How private European MidPharmas sustain innovation

Europe is home to 93 medium-sized pharmaceutical companies with annual revenue of between €100 million and €10 billion that develop and commercialise medicinal products. Also known as MidPharmas, 78% of these companies are privately owned or have a dominant private shareholding. The owners could be a family, a foundation, or a private equity fund. These privately controlled companies can flourish without having to navigate unexpected movements in the public markets. In this article, we examine how private ownership enables companies to sustain innovation and commercialisation.

In 2023, the benefits of private ownership became more visible as public markets were volatile against the background of macroeconomic uncertainty. Until the very end of the year when markets rallied, companies in the biopharma sector had put in a relatively poor performance. This was illustrated by the S&P Biotech Industry Index, a benchmark for large publicly listed biopharma companies, which was trading at about 25% below its 30-year average just before the year-end rally. By comparison, wholly privately owned and privately controlled European MidPharmas showed resilience by continuing to invest in research and development and generate revenue.

This is illustrated in Figure 1 which ranks the 51 MidPharmas that publish their revenue and profits. In the table, companies have been ranked according to their five-year compound annual growth rates and their 2022 revenue and operating profit (EBIT) figures. The top 12 companies in the list include eight privately controlled or fully private companies. Only four of the top 12 do not have a dominant private shareholder.

Leading the public companies is Genmab A/S which is listed on both the Nasdaq Copenhagen market in Denmark and Nasdaq in the US. Genmab had a market capitalisation of €18.9 billion on 31 December 2023. It had revenue of €1.96 billion in 2022, the most recent year for which annual accounts are available. The top fully private company is Octapharma Group of Switzerland. It had 2022 turnover of €2.85 billion. Octapharma is owned by the German businessman Wolfgang Marguerre and his family. The top listed privately controlled company is Laboratorios Farmaceúticos Rovi of Spain with 2022 revenue of €817.7 million.

Business models

We have identified three business models for the 93 European MidPharma group, of which 51 appear in Table 1. The first is the R&D-based model, identified in the table as R, where member companies invest a significant proportion of their revenue in new therapeutic entities. 61% of this group, which consists of 51 companies, are wholly private, and a further 12% have a dominant private shareholding with a public listing. The second business model is the value-added medicine model, identified as V, which consists of 18 companies. These companies focus on new formulations and/or drug delivery methods to improve the effectiveness of marketed drugs. 72% of these companies are privately owned.

A third business model is the commercial model, identified in the table as C. This group of 24 companies acquire, grow and increase the profitability of marketed products. 83% of companies in this group are privately owned.

While listed pharmaceutical companies often focus on developing breakthrough therapies to reward their shareholders, MidPharma's private owners often take a more conservative approach. This is especially true for those with value-added medicine and commercial business models. In recent years, private equity groups have been attracted to these companies because of their reliable earnings and revenue growth. Multiple private equity deals have been done in the past three years, including the 2021 sale of Advanz Pharma to Nordic Capital for $846 million and the 2022 sale of Theramex to a consortium of Carlyle and PAI Partners for a sum reported to be as much as $1.4 billion.

On the other hand, many family and foundation-owned MidPharma companies favour the R&D-based business model. The amount of money spent on R&D as a proportion of revenue for these companies is higher than for companies following the two other strategies. Chiesi, Lundbeck, LEO Pharma and AOP Health all spend more than 20% of revenue on R&D. Stable ownership, a heritage in innovation and a commitment to provide for the next generation, all contribute to their R&D commitment and allow them to accept the associated longer timeframe until return.

Business performance

Seventy-seven MidPharma companies in our survey have grown revenue at a median of 6.2% over the last five years, exceeding the median rate of 5% for nine European Big Pharma concerns. Four of the eight fastest growing companies are privately owned and have five-year compound annual growth rates of more than 20%. These are Swixx BioPharma AG of Switzerland with a 58% growth rate, Cheplapharm Arzneimittel GmbH of Germany with a 32% growth rate (both with commercial business models), Dompé Pharma of Italy with an R&D-based model and revenue growth of 24%, and Rovi of Spain, with a value-added medicine model and growth of 22%.

Comparing MidPharma's R&D spend as a percentage of revenue with that of Big Pharma shows a different picture. Between 2018 and 2022 the median ratio of R&D to revenue for 24 MidPharmas ranged from 14-16%. For the nine Big Pharma companies the ratio was 16-19%. However, R&D spending as a ratio of revenue for the two groups has been very close in the past. Our data suggests that the ratios are moving closer again.

