focus on model based drug discovery and development.	-	-	-
Dec-13	Clinical Development Group, LLC	Sarah Cannon Research Institute	Provides expert drug development support services to industry, academic and research organizations.	-	-	-
Nov-13	Mindlance Inc., Life Sciences Consulting	Cumberland Consulting Group	Provides advisory services to pharma, specializing in contract & revenue management, compliance and data analytics.	-	-	-
Nov-13	Aaron Industries, Inc.	PL Developments, Inc.	A high-quality, low-cost manufacturer of private label and branded pharmaceutical products.	-	-	-
Oct-13	AAIPharma Services Corp.	Cambridge Major Laboratories, Inc.	Provides product development and manufacturing services to pharmaceutical and biotechnology companies.	-	-	-
Oct-13	CFS Clinical, LLC	DrugDev Inc.	Provides business and financial management solutions for clinical trial sponsors, medical device companies and CROs.	-	-	-
Oct-13	UST, Corp.	Tregaron Capital Company	Contract manufacturer of over-the-counter dietary supplements and homeopathic drug products.	-	-	-
Oct-13	The Baron Group, Inc.	The Ariel Group, Inc.	Provides customized sales training solutions globally for the pharmaceutical and other industries.	-	-	-
Sep-13	Latam Clinical Trials, Inc.	JSS Medical Research, Inc.	A contract research organization, provides clinical trial management services for pharmaceutical and other companies.	-	-	-
Sep-13	ReSearch Pharma Services, Inc.	Kohlberg Kravis Roberts & Co.	Provides clinical development solutions to the pharmaceutical, biotechnology, medical device and diagnostic industries.	-	-	-
Sep-13	Novella Clinical, Inc.	Quintiles Transnational Corp.	A clinical research organization, provides Phase I-IV clinical trial management services.	\$167.5	-	-
Sep-13	Carbonview Research, Inc.	Stagnito Partners, LLC	Provides primary market research and analysis services to pharma and other industries.	-	-	-
Sep-13	Triplefin LLC	Smith Medical Partners LLC	Provides integrated business process outsourcing solutions to pharmaceutical and consumer products companies.	-	-	-
Aug-13	Bracket	Parthenon Capital Partners	Provides a range of clinical services and technology solutions for various clinical trials.	-	-	-
Aug-13	Great Lakes Drug Development, Inc.	Certara, L.P.	Offers drug development consultancy services to the pharmaceutical industry.	-	-	-
Aug-13	P. J. Noyes Company, Inc.	Nipro Diagnostics, Inc.	Contract manufactures and packages nutraceuticals, OTC pharmaceuticals, personal care and dietary supplements.	-	-	-
Aug-13	TM1 STOP, LLC	Enhanced Recovery Company, LLC	Operates as a business process outsourcing (BPO) company for the pharma and other industries.	-	-	-
Jul-13	Santa Cruz Nutritionals, Inc.	RoundTable Healthcare Mgmt.	Manufactures confection based nutritional delivery systems for the functional food and nutraceutical markets.	-	-	-
Jul-13	Cirrus Pharmaceuticals, Inc.	Kemwell Biopharma Pvt. Ltd.	Operates as a pharma contract research and product development company.	-	-	-
Jul-13	Denison Pharmaceuticals, Inc.	Brookstone Partners	Manufactures OTC, prescription, cosmetic and veterinary products including turnkey contract services.	-	-	-
Jul-13	The Anson Group, LLC	Navigant Consulting Inc. (NYSE:NCI)	A regulatory consulting company, provides advice for navigating regulatory requirements in life sciences.	-	-	-
Jul-13	Libertas Pharma Inc.	Mayne Pharma Group Limited (ASX:MYX)	Develops, manufactures and commercializes generic pharmaceutical products, including contract services.	-	-	-

PHARMACEUTICAL OUTSOURCING: SELECT M&A TRANSACTIONS (CONTINUED)

