

# Pharma Research 2022

The Portuguese CMO Ecosystem



**GLOWSIDE MANAGEMENT**  
EXCELLENCE-RELIABILITY-TRUST

November 2022

## About Glowside

Glowside Management (“Glowside”) is a strategy and corporate finance boutique based in Portugal. Glowside was founded in 2017 by its 2 partners, Ricardo Sousa Valles and Paula Oliveira Marto, bringing together an extended experience from Big 4 consulting companies.

Glowside is a business and financial advisor of CEOs and shareholders, operating mostly in the Pharma & Biotech, Real Estate & Construction, Industrial and Energy and Sustainability sectors.

With more than Eur 150 M of mostly cross border transactions in the Pharma Sector, Glowside together with its network of international partners, is able to deliver Strategy and M&A as an integrated approach to any deal, investment or business decision support, leveraged on its know-how of the sector.

Our core values are Excellence, Reliability & Trust, and our mission is to establish long lasting relationships with our clients and to develop the best advisors to deliver the highest value on everything we get involved in.

### Disclaimer

This document was developed with the main goal of presenting a brief overview on the Portuguese Pharma Manufacturing landscape. For that matter, we selected the Top 10 Portuguese owned pharmaceutical companies with manufacturing capabilities to present a representative picture of the market.

The information herein presented was based on available public data collected from SABI and other public sources. No validation was performed with any of the companies presented, nor any adjustment was made in order to preserve comparability of published accounts. For that matter, it is important to note that most of these groups also present commercial activities, both at local and international levels, that have been considered in the analysis, as for most companies it is not possible to perform a separate analysis from public data. Access to more detailed data may result in different figures and conclusions.

This publication does not constitute an investment advise nor should it be used as the foundation for engaging in any type of transaction or business decision.

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## Author's Note



After 2 years of privately sharing our study on the main Pharma players in Portugal, this year we have decided to make it available to the market and on a slightly different format.

Glowside's Pharma Research Series is a tool for sharing some of our internal knowledge, but also to promote ourselves as one of the most active players in the sector, in what concerns our Corporate Finance and M&A services.

This year we dedicated a special focus on the Portuguese CMO landscape, namely on the Top 10 players.

As mentioned in a recent study published by Cowen, "the end of cheap debt after a 15-year period of central bank monetary accommodation and a more realistic cost of capital will distinguish winning companies from losing companies". In general, the Portuguese market has been quite stable and companies have shown resilience handling adversity in the past and so we expect this interest rate rise won't bring much trouble to the sector.

In what concerns M&A activity the market has also remained quite stable. We have seen the carve out and sale of Medicamenta and Davi by Lusomedicamenta / Recipharm (advised by Glowside), the acquisition of Sidefarma by Atena Capital Partners (to our knowledge, the first Portuguese Private Equity firm to enter the industry) and the acquisition of Genibet by Recipharm.

Though many Spanish, French and German companies have been scouting the Portuguese market for acquisitions, we have been seeing more appetite for Portuguese companies to acquire abroad, looking to expand their product portfolio, capturing new markets and/or acquire knowledge and capabilities from CRO's.

As more of the "next generation" take the steer of Portuguese companies, more M&A activity is expected to take place both locally and cross border. As the market consolidates and companies become bigger, their international reach will certainly intensify.

A handwritten signature in black ink that reads "Ritesh Jain MS". The signature is written in a cursive, slightly stylized font.

(Glowside Managing Partner)

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# 1

## **Pharma sector is being significantly affected by global uncertainty**

There are 4 main forces impacting the sector: a change in the M&A activity landscape, the decrease of transaction multiples, the increase of interest rates and the upcoming medical cannabis market.

# 1 Pharma sector is being significantly affected by global uncertainty

There are 4 main forces impacting the sector

## M&A activity is shifting to more strategic deals

With near term concerns affecting both global markets and the pharma sector, boards do not expect so much immediate ROIC with M&A deals, focusing more on strategic deals that can secure them a stronger positioning in 5 to 10 years. Though there are less concerns about overpaying 1-2x on a multiple basis, investors are quite sensitive to rigorous analysis and valuations, putting extra pressure on the analysis of the companies' fundamentals.

