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## PE DEALS

# Partners Group plans to ride pharma reshoring wave

'Brexit is really coming into force' as a driver for reshoring, says Partners Group's Pascal Noth.

**P**artners Group sees huge potential in pharmaceutical services thanks to major reshoring and outsourcing trends. The firm will play that development alongside co-investor GHO Capital Partners as it boosts Sterling Pharma's production capacity in Europe and the US, managing director Pascal Noth and member of management Jean Ghabache told PE Hub Europe.

London-based GHO Capital Partners and Zug-headquartered Partners invested in Northumberland, England-based Sterling Pharma Solutions, a global contract development and manufacturing organisation, in late May. Partners acquired a significant minority stake, and GHO, which first invested in the company in 2019, remains Sterling's majority shareholder.

Of all the trends in pharma services, reshoring is "the big one", said Noth. "There's a real disconnect with China. But there is a larger disconnect with Asia-Pacific as an outsourcing region, and there's an increasing connect within single countries." Noth described the US as very "local for local", meaning production is close to where products are used. "In the UK, Brexit is really coming into force," he added.

Supply chain vulnerability, heightened by the covid pandemic years, is another motivator for bringing operations closer to home. According to a study published by the European Parliament, policymakers and stakeholders are moving away from

the lowest cost options in favour of supply security, higher quality and improved flexibility to react to short-term changes in demand.

Outsourcing is another big driver in the pharma services segment, according to Noth. Large pharma and biotech companies might still innovate certain segments in-house, but by outsourcing they expand the number of areas they can innovate in, he explained. "For us as a private equity firm, that's really interesting, as it drives organic growth."

Commercialisation has also become increasingly outsourced, according to Ghabache. "The bar is very high with the FDA," he said of the US Food and Drug Administration. "Last year, they approved only 37 drugs, compared to about 50 in the previous years. Some of that could be bottlenecks due to covid, but it's still harder than ever to get drugs approved. Pharma companies need support along that journey."

Tougher diseases also require more complex drugs, giving a need for more expertise to develop them. "That expertise is very often found outside your firm," said Ghabache.

Sterling Pharma is well-positioned to capture these trends, according to Ghabache. Partners Group is keen to invest in and support the company's growth by adding production capacity in Europe and in the US. This will be mainly organic, but acquisitions will be considered to the extent that they are needed,

Ghabache said.

"Beyond capacity, we're looking at complementary capabilities and new technologies, such as antibody-drug conjugates. That's a promising novel class, and Sterling will seek to do more in that."

## AI hypothesis

Further developments could come from generative AI. Noth does not expect AI to make researchers entirely obsolete, but teams that have embraced the technology will be differentiated from the ones that have not.

"We want to back research teams that are embracing AI tools proactively," said Noth. "Our biggest focus is to be a leader with these tools early on, learn about them, niche by niche. Then in a couple of years, we have a better understanding of the direction this is going."

Some areas are less likely to see impact than others. "There are some hypotheses," said Noth. "The physical end of pharma services, manufacturing, is more protected, because we're not going to completely reinvent production through AI."

While Noth considers it to be too early to grasp the full impact of generative AI, he describes 2023 as a "fundamental inflection point" in its development. "We might look back in 20 years from now and consider 2023 having a similar impact as the invention of the calculator or internet becoming usable for the worldwide population." ■