Date	Target	Acquiror	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
Jul-13	Prothera, Inc.	Soho Floridis International Pty	Manufactures branded and private label nutraceutical products for distribution by healthcare professionals.	-	-	-
Jul-13	Biolucidation, LLC	Melior Discovery, Inc.	A contract research organization for drug abuse liability and safety pharmacology.	-	-	-
Jun-13	Envision Pharma, Inc.	The Halifax Group	Operates as a technology and scientific communications company focused on pharma, biopharma and medical devices.	-	-	-
Jun-13	Critical Path Services, LLC	Dr. Knoell Consult GmbH	A CRO providing lab analysis, toxicology, labeling consulting and technical writing to the pharmaceutical industry.	-	-	-
Jun-13	PRA International, Inc.	Kohlberg Kravis Roberts & Co.	A clinical research organization, conducts clinical trial services in various phases of pharmaceutical development.	-	-	-
Jun-13	Sarah Cannon Research Institute	HCA Holdings, Inc. (NYSE:HCA)	A research organization, conducts full-service clinical research programs for pharmaceutical companies.	-	-	-
Jun-13	Incential Software, Inc.	IMS Health Incorporated	Designs compensation and sales performance management solutions for the life sciences industry.	-	-	-
Jun-13	S2 Statistical Solutions, Inc.	CTI Clinical Trial and Consulting Services	Provides data mining, economic analysis and data visualization services to pharmaceutical and medical companies.	-	-	-
Jun-13	LearnSomething, Inc.	TMS Health, LLC	Provides e-learning solutions to drug, healthcare and food companies and associations.	-	-	-
May-13	Chesapeake Research Review, Inc.	Audax Group, Inc.	Offers independent institutional review board services for pharmaceutical companies and others.	-	-	-
May-13	Vince & Associates Clinical Research Inc.	Algorithme Pharma USA Inc.	Provides clinical research services to the pharmaceutical and biotech industry worldwide.	-	-	-
May-13	AndersonBrecon	Packaging Coordinators, Inc.	Operates as a contract pharmaceutical packager and provider of packaging solutions.	\$308.0	-	-
Apr-13	Tricore, Inc.	High Road Capital Partners	Provides customized learning and training solutions to the global pharmaceutical and life sciences sectors.	-	-	-
Apr-13	Beardsworth Consulting Group	TFS Trial Form Support International	A clinical research organization (CRO) specializing in complex clinical trials focused on oncology.	-	-	-
Apr-13	Exemplar Pharma, LLC	Allergan Inc. (NYSE:AGN)	A contract manufacturing company specializing in nasal and inhalation products.	\$20.0	-	-
Apr-13	Sentrx Safety Solutions	Telerx Marketing Inc.	Provides drug and device safety services to the life sciences industry.	-	-	-
Apr-13	SYNARC Inc.	Water Street Healthcare Partners	A pharma services company, provides image-analysis, subject-recruitment and clinical trial services.	-	-	-
Apr-13	inVentiv Health, Inc., MySTRO division	J. Knipper and Company, Inc.	Provides sample management and fulfillment services for the pharmaceutical industry.	-	-	-
Apr-13	Summit Custom Spray Drying, Inc.	MVC Capital, Inc.; Tokarz Group Advisers	Provides custom spray drying services for the pharmaceutical, nutraceutical, flavor & fragrance and other markets.	-	-	-
Mar-13	Pfanstiehl, Inc.	Med Opportunity Partners, LLC	A contract manufacturing company, produces active pharma ingredients, potent drugs and intermediates.	\$24.9	10.4x	-
Mar-13	Lifetek Solutions, Inc.	M+W Zander U.S., Inc.	A consulting company, provides process manufacturing consulting to the pharma industry.	-	-	-
Mar-13	Maxiom Consulting Group, Inc.	Collaborative Consulting, LLC	A strategic business and IT consulting company to the pharmaceutical, biotech and medical device industries.	-	-	-
Mar-13	Micron Technologies, Inc.	Arlington Capital Partners	Provides contract particle size reduction and analytical contract services to the pharmaceutical industry.	-	-	-
Mar-13	BioClinica, Inc.	JLL Partners	Provides integrated clinical research solutions to pharma, biotech and medical device companies and CROs.	\$118.9	1.3x	10.2x
Mar-13	Radiant Development	Accelovance, Inc.	Operates as a contract research organization that provides clinical research and development services.	-	-	-
Jan-13	Nutravail Technologies Inc.	The FRS Company, LLC	Develops delivery systems for the nutraceutical and pharmaceutical industries.	-	-	-
Jan-13	Ocimum Biosolutions, Inc.	BioServe Biotechnologies, Ltd.	Provides life science lab information management solutions and GLP-compliant microarray services.	\$1.8	-	-

LTM = last twelve months; EV = enterprise value;

Sources: Capstone Partners LLC research; Capital IQ; public filings and press releases

CAPSTONE PARTNERS: COMPLETED HEALTH & MEDICAL TRANSACTIONS



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Capstone Partners won the 2013 M&A Deal of the Year award for its work on the sale of Invo HealthCare, a premier provider of outsourced clinical services. Capstone also recently advised Tricore, Inc. on its sale to High Road Capital Partners' portfolio company, Dowden Medical Communications Group. Tricore is an outsourced provider of customized learning development and mobile training solutions for the global pharmaceutical and life sciences sectors. This transaction reflects the industry trend of consolidation as players look to capitalize on the growth in outsourcing and acquire firms that enhance their value proposition by expanding service capabilities, geographic presence and professional resources.

Capstone Partners has successfully advised on a number of transactions related to the sale of medical contract manufacturers. These and other health & medical transactions are shown below.

