

Trends in Bio-IT services industry

Biopharma's focus on digital transformation is driving growth of life sciences IT solutions providers

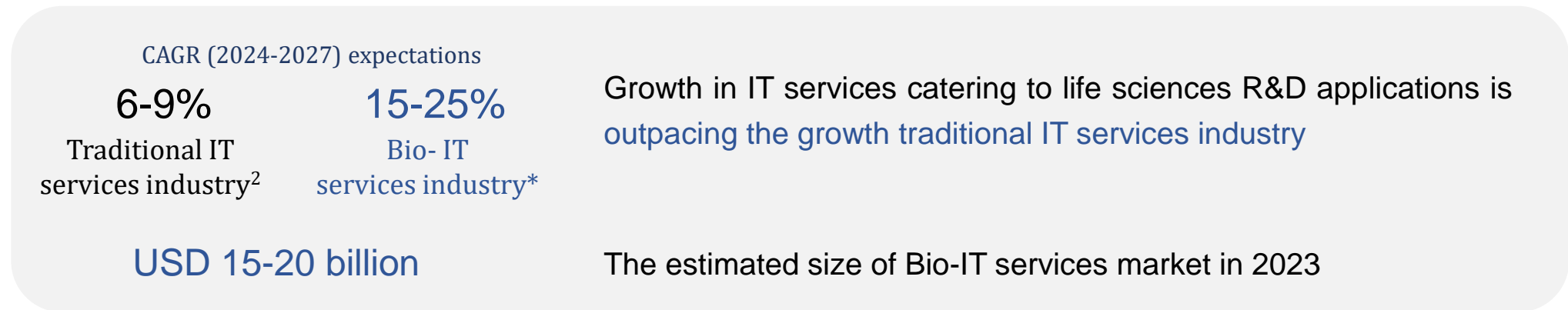
May 2024



Bio-IT solutions outsourcing market is rapidly expanding

Biopharma's keen focus on digital transformation is the key driving factor

Life sciences industry has historically trailed on digital maturity as compared to other industries, owing to the complexity of data types and regulatory compliances. However, in the pursuit of long-term sustainability and improving data-driven analytics capabilities, **82% life sciences leaders now consider digital transformation a burning strategic priority¹**.



*Based on the insights derived from conversations with 50+ CEOs of small to mid sized life sciences-only IT services companies with < USD 150 million revenue in the last 12-15 months. Following slides provide a real-time landscape of the industry informed by these dialogs.

Source: ¹Deloitte (2021)-Biopharma digital transformation report, ²Gartner, MP research

Offerings can be broadly categorized based on know-how of complex applications

Diverse growth factors are driving all sub-segments



Bioinformatics



Scientific informatics



R&D Infrastructure



Clinical analytics



Business processes

Few key services

<p>OMICS analysis Target/Biomarker discovery Systems biology</p>	<p>ELN/LIMS implementation Data management Drug discovery informatics</p>	<p>Cloud migration Data infrastructure Computing optimization</p>	<p>Clinical trial digital setup Statistics and informatics Patient engagement</p>	<p>Project management Inventory/Vendor management Regulatory Compliance</p>
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Growth factors

- Availability of large databanks and OMICS data
- Increased focus on precision medicine and rare disease, driven by multi-OMICs

- Increased focus on data capture at source and lab automation
- Drive to use data-driven and AI/ML methods for drug discovery

- Increased demand for optimal data storage and connectivity across verticals in cloud
- Cost reduction need for computing applications in cloud

- Increased focus on remote patient management and technologies for vendor management
- Increased focus of data and AI/ML driven patient stratification

