

# Initiation Report

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*“An iconic opportunity”*

JULY 23, 2021

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**ICON plc.**  
Contract Research Organization  
Dublin, Ireland



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# Executive Summary

ICON plc ("ICON", "ICLR" or the "Company") is a leading contract research organization ("CRO"), providing R&D and commercialization services to pharmaceutical, biotechnology, medical devices, government, and public health organizations. **ICON has recently doubled the size of their business and created the 2<sup>nd</sup> largest CRO globally**, with the acquisition of rival PRA Health Sciences ("PRAH").

## Investment Thesis & Recommendation

### Acquire an Initial Position

ICON has historically been a successful compounder of capital. Today, following their acquisition of PRAH, the Company trades at a discount due to concerns over integration and leverage. We believe this is a great opportunity to acquire a strong business that will compound capital for the long haul in a secularly growing industry, at a discount. Progress thus far on the integration has been positive and the Company is well-positioned to reduce their leverage given a history of high cash generation and low debt.

Our valuation methodology concludes on a fair value range of \$215.00-\$335.00, with a selected one-year target of \$270.00.

We recommend acquiring an initial 1.5% position in ICON and adjusting our position size based on progress with the integration of PRAH.

## The Disciplined Compounder Method™

### Overall Score: 87%

**Consistent Cash Flow (5.0)** – Excellent historical record of consistently growing cash flows, with 20-year CAGRs for revenue, FCF and adjusted EPS of 20.5%, 28.7% and 21.4%, respectively. Over this period, ROE and Cash ROIC have grown from 8.0% and 7.0% to 19.2% and 24.0%.

**Visible Cash Flow (4.5)** – Cash flows are derived from the sale of services and solutions to blue-chip pharmaceutical, biotech and medical device companies. The demand for the industry's services is expected to continue to grow at a ~6-7% CAGR over the long-term.

**Growing Cash Flow (4.5)** – Over the medium term, the merged ICON-PRAH company expects to deliver high-single digits revenue growth, low-double digits Adj. EBITDA growth and mid-teens Adj. EPS growth.

**Recurring Revenue (4.0)** – Revenue is backed by multi-year contracts that cover several phases of the therapeutic development cycle, which is supported by significant and complex regulatory requirements.

**Well-Financed (3.5)** – Following the PRAH transaction, ICON's pro-forma net debt to EBITDA is 4.5x, limiting optionality and diverting cash flow to pay down debt in the short-term. FCF has been robust, and management expects to decrease net debt to 2.5x EBITDA by end of 2023. Historically, ICON has had no issues with leverage and as of the most recent quarter, net debt to EBITDA was negative (-1.2x).

**Reasonable Price (4.5)** – ICON is undervalued compared to peers, trading at discounts of 5.5x and 6.9x to its 5-year median spread on forward EV/EBITDA and P/E multiples. On an absolute basis, ICON's valuation multiples represent the 70<sup>th</sup> and 74<sup>th</sup> percentiles over the last 5 years. These are relatively attractive compared to the broader market. The current valuation is also below where recent CRO acquisitions of similar size and quality have traded (ex. PRAH and PPD).

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Equity Report – Initiating Coverage  
**ICON plc**



### Stock Rating:

**Buy**

### Valuation Estimates (\$USD):

<b>1-Year Target</b>	<b>\$270.00</b>
High End	\$335.00
Low End	\$215.00

### Valuation Returns:

<b>1-Year Target</b>	<b>+23.9%</b>
High End	+53.6%
Low End	-1.3%

### Market Data (\$USD):

Current Price	\$218.00
52- Week Range	\$168.76-\$234.22
Market Cap (bn)	\$18.2
Enterprise Value (bn)	\$24.2
Beta	0.71
Shares Outstanding (mm)	83.7
Float %	97.8%
Short Interest as % of S/O	1.4%
% Held by Insiders	<1%

### Cost of Capital:

WACC	7.0%
Cost of Equity	8.1%
Cost of Debt	3.0%
ROE (2020)	19.2%
ROIC (2020)	24.0%

