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# CPHI Annual Report predicts VC capital (re)-entry and contract services growth in 2024

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**Indian CDMOs appear to have had the softest landing and the best 12-month growth prospects**




New research from the CPHI Annual Report 2023, launched during CPHI Barcelona, the world's largest pharma event, being held at Fira Barcelona from October 24 to 26, 2023, points to an uplift ahead for biotech funding and a consequential follow through of growth for pharma contract services.

The news will be a boon to the attendees of CPHI Barcelona, which sees the largest gathering of contract development and manufacturing organisations (CDMOs) and comes after a year of weakening confidence.

Analysis was provided by CPHI Report expert, Brian Scanlan of Edgewater Capital, who states that liquidity in the biotech and mid-sized pharma market is typically a proxy of growth for the CRO/CDMO sector. Significantly, for the first time in 18-months funding into the sector seems to have stabilised over the past two quarters at levels seen just prior to the pandemic.

In fact, total funding into the sector through July is $30.2 billion and for full year 2023 is trending well ahead of 2022. The only notable absence is in the continued weakness of IPOs, and this is exacerbated by clogged exits – i.e., investors who saw a pathway to exit just two years ago are now stuck until the valuations come back for former levels.

Scanlan added that while there are still 'too many emerging pharma companies vying for too little capital', the situation is now potentially changing. The number of companies with active R&D pipelines globally has grown from nearly 4,800 in 2020 to over 5,500 in 2023. That's an increase of nearly 15%, while funding levels have dropped to nearly half the 2020 levels during the same period. For CDMOs, the impact of this has been a short-term slowing of development pipelines, as biotechs look to maintain a financial cushion.

Taking a step back, Indian CDMOs appear to have had the softest landing and the best 12-month growth prospects, but in the medium term, the development pipeline remains very strong and biological CDMO valuations remain high reflecting the growth expected in the years ahead.

One change that has slowed, is the noise around onshoring, which is now presently a battle of two competing forces. There is also the realisation that disentanglement from off-shore sources such as China is exceptionally complex, and many supply chains ultimately lead back to China-made raw materials.

The other significant macro factor for CDMOs is the well documented workforce shedding at big pharma we have seen in 2022 and particularly in the early part of 2023, which will almost certainly bolster demand for CRO/CDMOs in 2024.