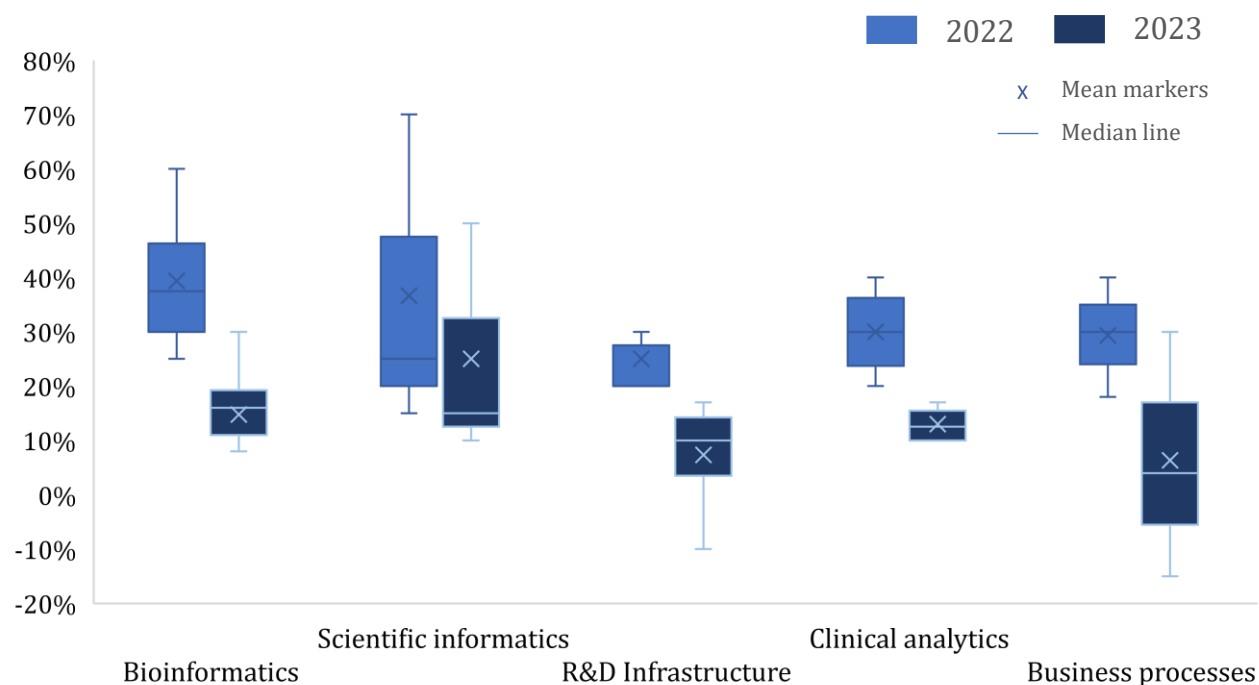
- Increased scrutiny on regulatory compliance for patient data storage and transmission
- Increased focus on cost reduction for process management

Note: We have not covered companies that focus on IT solutions for manufacturing or supply chain

Industry is observing high growth across diverse functional areas

Despite the speed bump in 2023 due to 'biotech funding draught', companies observed low double-digit growth

YoY Growth (by business focus*)



- Businesses across all segments experienced an average of ~25-30% YoY growth between 2020 to 2022.
- Several companies were hit during the poor funding environment of 2023, where their biotech clients had a slashed budget across the board.
 - Only 6/50 companies grew at the expected/projected rate
 - 9/50 companies lost an average of ~12% revenue
- Companies with offerings requiring robust scientific knowhow were relatively less hit as compared to companies with more software engineering focus areas i.e. Business processes and R&D Infrastructure.
- **Bioinformatics and Scientific informatics were the fastest growing segments, and are expected to continue outpacing other bio-IT focus areas**

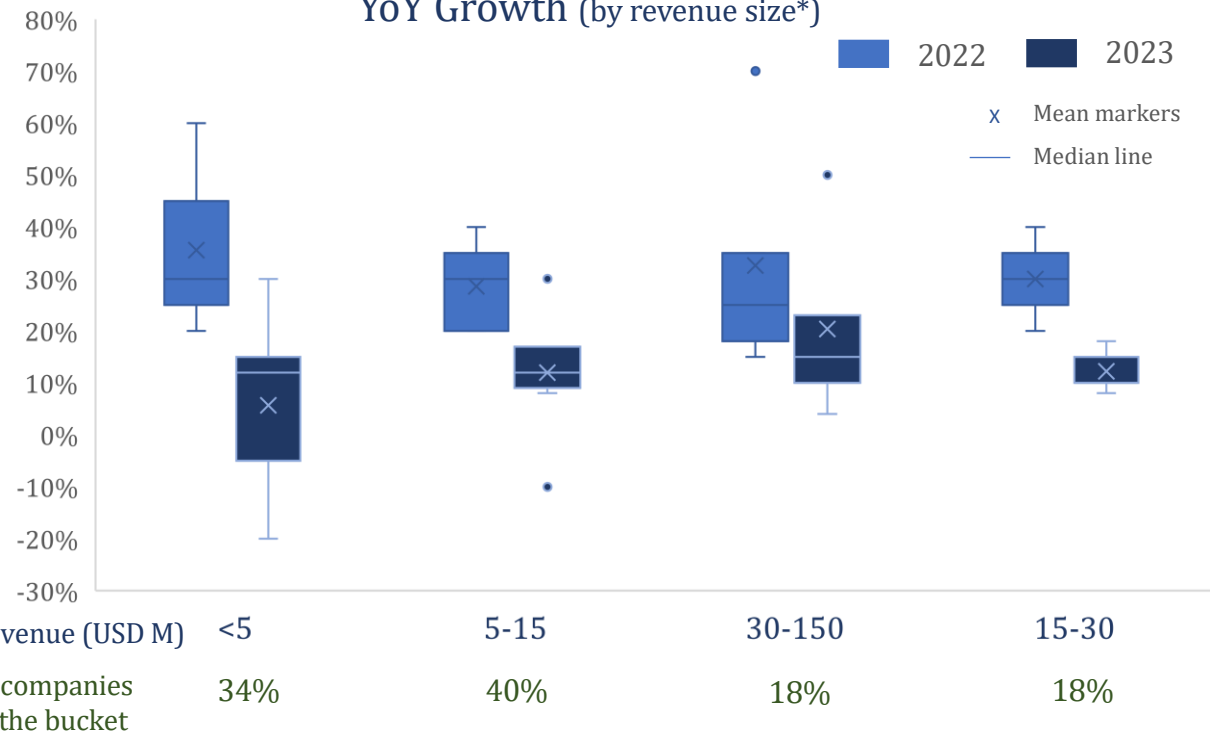
Derived from MP's interactions with the industry leaders