### 2021 Estimates (\$USD):

EPS, Adj.	\$9.12
Revenue (mm)	\$5,408
EBITDA (mm)	\$930

### 2022 Estimates:

EPS, Adj.	\$10.83
Revenue (mm)	\$7,759
EBITDA (mm)	\$1,365

# Tearsheet

## MFO Company Tearsheet

ICON PLC (NASDAQ GS: ICLR, Currency: USD) FY Dec-20

Company Description		Business Segments			Geographic Segments - Sales											
ICON PLC provides contract clinical research services to the global pharmaceutical industry. The Company manages clinical studies in addition to providing data management, regulatory, and central laboratory services. ICON currently operates offices in multiple countries.		Sales	EBIT	%												
		Clinical Research	2,797	391.5	14.0%											
Growth Rate Summary (YoY, unless otherwise stated)																
		FY-20 Ann	FY-10 Ann	FY-5 Ann	FY-1	Q-2	Q-1	LQ	Q+1	FY+1	FY+2	FY+3				
<b>Sales</b>		19.4%	12.8%	13.8%	(0.3%)	13.1%	8.3%	12.9%	113.5%	93.9%	43.1%	2.3%				
<b>EBIT</b>		21.4%	33.3%	5.9%	(9.7%)	90.3%	10.6%	(3.2%)	146.7%	95.7%	64.7%	12.9%				
<b>EBITDA</b>		20.3%	23.5%	5.3%	(7.4%)	72.2%	9.5%	(2.7%)	133.3%	103.5%	46.8%	11.3%				
<b>Net Income</b>		22.2%	34.6%	6.1%	(11.1%)	91.9%	10.5%	(4.1%)	-	-	-	-				
<b>EPS (Dil.)</b>		21.4%	36.7%	7.2%	(10.7%)	91.1%	10.5%	(4.2%)	29.5%	50.9%	18.7%	15.9%				
<b>Dividends</b>		-	-	-	-	-	-	-	-	-	-	-				
<b>BVPS</b>		16.2%	13.4%	19.2%	16.2%	8.1%	8.1%	4.4%	76.4%	27.8%	11.3%	20.0%				
<b>FCFPS</b>		28.7%	(250.3%)	25.7%	45.6%	(3.4%)	64.9%	(40.3%)	56.1%	2.6%	30.3%	20.7%				
10Y Performance																
		2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr Avg					
Price Change		62.2%	45.6%	26.2%	52.4%	(3.2%)	49.1%	15.2%	33.3%	13.2%	21.5%					
S&P 500 INDEX		13.4%	29.6%	11.4%	(0.7%)	9.5%	19.4%	(6.2%)	28.9%	16.3%	13.6%					
Industry (BIGLBPCP Inde)		39.8%	43.0%	12.5%	45.7%	21.3%	51.0%	2.3%	42.8%	56.5%	34.8%					
Div Yield		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%					
10Y Financials																
		2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr CAGR					
Sales		1,115	1,336	1,503	1,575	1,666	1,758	2,596	2,806	2,797	12.2%					
EBITDA		111	168	255	339	371	400	439	493	457	6.1%					
EBIT		68	121	202	282	312	338	373	433	392	6.8%					
Net Income		55	103	172	240	262	281	323	374	332	6.8%					
EPS (Diluted)		0.92	1.65	2.73	3.97	4.65	5.13	5.89	6.88	6.15	9.1%					
Dividends per Share		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	-					
Book Value per Share		\$12.52	\$14.79	\$15.81	\$13.88	\$17.33	\$22.02	\$25.09	\$30.18	\$35.05	20.3%					
Cash & Near Cash		114	183	119	104	193	283	396	520	840	51.9%					
Total Assets		1,202	1,442	1,529	1,717	1,826	2,147	2,354	2,908	3,436	14.9%					
Working Cap		250	352	281	291	464	535	720	494	979	27.5%					
LT Debt		0	0	0	348	349	349	349	77	409	3.3%					
CF Operating Act.		113	221	170	279	259	383	269	413	568	15.3%					
Capex		(31)	(29)	(33)	(50)	(43)	(45)	(48)	(51)	(51)	0.5%					
Free Cash Flow		83	192	137	229	217	338	220	362	517	17.7%					
Ratios																
		2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr AVG					
Gross Margin		35.6%	36.7%	39.9%	42.3%	42.3%	41.6%	30.0%	29.6%	29.2%	34.5%					
EBITDA Margin		9.9%	12.6%	17.0%	21.5%	22.3%	22.7%	16.9%	17.6%	16.3%	19.2%					
EBIT Margin		6.1%	9.1%	13.5%	17.9%	18.7%	19.2%	14.4%	15.4%	14.0%	16.4%					
Profit Margin		5.0%	7.7%	11.5%	15.2%	15.7%	16.0%	12.4%	13.3%	11.9%	13.9%					
Return on Assets		5.0%	7.8%	11.6%	14.8%	14.8%	14.2%	14.3%	14.2%	10.5%	13.6%					
