

Synova and out

The pharma services space is proving a lucrative spot for private equity, as Synova Capital's latest exit proves

“One of the reasons Synova bought into Kinapse in the first place was because they believed we had a good strategy and a well-managed business”, Kinapse chief executive Andy Black tells *HealthInvestor*. This decision, made back in 2012, more than paid off for the small to mid-market private equity house when HgCapital acquired Kinapse at the start of February, providing Synova with a return of 16.1x its total investment and an IRR of 126%.

Currently, private equity wheeling and dealing in the healthcare space has proved scarce, and the deal is in many ways a sign of the times. National living wage and lean government budgets have meant many sale processes in the social care space have stalled, with private equity desperately casting around elsewhere in the healthcare world for a business without exposure to these limitations. Kinapse, as Synova's return shows, fits the bill.

Kinapse has tapped into the lucrative niche of providing specialist outsourcing services to the life sciences and pharmaceutical industry. The company's expertise lies in regulatory compliance documents, medical writing and the write-up of trial results and protocols.

Under Synova's stewardship,

the company pushed more into the regulatory space. “When we segmented different pharmaceutical areas, one that really stood out for us was regulatory, because it was about 10% of all pharmaceutical companies' spend,” Synova managing partner Philip Shapiro says. Synova “could see large pharmaceutical companies outsourcing lots more of this kind of work” as many are restructuring after the ‘patent cliff’ – where blockbuster drugs reached the end of patent and thus could be reproduced by rival companies. Shapiro claims that as Kinapse is “the world leader” in regulatory compliance work the business was therefore “well positioned to then pick up long-term multi-year contracts”.

This success no doubt meant that the deal process for Kinapse was a fierce one. Shapiro is understandably coy on the names involved, but does mention the deal happened “off-market” and the process was “helped by a trusted intermediary”. It was not only Kinapse who sold their stake. The shareholding was made up of the management team, Synova and the founders of the business (chairman Nick Edwards, Black's former Accenture colleagues Fraser Skirrow and Suzanne Budsworth, Black's brother John and Black himself). Skirrow and John Black have

exited entirely through the deal with Hg Capital, while the others are rolling into the new company.

Black is keen to stress, however, that the deal has changed very little at Kinapse and its day-to-day running will not be affected. The investment from HgCapital will be used, Black indicates, on growing the business as a whole. He expects a partnership of around five years with HgCapital and said strategic discussions have already started between them in this regard.

Regulatory compliance will still remain a core component of their future operations. Around 40-50% of the company's work is in regulatory and Black would clearly like to keep the company strong therein. He said: “It's a very big market and we will look to strengthen our position within the regulatory services spectrum. We're looking to bring more innovation into the whole regulatory space as well to sustain our leadership position by creating an integrated regulatory software and services platform.”

In a tough climate for healthcare investors, Kinapse has been a success story for Synova and looks likely to bring the same fortune to HgCapital. It would not be surprising if this was not the only such deal to transact in the pharma outsourcing space in current times. ■



KEY FACTS

2005: Kinapse founded

2012: Synova buys a stake in the business

2015: Kinapse achieves a ranking of number 28 in the Sunday Times BT Business SME Export Track

2016: HgCapital buy majority ownership from Synova and management shareholders for undisclosed sum.

Andy Black,
chief executive,
Kinapse