

# UNPRECEDENTED MARKET DEMAND FOR STRATEGIC INNOVATION



**T**he life sciences industry has one of the strongest M&A markets in recent history, fueled by the strong financial performance of Pharma Services, Diagnostics and Tools, and Digital Health companies and accelerated by the COVID-19 pandemic, which abruptly pushed innovation in these subsectors ahead three to five years. Investors have strong appetites for these growth opportunities, opening doors for sellers to enhance product and service offerings and spurring innovation to improve both financial performance and patient outcomes.



**Shane Senior**  
*Managing director, Crosstree, prospects for Pharma Services and Pharma IT*

The historically conservative and regulation-driven Pharma Services subsector is, for the first time in decades, in a period of intense transformation and innovation. This transformation is focused most acutely on data and data interoperability, as today's decentralized and patient-centric clinical trials require entirely new data collection methods and management methods. From wearables and real-time EDC data to e-clinical hubs, virtual training, and remote study startups, solutions that enable real-time, decentralized collection and interoperability of data will be essential

to the industry in the future. Patient recruiting, retention, and engagement - both services and technology - are critical capabilities, and even traditional companies in biometrics, statistics, and data management programming are seeing increased demand for their services. The result is one of the industry's best markets in history: high-growth investment opportunities for investors and strong valuations with many partnership options for sellers.



**Jeff Ellis**  
*Managing director, Crosstree, on prospects for Lab Services*

The Lab Services subsector is undergoing a period of significant M&A activity as strategic and financial buyers seek to create a more comprehensive suite of services for biopharma sponsors. A key area of growth is assay development and sample analysis specific to immunotherapies, as these therapies comprise an increasingly large portion of today's drug pipeline. Lab testing support for these areas requires specialized capabilities and scientific depth, so companies with complimentary offers are merging to create an enhanced offering.

In other cases, consolidation is taking place to expand geographic coverage to support multi-national trials.

Lab services businesses are extremely attractive to private equity due to their high margins, strong cash flows, and scalability. The economic uncertainty of the last year led many would-be sellers to postpone, resulting in significant latent demand heading into

2021. Now that the economic outlook has improved, these firms are finding strong valuations and competition from investors as demand continues to outpace supply.



**Zeke Navar**  
*Managing director, Crosstree, on prospects for Digital Health*

Across the pharmaceutical industry, companies are looking to technological solutions for everything from shorter drug discovery time frames to better collaboration and improved patient outcomes. For investors, the increased demand for these firms' products and services is just one of the aspects that makes them such an attractive investment opportunity: these companies offer highly scalable & differentiated technologies, high margins, and rampant year-over-year growth.

The Digital Health market is also seeing an increase in vertical consolidation. Historically, companies would outsource a non-core capability, but advances in technology now enables them to verticalize, keep it in-house, and capture that revenue opportunity. The increased demand for these services, combined with attractive unit economics, gives investors the confidence they need to invest. Before, tech services of strategic investments required a leap of faith, but now Digital Health firms are enjoying record-breaking trading multiples, driven primarily by the ability to handicap financial forecasts, which minimizes execution risk.

Crosstree is a distinguished boutique investment banking firm focused exclusively on the needs of middle-market companies within the Pharma Services, Diagnostics and Tools, and Digital Health subsectors. The firm recently published Innovations in Pharmaceutical Development™, a first-of-its-kind resource profiling some of top innovators and best investment opportunities in the industry. Learn more at [CrosstreeCapital.com](http://CrosstreeCapital.com).

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