Return on Comm. Equity		7.7%	12.3%	18.5%	28.0%	30.7%	26.4%	25.4%	25.2%	19.2%	25.3%					
Asset Turnover		1.0	1.0	1.0	1.0	0.9	0.9	1.2	1.1	0.9	0.99					
Assets/Equity		1.6	1.6	1.6	2.3	1.9	1.8	1.7	1.8	1.9	1.82					
Net Inc per 1000 Employ		5.8	10.0	16.3	20.1	21.0	21.2	23.6	25.5	21.1	22.50					
DSO		79.9	85.8	86.6	90.4	90.6	82.6	55.8	61.3	81.3	74.34					
DPO		3.4	2.8	1.5	2.0	3.0	4.8	3.2	3.5	6.9	4.29					
Current Ratio		1.6	1.7	1.5	2.0	1.9	1.9	2.2	1.4	1.9	1.87					
Quick Ratio		1.2	1.3	1.1	1.0	1.4	1.3	1.4	1.0	1.4	1.29					
Tot. Debt/Tot. Capital		0.0%	0.0%	0.0%	31.3%	26.9%	22.7%	20.5%	21.5%	19.0%	22.1%					
Tot. Debt/Tot. Equity		0.0%	0.0%	0.0%	45.6%	36.9%	29.3%	25.8%	27.4%	23.4%	28.6%					
Valuation Summary (NTM Multiples)																
		5 Year Periodicity:														
		Latest	High	Low	Avg											
<b>EV/Sales</b>		2.2 x	3.0 x	2.3 x	2.6 x											
Percentile		8%														
<b>EV/EBITDA</b>		12.9 x	17.6 x	10.5 x	14.4 x											
Percentile		24%														
<b>P/E</b>		21.8 x	24.5 x	14.5 x	20.1 x											
Percentile		65%														
<b>PEG</b>		1.1 x	2.6 x	1.0 x	1.6 x											
<b>P/BV</b>		5.7 x	6.2 x	4.3 x	5.3 x											
Percentile		2%														
<b>P/CF</b>		6.8 x	26.0 x	15.8 x	19.8 x											
Percentile		70%														
<b>Shareholders (Top 10)</b>		Latest Filing: 3/31/2021														
Holder Name	% Out	Latest Chg (000s)	Country	Company	Market Cap	EV	3-Yr Avg. Gross Margin	3-Yr Avg. EBITDA Margin	2 Yr Fwd Sales CAGR	2Yr Fwd EPS CAGR	2Yr Fwd FCF CAGR	EV/NTM Sales	EV/NTM EBITDA	NTM P/E		
Massachusetts Financ	6.7%	621	US	IQV US Equity	47,739	58,204	34.4%	19.1%	8.3%	13.3%	11.8%	4.3x	19.4x	28.1x		
Wcm Investment Manag	5.1%	73	US	MEDP US Equity	6,551	6,349	29.7%	20.4%	18.5%	16.6%	25.1%	5.4x	28.5x	41.1x		
Wellington Managemen	3.8%	(996)	US	CRL US Equity	19,916	21,886	36.8%	22.6%	11.6%	13.7%	25.0%	6.0x	23.4x	38.6x		
Comgest Global Inves	3.7%	503	FR	SYNH US Equity	9,209	12,106	22.3%	11.5%	8.3%	15.1%	32.2%	2.3x	14.9x	19.6x		
Comgest S A	3.0%	118	FR	PPD US Equity	16,211	19,842	39.3%	17.3%	8.5%	14.2%	6.7%	3.6x	18.7x	29.9x		
Clearbridge	2.7%	138	US													
Renaissance Technolo	2.6%	(267)	US	<b>Peer Median</b>	<b>16,211</b>	<b>19,842</b>	<b>34.4%</b>	<b>19.1%</b>	<b>8.5%</b>	<b>14.2%</b>	<b>25.0%</b>	<b>4.3x</b>	<b>19.4x</b>	<b>29.9x</b>		
Acadian Asset Manage	2.6%	(17)	US	<b>ICLR US Equity</b>	<b>17,350</b>	<b>16,832</b>	<b>29.6%</b>	<b>16.9%</b>	<b>43.1%</b>	<b>18.7%</b>	<b>70.7%</b>	<b>2.2x</b>	<b>12.9x</b>	<b>21.8x</b>		
Pendal Group Limited	2.4%	(35)	-													
Comps Table (\$mm)																
		Market Cap	EV	3-Yr Avg. Gross Margin	3-Yr Avg. EBITDA Margin	2 Yr Fwd Sales CAGR	2Yr Fwd EPS CAGR	2Yr Fwd FCF CAGR	EV/NTM Sales	EV/NTM EBITDA	NTM P/E					
IQV US Equity		47,739	58,204	34.4%	19.1%	8.3%	13.3%	11.8%	4.3x	19.4x	28.1x					
MEDP US Equity		6,551	6,349	29.7%	20.4%	18.5%	16.6%	25.1%	5.4x	28.5x	41.1x					
CRL US Equity		19,916	21,886	36.8%	22.6%	11.6%	13.7%	25.0%	6.0x	23.4x	38.6x					
SYNH US Equity		9,209	12,106	22.3%	11.5%	8.3%	15.1%	32.2%	2.3x	14.9x	19.6x					
PPD US Equity		16,211	19,842	39.3%	17.3%	8.5%	14.2%	6.7%	3.6x	18.7x	29.9x					
<b>Peer Median</b>		<b>16,211</b>	<b>19,842</b>	<b>34.4%</b>	<b>19.1%</b>	<b>8.5%</b>	<b>14.2%</b>	<b>25.0%</b>	<b>4.3x</b>	<b>19.4x</b>	<b>29.9x</b>					
<b>ICLR US Equity</b>		<b>17,350</b>	<b>16,832</b>	<b>29.6%</b>	<b>16.9%</b>	<b>43.1%</b>	<b>18.7%</b>	<b>70.7%</b>	<b>2.2x</b>	<b>12.9x</b>	<b>21.8x</b>					