## Transaction multiples tend to continue decreasing in 2023

Average EBITDA multiples<sup>\*\*</sup> trend for CDMOs shows a decrease from 24,8x (last 12 months average) to 23,5x (last 3 months average). In the case of CROs, EBITDA multiples decreased from 16,7x to 13,6x (in the same time frames). This trend is expected to continue through to 2023 and 2024.

## Low interest rates are coming to an end

As interest rates keep increasing (and are expected to maintain the upward movement) highly indebted companies may face "new difficulties", as the cost of capital raises. New projects will also require higher returns on investment to be financed.

## There is an increasing interest in medical-use cannabis

Given the therapeutic potential of cannabis in the treatment of multiple diseases, several global pharmaceutical players have recently been investing in the cannabis industry. Portuguese pharmaceutical companies (such as Iberfar and Labialfarma) have also been following this global trend. It is a new market to keep our eyes on in 2023.

\* Values for publicly traded US and Europe pharma services' companies



# 2

## **Downward movement of transaction multiples**

The market has been witnessing transaction multiples decrease in the past months. We expect this trend to continue during 2023.

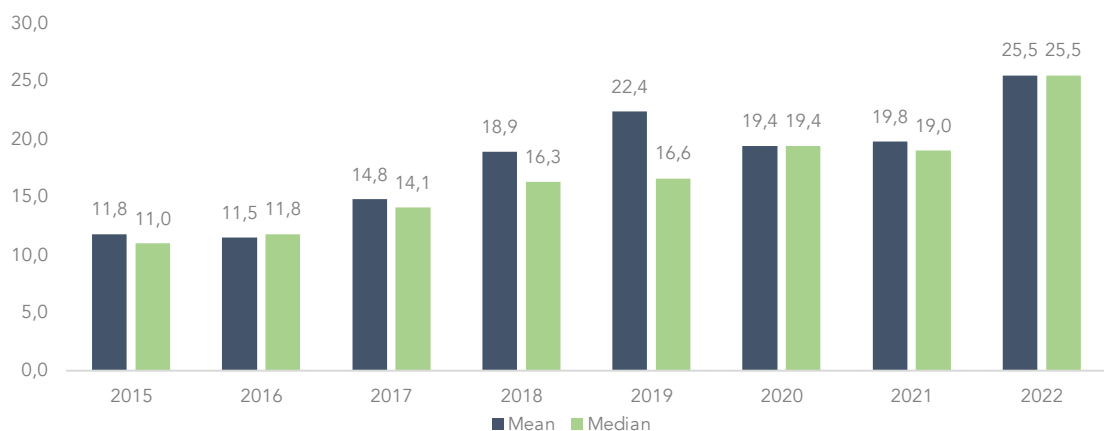
## 2 Downward movement of transaction multiples

In 2022 transaction multiples started to decrease – a trend that is expected to continue

Transaction multiples have been decreasing in the last few months, with boards focusing more and more on strategic deals. The current environment of high inflation, geopolitical uncertainty and growing interest rates is also contributing to the decrease of transaction multiples.

This is a clear shift when comparing to the period of 2015-2022 (excluding a significant downfall in 2020), where the the average EBITDA transaction multiples grew 17% per year (from 11,8x to 25,5x). After reaching their peak in the beginning of 2022 (25,5x), multiples have been recently decreasing, a trend expected to prevail in 2023 and 2024.

Chart 1: EV/EBITDA Transaction Multiples (2015-2022)



Source: Cowen - Pharma Services Monthly Review (October 2022)

This downward trend is also visible by the declining stock prices of publicly traded companies. The average EV/EBITDA multiples\* of the last 12 months vs. the last 3 months fell from 24,8x to 23,5x in the case of CDMOs and from 16,7x to 13,6x in the case of CROs. Notwithstanding this, CDMOs expect to continue growing, with a forecasted revenue growth of 8%\*\* up until 2024. CROs are also expected to continue growing in the same period, with a forecasted revenue growth rate of 9%\*\*.

