

OUTSOURCED PHARMACEUTICAL SERVICES SECTOR CASE STUDY

Cello Health Taken Private by Pharma Value Demonstration, a portfolio company of Arsenal Capital Partners

M&A Advisory | Growth Capital | Recapitalizations | Board Advisory | Strategic Evaluations



November 2020

CELLO HEALTH TAKEN PRIVATE BY PHARMA VALUE DEMONSTRATION, A PORTFOLIO COMPANY OF ARSENAL CAPITAL PARTNERS

Transaction Overview

- Announced: July 1, 2020
- Closed: August 11, 2020
- Acquiror: Pharma Value Demonstration (“PVD”) a portfolio company of Arsenal Capital Partners (“Arsenal”)
- Enterprise Value: £181.8 million (\$237.3 million) ⁽¹⁾
 - PVD agreed to pay 161 pence per share (\$2.10 per share) ⁽¹⁾
 - 43.8% premium ⁽²⁾
 - 12.3x FY 2019 Adjusted EBITDA of £14.8 million (\$19.4 million) ⁽¹⁾
- The board of directors of Cello Health (“Cello”) unanimously recommended shareholders to vote in favor of the acquisition
- The acquisition required the approval of Cello shareholders who owned greater than 75% of Cello shares, which was achieved through a formal shareholder vote

Cello YTD Stock Price Performance



Overview of Cello

- Cello is a global healthcare-focused advisory firm comprised of a set of leading scientific, commercial advisory and digital delivery capabilities
- Cello provides strategic consulting, healthcare communications, and business insights and analytics services to its biopharmaceutical and pharmaceutical clients
- The company is headquartered in London and has an office network in the U.K. and U.S., with hub offices in New York City, Philadelphia, New Jersey, London, Edinburgh, and Farnham
- Cello Health serves 24 of the top 25 pharmaceutical clients globally, as well as a wide range of biotech, diagnostics, devices and other key non-healthcare clients
- The business delivers its services through nearly 1,000 highly skilled professionals, utilizing latest thinking, technology and digital solutions

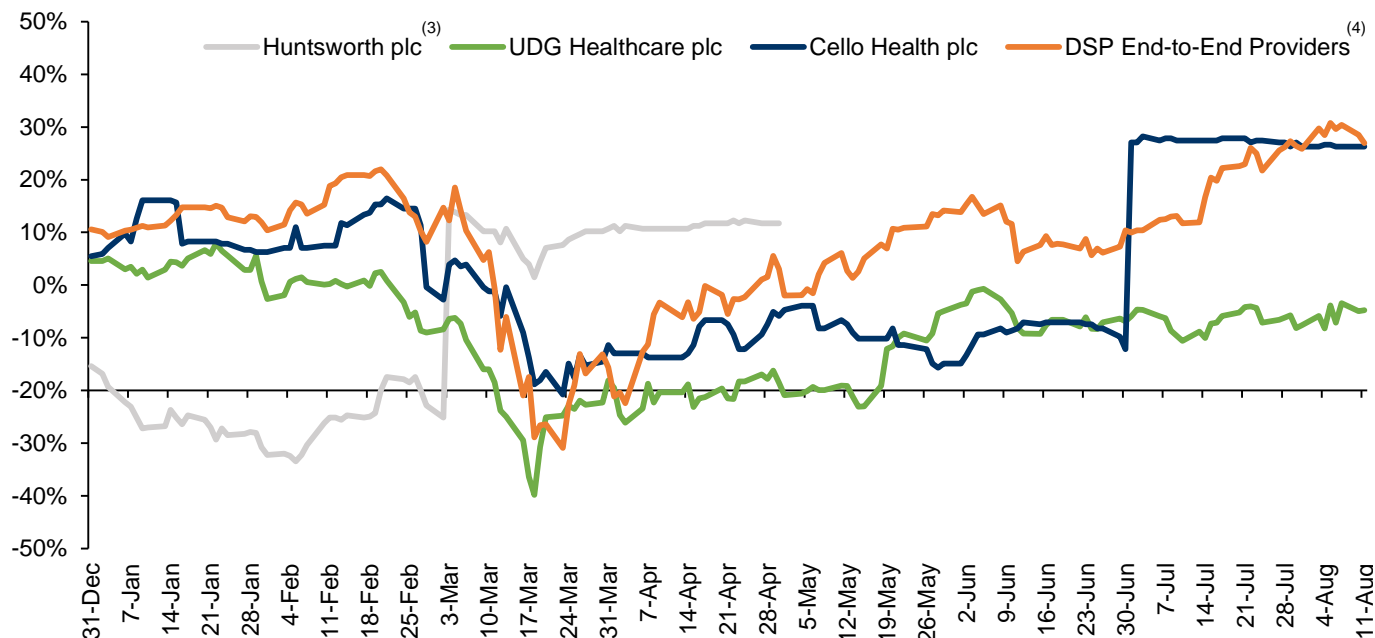
Source: Company press releases, investor presentations, public filings, and PitchBook.