Source: Bloomberg, MFO



## Company Overview: ICON plc

### What does ICON do?

#### Leading Global CRO

ICON plc is a leading contract research organization, based out of Ireland.

The Company provides contract research, development and commercialization services to pharmaceutical, biotechnology, medical devices, government and public health organizations. The Company manages clinical studies in addition to providing data management, regulatory and central laboratory services.

Competitive advantages include a strong reputation for quality, entrenched relationships with leading blue-chip pharmaceutical and biotechnology companies, global scale and broad expertise.

#### Exhibit 1—ICON markets served:



Source: Company filings

ICON specializes in the strategic development, management and analysis of programs that support the entire clinical development process, from compound selection to Phase I-IV clinical studies.

ICON's expertise covers most key therapeutic areas, including:

#### Exhibit 2 — ICON therapeutic areas:

Therapeutic Areas		
Oncology	Gastrointestinal	Biosimilars
Central Nervous System	NASH	Autoimmune Disease
Vaccines	Ophthalmology	Internal Medicine & Immunology
Cell and Gene Therapies	Rare & Orphan Disease	Women's Health Therapeutics
Cardiovascular	Respiratory	Gastroenterology
Endocrine & Metabolic Disorders		

Source: Company filings

#### Strategy and Vision

The Company's vision is to be the global CRO partner of choice in drug development by delivering best-in-class information solutions and performance in clinical and outcomes research.

ICON believes they are one of a small group of CROs with the expertise and capability to conduct clinical trials in the major therapeutic areas on a global basis and have the flexibility to provide services on a stand-alone basis or as part of an integrated solution.

Refer to Appendix 1 for background on clinical trial site terminology and the trial participation process.

#### Exhibit 3— Mission statement and strategy



Source: Company filings

ICON's strategy is focused on four strategic pillars: 1) Partnership & Customer Focused, 2) Operational Excellence & Quality, 3) Talent & People Development and 4) Patient, Site & Data Solutions.