### What about Portugal?

According to Glowside's experience, M&A activity in Portugal usually follows multiples 30% to 50% below international average, depending on the company size (Sales and EBITDA) and its degree of exposure to international markets. As such, we might expect a decline in EBITDA multiples from 14x/12x to 10x/8x, in the next year.

\*Values for publicly traded US and Europe pharma services' companies

\*\*Average values for selected companies from Cowen study. CDMOs considered: Catalent, Lonza Group Ltd., Siegfried Holding and West Pharma; CROs considered: Charles River Labs, Icon PLC, IQVIA, Medpace and Syneos



As previously mentioned, the main motivations behind M&A deals in the pharma sector are strategic. Nevertheless, rising interest rates will lead LPs (Limited Partners) to demand a more immediate ROIC (return on invested capital), as a way to keep pace with the cost of capital, which will also put a downward pressure on industry multiples.

This trend will be especially applicable to groups owned by investment funds and private equities, who demand faster returns and have been increasing their presence in the pharma industry.

In other words, the strategic importance of the assets will be kept, but the availability to pay high premiums will be much more restrict – it will only be applicable to distinct business models with proof of a successful pipeline.

# 3

## **Portuguese pharmaceutical groups will keep growing**

The Portuguese pharma landscape is stable and resilient, showing consistent growth over the past 5 years. Most groups are clearly prepared to face the upcoming crisis and should expect their business to continue growing through 2023 and 2024.

### 3 Portuguese pharmaceutical groups will keep growing

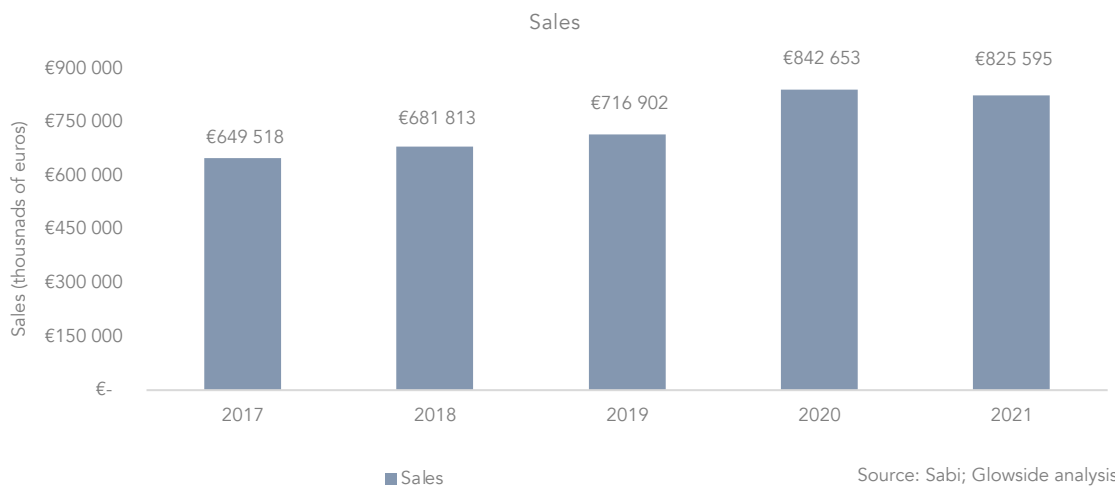
#### The Portuguese pharma landscape has shown strength and resilience over the past years

The 10 largest Portuguese pharmaceutical groups\* aggregated sales values have grown at an average yearly rate of 6%, from Eur 650 M in 2017 to Eur 826 M in 2021 (though much of this value comes from contract manufacturing, a significant part comes also from product sales).

This growth trend is expected to continue over the upcoming years, as Portuguese groups keep looking for new manufacturing contracts and for new products and licenses to revamp their portfolios.

The same set of pharma groups has exhibited (on average) a slight decline in EBITDA though, decreasing from Eur 88 M in 2017, to Eur 78 M in 2021. With EBITDA decreasing and sales growing, average EBITDA margins have shrunk from 14% to 9% over the last 5 years.