(1) Based on exchange rate as of August 11, 2020: 1 £ = 1.3052 USD

(2) Premium over closing price on June 30, 2020, the last date before PVD's offer to purchase the company.

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Cello Health vs. DSP Outsourced Pharma Services Commercialization Companies (2020 YTD Stock Price Performance) ^{(1) (2)}



(1) PitchBook

(2) Represents YTD stock performance from January 1, 2020 – August 11, 2020

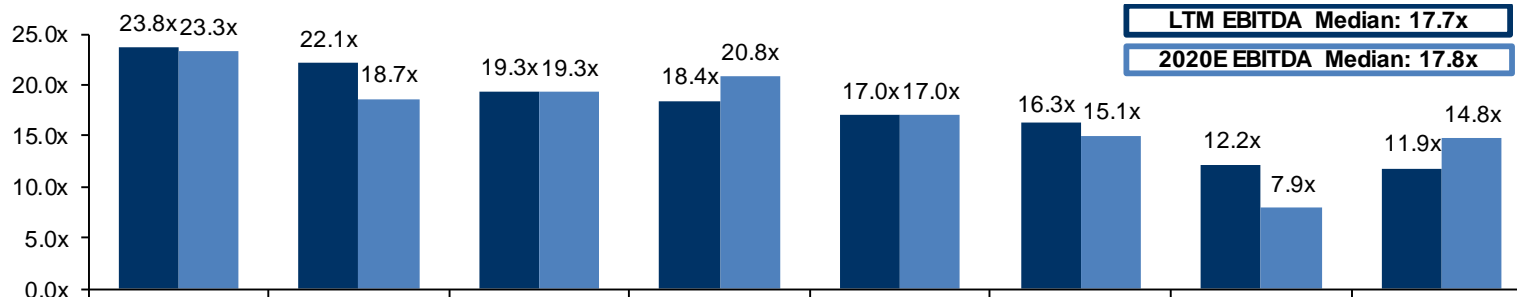
(3) Huntsworth was taken private on May 1, 2020 by Clayton, Dubilier & Rice

(4) DSP End-to-End Providers include: Medpace, IQVIA, ICON, Charles River Laboratories, Syneos Health, PRA Health Sciences, and LabCorp

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EV / LTM EBITDA - CURRENT TRADING PERFORMANCE

(\$ in millions)



	Medpace	IQVIA	Charles River	Icon	PRA Health Sciences	Syneos Health	LabCorp	UDG Healthcare
Enterprise Value	\$4,331	\$43,809	\$13,421	\$9,790	\$8,265	\$9,500	\$25,517	\$2,823
Revenue	896	10,956	2,824	2,762	3,110	4,489	12,442	1,335
Three-Year Revenue CAGR	26.4%	17.5%	15.8%	19.0%	19.1%	42.5%	6.5%	5.7%
Gross Margin	28.9%	34.0%	36.7%	29.3%	27.4%	22.5%	31.1%	29.6%
EBITDA Margin	20.3%	19.8%	26.1%	19.2%	15.6%	13.0%	21.7%	17.8%