*Some companies have services across 2 or more subcategories. However, they have been categorized based on the largest business vertical by revenue.

2023 funding draught affected companies of all sizes

Even with the hiccup, average growth rate of Bio IT companies stayed higher than traditional IT services

YoY Growth (by revenue size*)



Derived from MP's interactions with the industry leaders

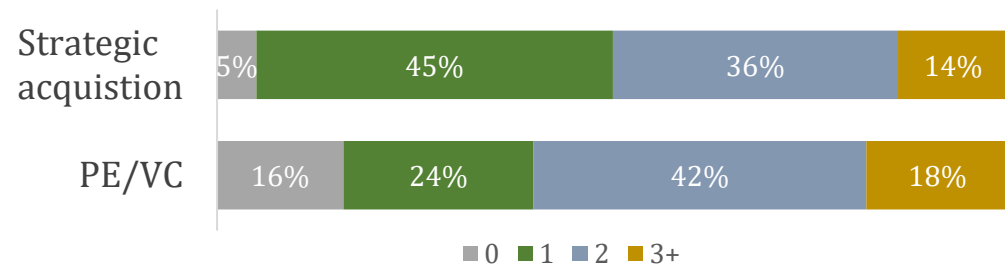
- Small / boutique companies were the most hit during the poor funding environment of 2023. However, the effect was also significant in companies of larger size
- Even when adjusted for scale, the average growth rate of the companies is higher than traditional IT services industry
- Companies with diversity of client concentration by size (Good mix of pharma, biotech and CRO partners), geography, services areas saw least effect of slowdown

*Some companies have services across 2 or more subcategories. However, they have been categorized based on the largest business vertical by revenue.

Even during slowdown, most groups have been approached for acquisition

Bio-IT companies with bilingual capabilities in life sciences and IT are commanding higher value

Strategic and financial buyers are equally interested



No. of acquisition conversations in the past 9 months

Bio-IT companies are commanding higher value owing to bilingual capabilities in life sciences and IT

Valuation multiples (EV/Revenue) are in **the range of 3.0X to 6.0X¹**, slightly higher than traditional IT services companies at **2.2X to 5.4X²**

Select deals

Date	Acquirer	Target
Aug 2023	ARCHIMED	Instem <small>Information Solutions For Life</small>
April 2023	excelra	BISC Global
April 2023	astrix	ORBIS Lifesciences Consulting
Jan 2023	propharma	Digital Lab Consulting <small>A Hoffmann-La Roche Company</small>
May 2022	Infosys [®]	BASE LIFE SCIENCE
May 2022	TA ASSOCIATES	Zifo
May 2022	ZS	intomics

Source: ¹MP research, ²Houlihan Lokey (2023)-IT services market update

Companies are building diverse differentiation and growth strategies

CEOs should consider both organic and in-organic growth opportunities to stay competitive



Value added skills sets

Build differentiation with skilled teams in 'niche' value-added capabilities on top of common engineering services. Examples:

- Data curation from unstructured data
- Hyper scale architecture support
- Strong scientific skills in drug discovery processes, especially in bioinformatics
- Low to no code ML applications
- Data infrastructure management



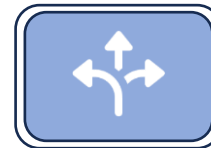
Consultative skills

Build a team towards consultative business, that adds towards thought leadership towards the design of solutions to command a robust market share



Innovative business models

Explore innovative business models with value-based pricing and consultative execution that can fit in with the rapidly iterative requirements of biopharma



Flexibility and scalability

Create flexible cost base through an extensive use of third parties for low value added and highly volatile services, allowing to cater to varying demands



Offshore + Onshore models

Consider a hybrid model: senior consultants and managers on ground and an offshore team in India, Easter EU and Argentina, to provide cost arbitrage to stay competitive.