<p><b>CONFIDENTIAL</b></p> <p>corporate sale (Under LOI)</p> <p><b>CONTRACT MANUFACTURER OF NUTRACEUTICALS</b></p>	<p><b>CONFIDENTIAL</b></p> <p>corporate sale (not yet announced)</p> <p><b>MEDICAL DEVICE MANUFACTURER</b></p>	<p><b>Invo</b> HealthCare Associates, Inc. Helping Kids Be Kids®</p> <p>has been acquired by</p> <p><b>POST CAPITAL</b></p>	<p><b>SMA</b> Surgical Monitoring Associates® Guardians of the Serious Smile®</p> <p>has been acquired by</p> <p><b>SC SpecialtyCare</b> Your Trusted Clinical Partner</p>	<p><b>AGGU * MET LASER, Inc.</b></p> <p>has been acquired by</p> <p><b>RiversidePartners, Inc.</b></p>
<p><b>the ame group</b> Advanced Medical Electronics</p> <p>has acquired</p> <p><b>CERTIFIED IT &amp; ITRICITY FREEDOM DATA</b></p>	<p><b>Radius Medical</b> TECHNOLOGIES, INC.</p> <p>has divested assets to</p> <p><b>Vascular SOLUTIONS</b></p>	<p><b>KERADERM</b> REDEFINING THE REALITY OF SKIN</p> <p>has secured financing from</p> <p><b>NEWVA CAPITAL PARTNERS, LP</b></p>	<p><b>nova science</b></p> <p>has been acquired by</p> <p><b>Abbott</b> A Promise for Life</p>	<p><b>Drug-Research-Development</b></p> <p>has been acquired by</p> <p><b>BHG Behavioral Health Group</b></p>
<p><b>EMERSON</b></p> <p>has been acquired by</p> <p><b>RESPIRONICS®</b></p>	<p><b>INTERLEUKIN GENETICS</b></p> <p>acquisition advisory</p> <p><b>Alan James Group, LLC</b></p>	<p><b>Catalyst on-line</b></p> <p>has been acquired by</p> <p><b>GREY HEALTHCARE GROUP</b></p>	<p><b>Squire Cogswell aercs</b></p> <p>has been acquired by</p> <p><b>Ohio Medical Corporation</b> a portfolio company of <b>MVC CAPITAL</b></p>	<p><b>angioLINK</b></p> <p>has been acquired by</p> <p><b>Medtronic</b></p>
<p><b>CLINICAL INNOVATIONS</b></p> <p>has been acquired by</p> <p><b>ROUNDTABLE HEALTHCARE PARTNERS</b></p>	<p><b>R</b></p> <p>has been acquired by</p> <p><b>CHIRURGIE</b></p>	<p><b>binax</b></p> <p>has been acquired by</p> <p><b>inverness medical innovations</b></p>	<p><b>Radius Medical</b> TECHNOLOGIES, INC.</p> <p>has divested assets to</p> <p><b>Medtronic</b></p>	<p><b>NEPG</b> New England Precision Grinding Company</p> <p>has been acquired by</p> <p><b>RiversidePartners, Inc.</b></p>

THE PHARMACEUTICAL OUTSOURCING TEAM



**Eric Williams, Managing Director**

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Eric serves as Managing Director and Head of the Atlantic Region for Capstone, based out of Philadelphia. Prior to Capstone, Eric was responsible for managing the Eastern region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. Eric has more than 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. He is head of Capstone's Health and Medical practice and has successfully completed over 100 transactions in a wide range of industries including pharmaceutical outsourcing, health care services, medical device, contract manufacturing, and education and training. In 2013, he received the "M&A Deal of the Year" M&A Advisor award for his work on the acquisition and majority recapitalization of Invo HealthCare Associates, Inc. He has also executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden, and Switzerland and has structured deals with leading private equity groups and strategic corporate buyers. He graduated cum laude from the University of California and is a Series 7 and 63 Registered Securities Representative as well as a Series 24 Registered Securities Principal.



**Mark Surowiak, Director**

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Mark is a Director in the Philadelphia office, supporting the management of the Atlantic Region. Previously, Mark served over 10 years as a senior investment banking professional in Morgan Stanley Smith Barney's Capital Strategies Group. Over his career, Mark has focused on developing deep credentials and expertise in the sale and recapitalization of privately held businesses. Mr. Surowiak's experience spans a broad range of industries, including the consumer products, post-secondary education, government and defense contracting, manufacturing, and outsourced business services sectors. Prior to investment banking, Mark enjoyed a career in the social services field. Mark is a graduate of Illinois State University with a BS in Business Administration. He is a Series 7 and 63 Registered Securities Representative.



**Daniel Schultz, Director of Business Development**

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Dan oversees Capstone's national business development and industry coverage activities, working closely with current and prospective clients of the firm on matters related to corporate sales, recapitalizations, mergers & acquisitions and growth financings. In his role, Dan is able to deliver specific market intelligence to clients regarding M&A, financing, strategic, industry and competitive trends. Prior to spearheading the firm's business development and market initiatives, he was a Vice President in Capstone's M&A group, managing numerous successful transactions across a variety of industries. Dan also gained hands-on transaction experience as an investment banker at Headwaters MB. He started his career with Ernst & Young's National Professional AABS practice in New York and later worked in Assurance and Advisory Business Services in the Denver office. Dan received a BE in Biomedical Engineering with a Business Minor from Vanderbilt University. He earned an MBA and a Master of Accountancy from the Daniels College of Business at the University of Denver.

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## ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in the Health & Medical sector. The firm also has a merchant banking capability to actively co-invest in transactions. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, Philadelphia, San Diego and Silicon Valley

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expertise, please visit  
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