MEDPACE

IQVIA

charles river

ICON
A Symbol of Excellence

PRA HEALTH SCIENCES

Syneos Health

LabCorp

UDG Healthcare plc

COMPANY

STOCK PERFORMANCE AND COMPANY DATA

MARGINS

GROWTH

VALUATION DATA

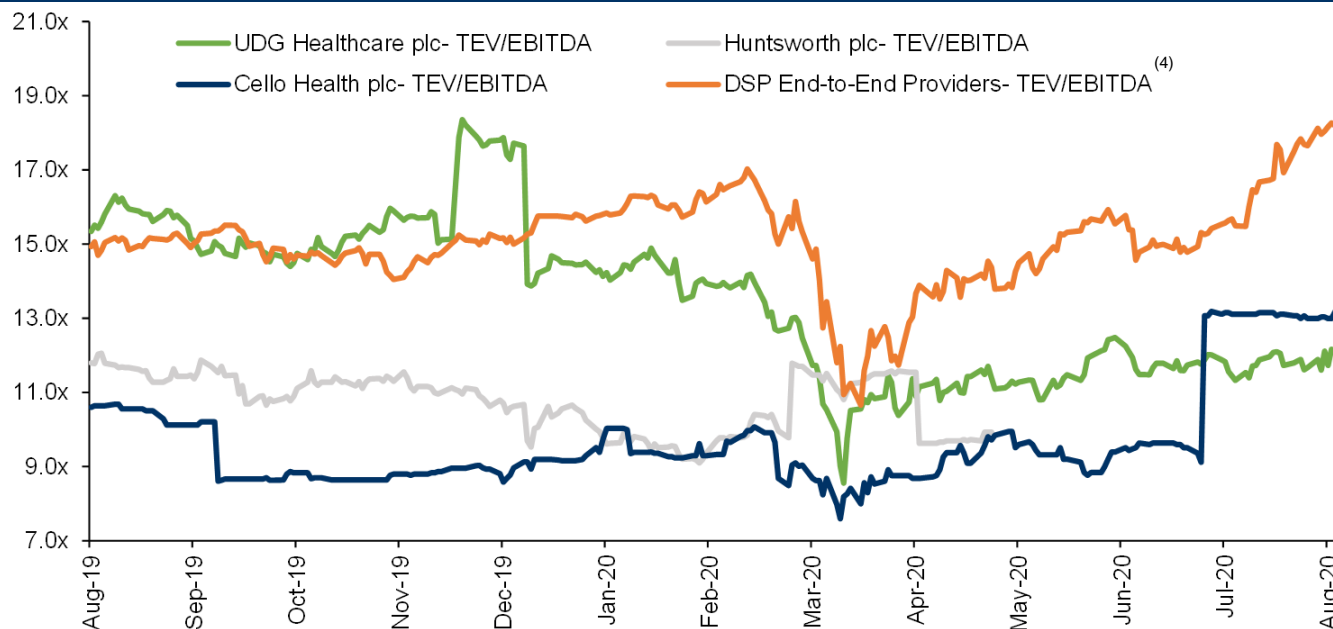
Company	11/30/2020	30 Day % Change	YTD % Change	Market Value (\$mm)	Enterprise Value (\$mm)	Gross Profit % Margin	EBITDA LTM % Margin	Long-Term EPS % Growth	3-Year Revs CAGR	EV / Revs LTM	EV / EBITDA		P / E 2020
											LTM	2020E	
End-to-End Providers													
Medpace (NAS: MEDP)	\$124.11	11.9%	47.6%	\$4,439.62	\$4,331.07	28.9%	20.3%	N/A	26.4%	4.8x	23.8x	23.3x	41.6x
IQVIA (NYS: IQV)	168.81	9.6%	9.3%	32,365.2	43,809.2	34.0%	19.8%	8.9%	17.5%	4.0x	22.1x	18.7x	29.2x
Charles River Laboratories International (NYS: CRL)	230.16	1.1%	50.7%	11,448.8	13,421.0	36.7%	26.1%	13.6%	15.8%	4.8x	19.3x	19.3x	36.2x
Icon (NAS: ICLR)	191.14	6.0%	11.0%	10,087.5	9,790.2	29.3%	19.2%	7.0%	19.0%	3.5x	18.4x	20.8x	31.2x
PRA Health Sciences (NAS: PRAH)	110.99	13.9%	(0.1%)	7,099.0	8,264.6	27.4%	15.6%	11.3%	19.1%	2.7x	17.0x	17.0x	25.0x
Syneos Health (NAS: SYNH)	66.66	25.6%	12.1%	6,932.4	9,500.2	22.5%	13.0%	N/A	42.5%	2.1x	16.3x	15.1x	21.9x
Laboratory Corporation of America Holdings (NYS: LH)	200.00	0.1%	18.2%	19,480.0	25,516.5	31.1%	21.7%	N/A	6.5%	2.1x	12.2x	7.9x	18.6x
Commercialization													
UDG Healthcare (LON: UDG)	10.74	14.5%	1.7%	2,697.4	2,823.3	29.6%	17.8%	6.9%	5.7%	2.11x	11.9x	14.8x	24.1x
Group Mean		10.3%	18.8%	\$11,818.7	\$14,682.0	29.9%	19.2%	9.5%	19.1%	3.26x	17.6x	17.1x	28.5x
Group Median		10.7%	11.5%	8,593.2	9,645.2	29.5%	19.5%	8.9%	18.2%	3.10x	17.7x	17.8x	27.1x
Group Max		25.6%	50.7%	32,365.2	43,809.2	36.7%	26.1%	13.6%	42.5%	4.83x	23.8x	23.3x	41.6x
Group Min		0.1%	(0.1%)	2,697.4	2,823.3	22.5%	13.0%	6.9%	5.7%	2.05x	11.9x	7.9x	18.6x