**Chart 2: Aggregated Sales of the 10 largest Portuguese pharmaceutical groups (2017-2021)**



For 2023, the expected increase in personnel costs, materials and energy may impact EBITDA margins between -2 and -4 p.p.'s as companies may face difficulties to pass on these inflationary increases to CMO clients and to final products prices. Companies with greater agility, better portfolios and with focus on efficiency will be better prepared to deal with this threat.

Portuguese pharmaceutical groups will also need to continue to revamp their portfolios and look further into biologics following global market trends.

\*The analysis includes the following groups: "Bial"; "Tecnimed"; "F.H.C. / Basi"; "Sidefarma"; "Bluepharma"; "Ferraz"; "Iberfar"; "Edol"; "Azevedos"; "Medinfar". For the composition of each of the groups, please check the Appendix section.

Note 1: The EBITDA values presented in this study are computed as EBITDA = Sales – Cost of Goods Sold (COGS) – Cost of Employees – Other Operating Costs. Thus, In some cases, there might be some differences from the reported EBITDA values.

# 4

## **Portugal remains very attractive to foreign investment**

Portugal is recognized for hosting some of the most productive and efficient factories in Europe. Spanish, French and German mid-size companies continue looking for targets to acquire in Portugal and increase their international footprint.

## 4 Portugal remains very attractive to foreign investment

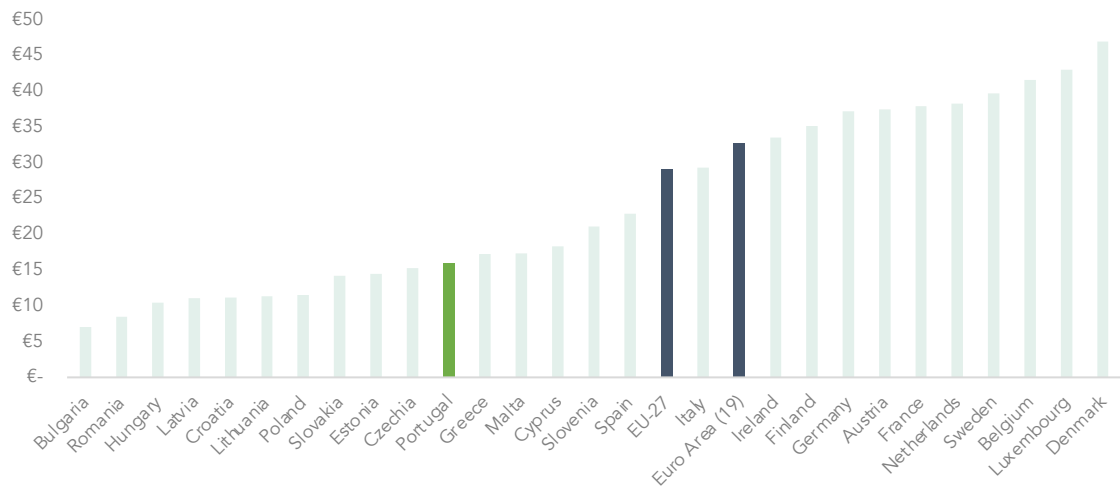
### The attractiveness is fostered by the efficiency of factories and qualified personnel

Portugal remains very attractive to foreign investments mostly due to efficient running factories and a qualified labour force at a relatively low cost when compared to most of Europe.

In fact, several Spanish, French and German mid-size companies continue on the lookout for targets to acquire in Portugal and increase their international footprint.

Amongst others, the access to qualified labour at a relatively low cost has also been a key factor for profitability. Portugal's average hourly labour cost of Eur 16 is well below the EU-27 average of Eur 29 and the Euro Area average of Eur 33.

**Chart 3: Average Hourly Labour Cost (2021)**



Source: Eurostat

Nevertheless, Portuguese CMOs should be aware of the threat that Eastern European countries represent. Most Eastern European countries have a lower cost of labour than Portugal and have been significantly improving their workforce's qualifications and infrastructures, as well as adapting their companies to EU requirements (especially since entering the EU). Together with lighter tax regimes adopted by most of them, these factors have been bumping up the pharma industry in these countries.