Consolidation is expected to accelerate as businesses recuperate to full growth

Digital companies with strong fundamentals and differentiated skill sets will continue to command a premium



Evolving technologies, large datasets and the strategic drive for digital transformation will lead to **sustained growth of Bio-IT services industry** at a high pace over next few years



We expect to observe **increased PE interest** across the digital continuum as the biopharma digital transformation drive continues, providing companies the crucial capital and synergies from portfolio companies to accelerate growth



We also expect **to strategic deals to continue** with the following imperatives: capability tuck in for new technologies, vertical strengthening to deepen existing focus, and add platform capabilities for recurring revenue



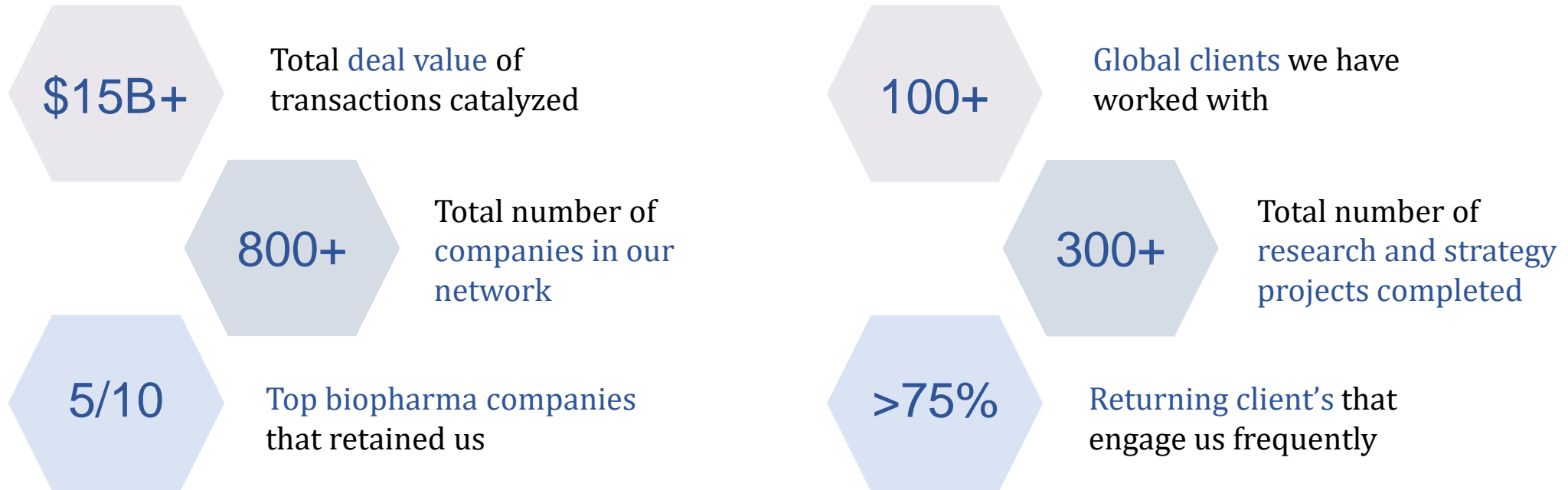
Valuation considerations:

- Firms with differentiated skill sets in emerging areas like spatial OMICs, hyper-scale infrastructure, AI/ML capabilities, etc., will command higher valuations
- Firms that have a small platform component or maintenance models to get recurring revenue will command higher valuations
- Firms that provide consultative approach to drive implementations and have an opinion leader position will command higher valuations

MP team, with its 35 years of global biopharma experience and deep understanding of the Bio-IT services sector, can help with building a robust strategy to accelerate your initiatives in Bio-IT industry

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Bringing a globally integrated perspective as preferred advisors to many of the top biopharma companies and investor groups across USA, Europe, Japan and India

TRUSTED ADVISORS FOR OVER 35 YEARS

M&A | Licensing | Partnerships/Joint GTM | Due diligence | Portfolio strategy | Market entry | Research and competitive landscape

Select Projects in the space

excelra

Acquisition (buy-side)

 BISC Global

Undisclosed

2023

HEOR Platform

Acquisition (buy-side)

HEOR services boutique

On-going

2024

R&D IT services

Acquisition (buy-side)

Scientific informatics

On-going

2024

Bioinformatics

Sell side advisory

On-going

2024

Other reports:



Artificial Intelligence in Target and Biomarker Discovery



Natural language processing: An AI tool to cash-in the 'big-text' in life sciences



Promise of digital health- An opportunity for BioPharma to transform healthcare delivery



Outlook on AI and medical writing

THANK YOU.

We invite you to write to us -

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