Data on deal-making shows that MidPharma companies have been more active than their larger peers over the past five years. But the strategies of the two groups differ. A total of 89 MidPharmas executed 0.34 deals per €1 billion of annual revenue for marketed products compared with 0.06 deals by the nine Big Pharma companies. For pipeline products, 49 MidPharmas executed 0.41 deals per €1 billion in revenue compared with 0.17 deals for the nine larger companies. MidPharma companies with value-added

Table 1 Ranking of European MidPharma companies

Rank	Business Model	Company	Revenue CAGR	Absolute Revenue	EBIT Margin
1	R	Genmab	5	4	5
2	R	Sobi	5	4	5
3	R	Octapharma	4	5	4
3	V	Rovi	5	3	5
5	R	Chiesi	4	5	3
6	C	Dermapharm	5	3	5
7	R	Ipsen	2	5	5
8	R	Gedeon Richter	4	4	4
8	R	Merck Healthcare	2	5	5
10	R	Orion	3	4	5
11	R	Recordati	3	4	4
12	R	Grifols	3	5	3
13	V	Krka	2	4	4
14	V	Fresenius Kabi	2	5	3
15	V	Hikma	3	5	2
16	C	Orifarm	5	4	1
17	C	Faes	3	2	4
17	R	Grunenthal	2	4	3
19	C	Clinigen	4	3	3
19	R	Lundbeck	1	5	4
19	R	UCB	2	5	2
22	R	ALK	4	2	2
22	R	Kedrion	2	3	3
24	R	Evotec	5	3	1
25	C	Alliance	3	1	4
25	R	Servier	1	5	2
27	R	Bavarian Nordic	5	2	1
28	V	Fidia	3	2	3
28	C	Vianex	4	2	2
30	R	Dr. Falk	2	2	4
30	C	Sopharma	4	3	2
30	R	Stallergenes	3	2	4
33	C	Yuria	3	1	5
34	R	Ferring	1	4	2
35	R	Galapagos	5	2	1
35	R	Valneva	5	2	1
37	R	MorphoSys	5	1	1
38	R	PharmaMar	2	1	4
38	V	Zentiva	3	1	3
40	C	Theramex	4	1	2
41	R	Abiogen	1	1	5
42	R	Pharming	4	1	2
42	V	Reig Jofre	4	1	1
44	R	Almirall	1	3	2
45	V	Elpen	1	1	5
46	R	Esteve	1	3	3
46	R	LEO	1	4	1
48	R	Merz	1	3	1
49	R	Bial	2	2	1
50	R	Indivior	1	3	1
51	C	Olainfarm	1	1	3

Key: Yellow = Fully Public, Light blue = Privately Controlled, Dark blue = Fully Private

Rankings of individual financial metrics in the table are based on the World Bank quintile methodology where 1 = 1st quintile and 5 = 5th quintile..

medicine business models executed the most deals overall. However those with R&D-based models were particularly active in deal-making for marketed products. Unlike large pharma companies which have divested established products to focus on innovation, many MidPharmas snap up the older products in order to build lower risk portfolios with stable revenue which can act as a hedge against R&D risk.

Data on profitability shows that the nine big pharma companies have significantly higher EBIT margins, a median of 23.5%, compared with 12.3% for the 51 MidPharmas in Table 1. The larger companies benefit from their scale and access to capital, making it possible for them to invest significantly and acquire highly valuable products from other companies. They are therefore more likely to create or buy the one or two patent protected, high revenue generating products that form the basis for healthy profit margins. A stock market listing also contributes to cost discipline. By comparison, private companies may be less willing to lay off staff or divest non-profitable parts of their businesses.

How do privately owned companies succeed? The answer is reinforcing a strategic focus, increasing R&D productivity and maintaining profitable commercialisation.

Strategic focus is illustrated by several enterprises in the top tier of Table 1. For example, Dermapharm AG of Germany focuses on the manufacturing and distribution of branded pharmaceuticals; Rovi specialises in long-acting injectable medicines; and the Chiesi Group in Italy focuses on products for respiratory disorders and rare and ultra-rare diseases. A strategic focus drives these companies to direct their resources efficiently. They also hedge risky innovation with more stable business lines. Examples of companies that balance risks with established products are Servier Group of France, Ferring Pharmaceuticals of Switzerland, and LEO Pharma of Denmark.

Other MidPharma companies manage risk by having a public listing but keeping the majority of their shares in private control. An example is Lundbeck A/S of Denmark which has a portfolio of neuroscience medicines. The Lundbeck Foundation owns 69% of the shares whilst the remaining 31% are listed on Nasdaq Copenhagen.

To increase R&D productivity, the most successful private MidPharma companies are selective about how they invest in R&D, varying the proportion of revenue allocated to research based on the expected creation of value. Underperforming projects are stopped early before they incur significant costs in late-stage development and then fail, or generate a poor return. This is arguably even more important for private owners, who are investing from their own pockets. In order to adjust outlays for R&D year-on-year, companies must understand the value of assets in their pipeline, similar to pre-revenue biotechs who receive investment based on individual development plans. In fact, the more successful companies are taking a project-centric approach, enabling them to take high-quality decisions about their assets more rapidly.

Profitable commercialisation is imperative for private MidPharmas in order to be able reinvest internally and secure additional external products. Many private MidPharmas have scope to reduce internal expenses, as their pride in legacy products and commitment to long term employees can lead to over-inflated organisations and associated costs. The median number of employees per €100 million in revenue was 202 for the nine Big Pharma companies versus 280 for 83 MidPharma companies in 2022. MidPharmas can learn from Big Pharma and increase commercial profitability by divesting mature assets and simplifying their commercial organisations to suit more focused portfolios.

The ranking demonstrates that private MidPharmas who master focus, R&D productivity and profitability are successful, their stable ownership providing the resilience needed for sustainable innovation.

This article was written by Zoë Davis, manager, Novasecta Ltd, a specialist pharmaceutical strategy consulting firm, based on its annual MidPharma Report 2023.