# 5

## **Main conclusions**

Expectations for 2023

## 6 Main conclusions

### Expectations for 2023

- 1 Major trends are affecting the CDMO landscape and will soon impact the Portuguese market. However, Portuguese companies, most of them with little leverage, have shown their resilience and capacity to remain efficient in times of trouble.
- 2 Continuing pressure on the Governments / Regulators and on manufacturing clients for price increase will be key for companies to defend their EBITDA.
- 3 We expect the market will continue to grow in Portugal over the next years. Though with some pressure on EBITDA margins, we believe the market will still remain attractive to international investors.
- 4 Companies will continue looking for new projects and investing into more value adding activities and R&D in order to find new sources of growth.
- 5 Second and third generations of CEOs are starting to take the steer of many companies bringing new strategies and a greater concern towards internationalization.
- 6 With decreasing transaction multiples we see several opportunities for less leveraged Portuguese companies to grow abroad through acquisitions, as some targets are starting to become available due to big firms portfolios and assets restructuring.



# Appendix

Composition of the groups analysed

## Appendix

### Composition of the Groups Analysed

#### AZEVEDOS

Sofarimex - Indústria Química e Farmacêutica, S.A.  
Laboratórios Azevedos - Indústria Farmacêutica, S.A.  
Laboris Farmacêutica, S.A.

#### BIAL

Bial - Portela & Ca., S.A.  
Bialport - Produtos Farmacêuticos, S.A.  
Interbial - Produtos Farmacêuticos, S.A.  
Medibial - Produtos Médicos e Farmacêuticos, S.A.  
Bial - R&D Investments, S.A.  
Bial - Consumer Health, S.A.

#### BLUEPHARMA

Bluepharma - Indústria Farmacêutica, S.A.  
Bluepharma Genéricos - Comércio de Medicamentos, S.A.  
Blueclinical - Investigação e Desenv. em Saúde, Lda.

#### EDOL

Laboratório Edol - Produtos Farmacêuticos, S.A.

#### FERRAZ

Labialfarma - Laboratório de Produtos Farmacêuticos e Nutracêuticos, S.A.  
Ferrazpharma, Lda.  
Liqfillcaps International - Innovative Pharmaceutical Products, Lda.  
Ferraz Sciencis - Healthcare Advanced Solutions, S.A.  
Azentis - Produtos Farmacêuticos e Nutracêuticos, S.A.

#### F.H.C. / BASI

F.H.C. - Farmacêutica, S.A.  
Laboratórios Basi - Indústria Farmacêutica, S.A.  
Overpharma - Produtos Médicos e Farmacêuticos, Lda  
Phagecon - Serviços e Consultoria Farmacêutica, Lda  
Zeone - Consulting, Lda  
Basinnov Life Sciences, Unipessoal, Lda

#### IBERFAR

Iberfar - Indústria Farmacêutica, S.A.  
Ferraz, Lynce, Especialidades Farmacêuticas, S.A.  
Rdn - Serviços de Biotecnologia, Unipessoal, Lda.  
Kevel - Produtos Farmacêuticos, Lda.

#### MEDINFAR

Laboratório Medinfar - Produtos Farmacêuticos, S.A.  
Farmalabor - Produtos Farmacêuticos, S.A.  
Medinfar Consumer Health - Produtos Farmacêuticos, Lda.  
Medinfar-Sorológico - Produtos e Equipamentos, S.A.  
Medinfar Serviços, Lda.  
GP - Genéricos Portugueses, Lda.  
Etifar Promoção de Produtos Farmacêuticos, Lda  
Quorum – Promoção de Produtos Farmacêuticos, Lda

#### SIDEFARMA

Sidefarma - Sociedade Industrial de Expansão Farmacêutica, S.A.

#### TECNIMEDE

Tecnimede - Sociedade Técnico-Medicinal, S.A.  
Atlantic Pharma - Produções Farmacêuticas, S.A.  
Farmoz - Sociedade Técnico Medicinal, S.A.  
Pentafarma - Sociedade Técnico Medicinal, Lda.



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