



The write stuff

Kinapse is making waves in pharmaceutical outsourcing. **Ploy Radford** investigates why the company has attracted investor interest

The life sciences and pharmaceutical industries are undergoing significant restructuring. The so-called 'patent cliff' – where lucrative drugs reach the end of their patent period – has loomed for years. Now, big pharma's revenues are witnessing the plunge analysts promised. Standard & Poor's estimate that US firms lost about \$21 billion (£13 billion) in sales from this in 2012, with European counterparts missing out on around \$10

billion from erstwhile blockbuster drugs. This radical realignment has also generated opportunities, however, and companies like the Synova Capital-backed Kinapse are doing their best to capitalise on them. Established in 2005, Kinapse provides its clients with both consulting and outsourcing services in the life sciences sector. In terms of consulting, Kinapse provides advice on research and development strategies and operations, project management and market assessments among other areas. What sets the company apart, though,

is its approach to outsourcing. Instead of trying to take on the huge outsourcers in the established areas of high-volume and low margin, the company is taking on the higher value, but higher risk world of writing services. "The life sciences industry has figured out how to do outsourcing of finance, administration, IT, HR and data management," says Kinapse co-founder and chief executive Andy Black. "We're really dealing with less transactional business processes where a higher degree of expertise and judgement is required."

We're really dealing with less transactional business processes where a higher degree of expertise and judgement is required

Andy Black,
chief executive
and co-founder,
Kinapse





► These writing services include: medical writing for publications, writing up technical trial results and protocols and filling in regulatory documents. "Huge regulatory submissions require quite a lot of relatively routine work to make sure the data and analysis are where it needs to be, but also need a lot of experience in terms of how to pull that together," points out Black. Kinapse also provides drug safety evaluation services such as data processing and medical support.

These types of services – due to their high risk profile – have traditionally been the preserve of in-house teams. Keeping the correct level of specialist knowledge on the books all year round is a difficult trick, however – not to mention expensive. Increasingly, then, the larger companies are now "focusing on areas where they think they absolutely have to have the expertise and capabilities internally" and outsourcing the others.

Black has worked in the health sector for over 20 years in various guises – including as a surgeon and a management consultant at Accenture. "I'd seen lots of different perspectives on healthcare systems... and I just thought there were opportunities to do things better," he says, citing what inspired him to set up Kinapse.

The growing business, which employs 300 people, uses an on-shore / off-shore strategy for providing its services. Kinapse has its headquarters in the UK, offices in the US and its main operations in India. "We figured out that more complex outsourcing work couldn't be done by saying 'send it to India'," explains Black. "Because it's not the type of work that's well suited to that." Black attributes the company's success to date to its ability to marry business processes and technology carried out in India with the leadership

and quality assurance skills of staff based in Europe and the US.

Another aspect of the company's structure that has aided its growth is its "comfortable" use of service partners. For example, the company decided not to build its own in-house IT capabilities but found it was instead more efficient to enter into partnerships with relevant companies, such as Oracle. Partner companies' services are not the solution in themselves to clients' problems, but rather called upon in specific instances to help with a solution.

"Another partnership model that is really important to us is our consulting partner network," says Black. The individuals in this network typically have years of experience in the life sciences industry and advise on projects. They also bring the useful perspective of having been on "the other side of the table with clients" to aid the Kinapse team.

Identifying direct competitors to Kinapse's model isn't a straightforward matter, according to Black. "Our competition are very different businesses on the whole – I wouldn't say our business is unique, but it's really rather different in shape." The main competitors are the big consulting firms who provide advice across all industries – but according to Black are "relatively weak" in the areas Kinapse covers. Other potential rivals include contract research organisations and pure-play offshore business process outsourcing companies in India. But these, while typically very good at high volume transaction processing outsourcing, he claims are actually weaker at more specialised, involved content. "By putting a strategy consulting business with an outsourcing business within a very focused area – drug development – we've actually



created a business that isn't like the vast majority of our competitors."

How has Kinapse's target market reacted to its approach? Black says they can count 17 of the top 30 pharmaceutical companies in the world as clients and Kinapse's clientele is split equally between the US and Europe. (Having European headquarters allows for better communication between India and the US offices as time zones overlap in Europe.) Customers include Pfizer and Johnson & Johnson. The size of the contracts they are winning has "increased dramatically", too. This is reflected in over 80% growth in booked revenues for the year ended March 2013.

One customer in particular has proved significant to Kinapse. "We have a very exciting relationship with the European Medicine's Agency," says Black. The EMA, a major regulator of the pharmaceutical industry, hired Kinapse to improve the quality of the data in its drug safety

database. Working on this large project gives Kinapse first-hand knowledge of changes to the current regulatory system for drug safety and helps the company build upon its own related services. The contract has not only improved Kinapse's standing in the market, but it has helped to bring in new work.

It is not just clients Kinapse has hooked in so far: in September 2012, private equity firm Synova Capital invested in the company. The two parties sat down to discuss a potential relationship in April last year and in less than six months a deal was struck. "What interested us in Kinapse is the strong growth drivers in the regulatory outsourcing sector," says Synova Capital partner Philip Shapiro.

Synova does not have the controlling stake in the company – only a 40% share. The investment came about because Kinapse needed to restructure its shareholdings as a couple of founder

shareholders wanted to move on. The majority of shareholders wished to remain, though, so Synova could only come on board as a minority investor. This doesn't rule out the private equity house increasing its share in the future: "We do have plans to gain more equity in the business," says Shapiro. However as both parties point out, a strong management team is already in place. – "the business is in very rude health" says Black.

What does the future hold for Kinapse – especially now that it has private equity backing? "There is a dual track strategy for going forward," says Shapiro. "Fast organic growth" and "selective strategic acquisitions", backed by Synova capital.

Black describes himself as being "very ambitious" and says that he is looking at further penetration of Kinapse's existing market. Having 17 of the major 30 pharmaceutical companies among its clientele leaves some obvious areas to

target for growth. There is also a "major focus" on building the US business as "it remains a very large market for the type of services [Kinapse provides]". Creating new partnerships to expand services is also on the cards. The business is in talks with a biostatistics company as that area is "very complementary" to medical writing and the regulatory work it already does.

Caution hasn't been entirely thrown to the wind though. "We are growing very fast already, and we've already come to the point where we need to be a bit careful," says Black. For instance, the breakdown of the traditional pharma model has driven work Kinapse's way, but could be a double-edged sword, as the sector needs stable revenues.

Moreover, gaining confidence from the industry has been hard – losing it would be much simpler. "Tolerance to risk is quite low because you can't mess up the analysis of data in drug development," points out Black. ■