Deal Rationale

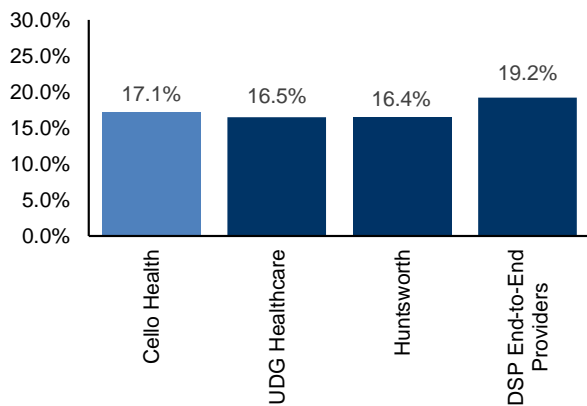
- Arsenal has a history of building and investing in market-leading companies in the outsourced pharmaceutical services sector on both the clinical and commercialization sides of the house (including WIRB-Copernicus Group and Certara)
- Cello is the second addition to Arsenal's PVD platform, following the acquisition of BresMed Health Solutions ("BresMed"), a leader in health economic research and market access submissions, in February 2020
 - BresMed was founded in 2006 and based in Sheffield, United Kingdom. It has over 150 employees across offices in the U.K., Ireland, the Netherlands, the U.S., and India who support clients with drug, device, and diagnostic products to enter markets with the most competitive prices
 - BresMed's services include initial portfolio planning, strategy development, health technology assessments, and post-launch value demonstrations
- Arsenal views Cello as a logical second investment towards building the PVD platform which assembles a differentiated set of capabilities across critical domains including strategy and insights, evidence generation, data and analytics, and communications – all rooted in world-class science and enabled by technology
- Cello is split into two segments (Cello Health and Cello Signal)
 - Cello Health (approximately 68% of the company's 2019 revenue) offers strategic consulting, healthcare communications, and business insights and analytics services to its biopharmaceutical and pharmaceutical clients
 - Cello Signal (approximately 32% of the company's 2019 revenue) offers specialized digital marketing and market research services to its consumer and business-to-business non-pharmaceutical clients
- Cello expands the breadth of commercialization services the PVD platform offers its biopharmaceutical and pharmaceutical clients by adding commercialization strategy consulting, scientific and creative communications, market research, and business insights and analytics
- The BresMed and Cello acquisitions allow the PVD platform to offer a full suite of commercialization services across the entire product development cycle to its clients, increasing its share of wallet at these pharma organizations

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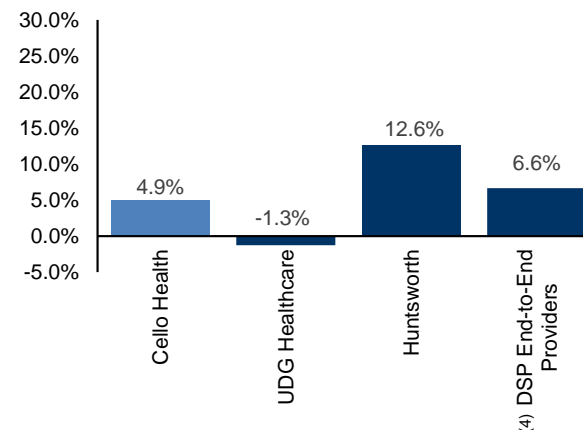
LTM EV / LTM EBITDA Multiple (1)



FY 2019 EBITDA Margin % (1) (2) (3)



FY 2019 Revenue Growth Rate % (1) (2) (3)



(1) Company press releases, investor presentations, and public filings.

(2) Latest financials available, Cello Health did not report public financials on June 30, 2020 due to the acquisition.

(3) Reflects median of the DSP End-to-End Providers.

(4) DSP End-to-End Providers include: Medpace, IQVIA, ICON, Charles River Laboratories, Syneos Health, PRA Health Sciences, and LabCorp

Transaction

Executive Commentary



acquired by

“Today’s announcement marks an exciting moment for Cello Health. We have a shared belief with Arsenal that clients need a partner that combines industry expertise, commercial experience, scientific depth, and cutting-edge technology and data. We’re confident that we can accelerate growth by expanding support for our clients, investing in innovation, and continuing our ambition to become a world-class, truly global company. We firmly believe that, in partnership with Pharma Value Demonstration, Cello will build a market leading enterprise that improves the efficiency and efficacy of the healthcare industry and thereby, improves patient outcomes”

