

Analysis: Executing buy and build in pharma services

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Ellie West

Investors continue to flock to pharma services, targeting opportunities across the range of providers to the biopharmaceutical industry that can cover everything from preclinical development and clinical trials to manufacturing, distribution and commercialisation.

According to Pitchbook [data](#), there were 774 private equity deals in pharma services in the three years to the end of 2023 compared to 489 in the preceding three years, and there has so far been no let up in activity in 2024. The appetite is driven by the sheer pace of innovation, which has filled drug pipelines with ground-breaking candidates, plus a shift towards more complex speciality drugs at a time when biotech businesses are reluctant to scale up their own operations.

Pharma services assets are attractive to investors as we observe a macro shift in innovation, which is moving away from big pharma companies and into leaner biotech businesses. These biotechs have less appetite to invest in large-scale operations, creating opportunities for smarter commercial approaches working with partners in pharma services.

As deals for contract research organisations (CROs), contract development and manufacturing organisations (CDMOs) and other pharma services offerings have increased, the drive for consolidation in the fast-growing industry has led PE investors to favour buy and build strategies.

These transactions have faced some headwinds over the past few years, as we have seen large pharma shifting priorities towards later stage assets and biotechs facing capital constraints, but that short term disruption has done nothing to dent the long term fundamentals that continue to pursue add-on M&A.

At McDermott's annual Healthcare Private Equity Europe conference in London in September 2024, a panel of dealmakers discussed the investment opportunities on offer in the fragmented market.

Buy and build strategies work well for investors in pharma services, given the clear playbook and benefits gained from scale, geographical presence and access to additional technologies that allow companies to stay with customers for longer.

Getting deals done

We know that add-on M&A has dominated private equity deal activity over the last two years as the higher cost of capital and mismatched valuation expectations have stood in the way of new deals. That has been particularly evident in pharma services, where platform acquisitions represented fewer than one in four deals in 2023 compared 40 percent of dealflow back in 2019.

We have also seen the arrival of more generalist private equity funds in pharma services, attracted by the relatively easy to navigate opportunities associated with backing the commercialisation strategies of the healthcare and life sciences industry.

This is a sector where there is a clear playbook and clear benefits that investors can easily define, whether those are associated with scale, geographical presence or the ability to follow the molecules. It is fairly easy to start with a platform and build from there.



Michael Czesla

The sector also remains fragmented: often there are technical leaders in small niches that lend themselves towards aggregation. Plus, customers are looking for fewer vendors with a more global outlook.”

The most attractive platform targets provide a service to a market that is growing and boast a proven ability to compete successfully with larger corporations. Innovation and service levels are important, as are the infrastructure and scalability of the business and the capabilities of the management team to execute on M&A.

Buyers are also looking for assets that can provide a nucleus for growth, which means they must perform one of the most important activities in their customers’ buying process.

Strategic considerations

Investors will typically look to execute on a buy and build strategy at the start of their hold period in order to secure maximum upside, though deals done later can also make good commercial sense. A core element of delivering a successful buy and build is post-merger integration, with corporate culture being a key part of that.

During due diligence of add-on deals, culture will need to be a primary consideration, and particularly the extent to which company B really wants to be acquired by company A and buys into the benefits of the deal.

A key learning from dealmakers on the McDermott panel was that starting early to build that consensus around a go-forward strategy is beneficial, particularly focusing on the commercial side where getting people behind a shared vision is crucial.

The attitude of management teams is pivotal. Often founders favour a deal with private equity over a strategic acquisition because they value their company’s culture, but there must be a willingness to learn from the other parties in a buy and build process and to pursue the benefits of consolidation.

While these challenges may be even more acute on cross-border deals involving different countries and cultures, sponsors cannot over-invest in integration and have a key role to play in building alignment and investing in the infrastructure to support growth.

Integration is critical to the delivery of these strategies, with culture a key element that should be a focus during acquisitions, particularly cross-border. The most successful deals involve starting early, building a shared vision and ensuring management support is aligned around a flexible mindset.

With M&A markets set to liven up through 2025, we expect to see more platform acquisitions as private equity investors continue to execute on buy and build in the dynamic pharma services arena.

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