#### 1 – Partnership & Customer Focused:

- Focus on expanding partnerships with existing customers, while developing new customer relationships.
- Continue to evolve collaboration and delivery models, invest in technology that enables closer data integration and enhance program management capabilities (see Exhibit 4 for sample technology).
- Enhance ability to meet client needs through organic development and acquisitions.
- Target growth in under-penetrated segments (ex. Medical Devices).
- Invest in site and patient networks.

#### 2 – Operational Excellence & Quality:

- Improve operating processes and delivery models to gain competitive advantage.
- Enhance finding and engaging suitable patients to conduct clinical trials, integrating data across multiple systems, providing statistical design, simulation and analysis for adaptive clinical trials.

#### 3 – Talent & People Development:

- Majority of employees have masters level or more advanced education. The need to develop and retain this expertise and talent within the organization is critical.
- ICON invests in training and development, including collaboration with University College Dublin.

#### 4 – Patient, Site & Data Solutions:

- Improve site identification, study placement and patient recruitment and retention.

#### Technology and Innovation

ICON's innovation efforts have focused on integrated technologies to enhance the efficiency and productivity of clients' drug and device development programs.

Key areas of innovation have been: 1) improving clinical trial design and execution, 2) faster and more predictable patient recruitment, and 3) evolving clinical trials to be more patient centric.

Sample technology solutions are shown below:

#### Exhibit 4 — Sample innovative solutions:

Name	Type	Description
<b>Accellacare</b> Launched in September 2020	Global Clinical Research Network	Global clinical research network increasing patient recruitment and retention, incorporating PMG Research (US) and MeDiNova (EMEA) site networks.
<b>ICONIK</b>	Technology Platform	Analyze operational, clinical and real-world data collected during clinical development.
<b>ADDPLAN®</b>	Standalone Software	Industry leading statistical design, simulation and analysis for adaptive clinical trials to help clients identify the most promising drug candidates. Used by regulatory agencies and pharma companies.
<b>One Search</b>	Workflow Tool	Enables access to multiple data sources and provides visualization and tools for optimum site identification.
<b>FIRECREST</b>	Site Performance Management System	Web-based solution, enables accurate study information, incl. protocol, training materials and case reports, to be rolled out quickly and simultaneously to sites.

Source: Company filings

## Company History

ICON was founded in 1990 in Dublin, Ireland by two Irish doctors, Dr. John Climax & Dr. Ronan Lambe. Dr. Climax remains on the Company's Board. The Company has grown from five people in a small Dublin office to ~35,000 employees in 41 countries (post-PRAH acquisition).

The Company has combined organic growth with strategic acquisitions to enhance expertise and capabilities in certain areas of the clinical development process and to broaden the service portfolio and add scale to existing services.

### Key Milestones:

- 1991 – First overseas office opened in Winchester, UK
- 1992 – Opened office in Philadelphia
- 1996 – Entered Asian market with office in Tokyo
- 1998 – Entered South America with office in Buenos Aires
- 1998 – Began trading on the Nasdaq
- 1999 – Expanded to Middle East with an office in Israel
- 2002 – Office in South Africa marked entry into Africa
- 2005 – Opened an office in Chennai, India
- 2007-2020 – Completed \$1bn+ in acquisitions, enhancing capabilities and expertise
- 2021 – Acquired PRA Health Sciences, creating the second largest CRO in the world

See Appendix 2 for a timeline of key milestones.

## Segments and Geographies

ICON operates under one business segment, the provision of outsourced development services to the pharmaceutical, biotechnology and medical devices industries.

The Company's primary segmentation is geographically, based on where contracted work is performed.

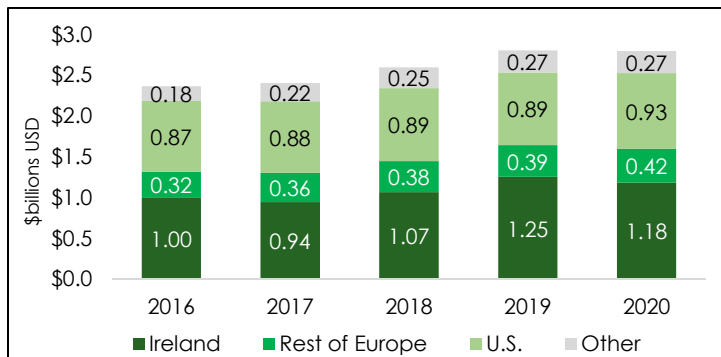
ICON's Irish entity owns most intellectual property and customer relationships, manages the organization and enters into the majority of customer contracts.