– Mark Scott, Chief Executive Officer, Cello Health

Pharma Value Demonstration

*a portfolio
company of*

“We are delighted at the prospect of working with Cello’s management towards our mission: to improve patient health by accelerating and optimizing patient access to medical innovations, especially those that have a transformative impact on people’s lives. Cello’s breadth of relevant capabilities, scientific credentials, strong client relationships and market reputation for excellence will significantly progress our ambition of becoming the global leader in the space. We are also excited at the prospect of complementing the capabilities of the Cello team with those from the recent acquisition of BresMed. This, we believe, will create a compelling and differentiated services platform, led by strong and seasoned management teams, that consists of strategic consultancy, market access, health economics research and communications. Importantly, the business will be backed by Arsenal, a specialist investor with a deep understanding of the life sciences and pharmaceutical services sector and a strong track record of helping companies accelerate growth and achieve their visions..”

– Jon Williams, CEO of Pharma Value Demonstration



“We are excited that Cello Health’s management and employees will be at the heart of this critical effort to build a market-leading enterprise. We look forward to leveraging Arsenal’s capabilities in North America and Europe to achieve our shared vision for Cello Health as a foundation for a new company that will enable clients to achieve commercial success with their products, and for patients to gain access to life-changing innovations

– Gene Gorbach, Partner Arsenal Capital Partners


- DSP analyzes and groups the public Outsourced Pharmaceutical Services companies into two categories (End-to-End Providers and Commercialization) based on their differentiated service offerings and value characteristics
 - End-to-End Providers are larger Contract Research Organizations (CROs) that are focused on both the clinical development and commercialization sides of the house. The average market cap of End-to-End Providers as of the end of November was \$13.1 billion. These include:
 - Medpace
 - IQVIA
 - ICON
 - Charles River Laboratories
 - Syneos Health
 - PRA Health Sciences
 - LabCorp
 - Commercialization companies are smaller than the End-to-End Providers and offer a suite of specialized services focused on bringing pharmaceutical products to market. The market cap of the sole public Commercialization company as of the end of November 2020 (UDG Healthcare) was \$2.8 billion. In prior publications, DSP has categorized both Huntsworth plc (taken private on May 1, 2020 by Clayton, Dubilier & Rice) and Cello Health within the commercialization group alongside UDG Healthcare
- End-to-End Providers typically trade at a premium to Commercialization companies due their size, breadth of service offerings, and additional share of pharmaceutical customers wallet they capture
- As of market close on August 11, 2020, (the day the take private closed), Cello Health was trading at approximately 14.3x LTM EBITDA, a discount to the End-to-End Providers who were trading between 14.3x and 25.3x, or a median of 19.0x


Outsourced Pharmaceutical Services


 ARCUS MEDICA
has been acquired by

 W₂O
a portfolio company of

 NMC
NEW MOUNTAIN CAPITAL LLC
Advisor to Seller


 PYXA SOLUTIONS
has merged with


 red nucleus
a portfolio company of

 R RENOVUS CAPITAL
Advisor to Pyxa

 Emmes
has completed a majority recapitalization with

 BEHRMAN CAPITAL
Advisor to Emmes

 HealthStrategiesGroup
has been acquired by

 WATER STREET
Advisor to Seller

 EXECUPHARM
has been acquired by

 PAREXEL
Advisor to Seller

Healthcare Services

 Onsite Innovations
has been acquired by

 PIVOT HEALTH SOLUTIONS
a portfolio company of

 CI CAPITAL PARTNERS
Advisor to Seller

 ALEGIS
has been acquired by

 MEDNAX NATIONAL MEDICAL GROUP
Advisor to Seller

 GEO
The GEO Group, Inc.
(NYSE: GEO)
has divested


 GEO Care
in a Management Buyout
Advisor to Independent Committee
Fairness Opinion


Life Science Tools

 Biotix
a portfolio company of

 FISHER-FREEMAN & COMPANY and  GROTECH VENTURES
has been acquired by

 METTLER TOLEDO
Advisor to Seller

 TROMNER
has been acquired by

 METTLER TOLEDO
Advisor to Seller

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M&A Advisory

Growth Capital

Recapitalizations

Board Advisory

Strategic
Evaluations

Senior Leadership

Patrick E. Dolan
Managing Director
484.533.6311
pdolan@delanceyllc.com

William J. Filip
Managing Director
484.533.6312
wfilip@delanceyllc.com

Steven D. Higgins
Managing Director
484.533.6308
shiggins@delanceyllc.com

B. Andrew Schmucker
Managing Partner
484.533.6313
aschmucker@delanceyllc.com