The geographic segment split of revenue disclosed for each region outside Ireland is the cost-plus revenue attributable to these entities.

ICON's Ireland segment has been allocated an average of 42% of revenue over the last five years. The US segment is the second largest, averaging 35% over the same period.

Over this time frame Other has led growth with a CAGR of 10.6%, followed by Ireland with 4.4%, Rest of Europe with 6.8% and the US with 4.4%.

### Exhibit 5 — ICLR geographic segment revenue:



Source: Bloomberg

## Industry Overview

### CRO Industry Landscape

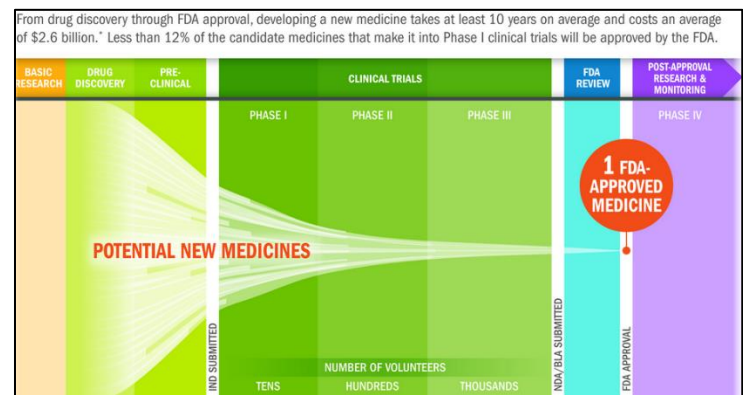
The CRO industry provides independent product development solutions and services to the pharmaceutical, biotechnology and medical devices industries. Clients in these industries outsource to CROs to manage the drug and device development process more efficiently and to bring patent-protected products to market faster to enhance patient well-being and maximize return on investment.

ICON and other CROs add value by providing greater efficiencies to the development process, converting fixed costs to variable and accelerating time to market for new treatments.

CROs provide assistance through the entire complex drug and device development process, from research and drug discovery to clinical trials and post-approval research and monitoring.

A sample R&D process for new drug development with the FDA is shown in the following exhibit. Notably, it is estimated that a new product takes on average of 10 years to bring to market.

### Exhibit 6 — Biopharmaceutical R&D process:

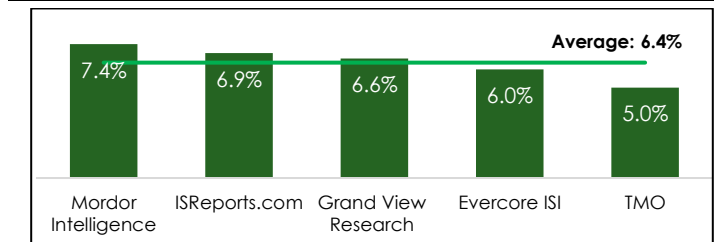


Source: PhRMA.org; based on Tufts Center for the Study of Drug Development

### Total Addressable Market and Growth

Based on the sources shown below, the global CRO market is forecast to grow annually in the 5-8% range, with an average CAGR of 6.4%, well above inflation and GDP. This is expected to be driven by growing client R&D expenditures and an increasing rate of outsourcing penetration.

### Exhibit 7— Global CRO market growth estimate summary:



Source: Mordor Intelligence, ISReports.com, Grand View Research, TMO, Evercore ISI

Mordor Intelligence forecasts the CRO market growing from \$44.2bn in 2020 at a CAGR of 7.4% to \$63bn in 2026. Grand View Research estimates a CAGR of 6.6% from 2021-2028, reaching \$66.1bn by 2028. Evercore ISI forecasts 5-7% medium term growth for the industry.

In their Pharmaceutical Product Development ("PPD") acquisition materials, Thermo Fisher estimated the CRO market size at \$50bn, with mid-single digit growth going forward.

ICON estimates that global pharmaceutical and biotechnology companies outsourced ~\$53bn in development expenditures in 2020.

**Remaining pages have been redacted  
and are available to members.**

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