Pharma Services Deep Dive: The K-Shaped Recovery is Underway

Introduction: A Return to Growth

The latest earnings cycle, together with data from Lincoln International's proprietary private pharma services company index, provides the strongest evidence yet that Lincoln's predicted inflection is materializing.

These companies collectively serve thousands of pharmaceutical and biotechnology sponsors and sit across multiple points of the drug-development ecosystem. Their results provide an increasingly useful window into customer budgets, outsourcing behavior and the operating environment that private pharma services companies are likely to experience over the next several quarters.

Our view is that the recovery is underway, with clinical development leading the way. However, the next cycle will reward differentiated expertise, strong customer relationships and consistent execution and not just end market exposure alone.

Lincoln International's experts are uniquely positioned to advise private market leaders across the pharmaceutical services landscape, powered by decades of experience and wealth of proprietary data.

1 The market has clearly moved from stabilization to early recovery

For much of the past two years, positive commentary across pharma services centered on a market showing signs of stabilization. This stabilization narrative was driven by improving customer dynamics, healthier pipelines and more constructive funding conditions. The latest results indicate that these signals are beginning to translate into measurable activity.

In Q2 2026 RFP volumes significantly increased, proposal values improved, decision timelines shortened, and bookings growth accelerated meaningfully. Book-to-bill ratios are now comfortably above 1.0x, with multiple contract research organizations (CROs) approaching or achieving 1.2x for the most recent quarter in line with historical norms, and backlog and forward-revenue indicators strengthened. This momentum resulted in multiple management teams in the public sector also raising full-year revenue or earnings expectations.

> *"RFP flow growth remains strong, with double-digit growth both year-over-year and sequentially, with improvements across all client segments.*
>
> *Decision timelines continue to shorten and ebp funding continues to be very strong."*
>
> *IQVIA Q2 2026 Earnings Call Commentary*

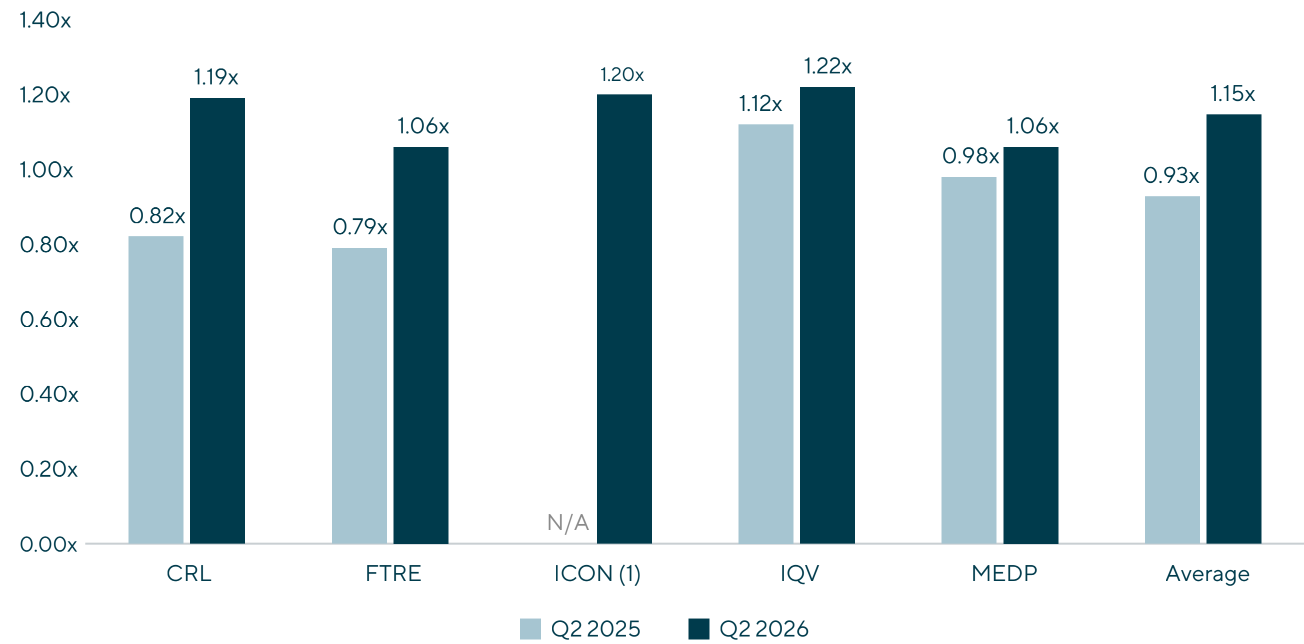
Increased RFP Activity: broad-based increases in volume, value and quality

Bookings Strength: Strong growth, including companies reporting record levels

Revenue Conversion: Shorter decision timelines driving stronger revenue visibility

Confidence: Several public companies raising full-year performance expectations

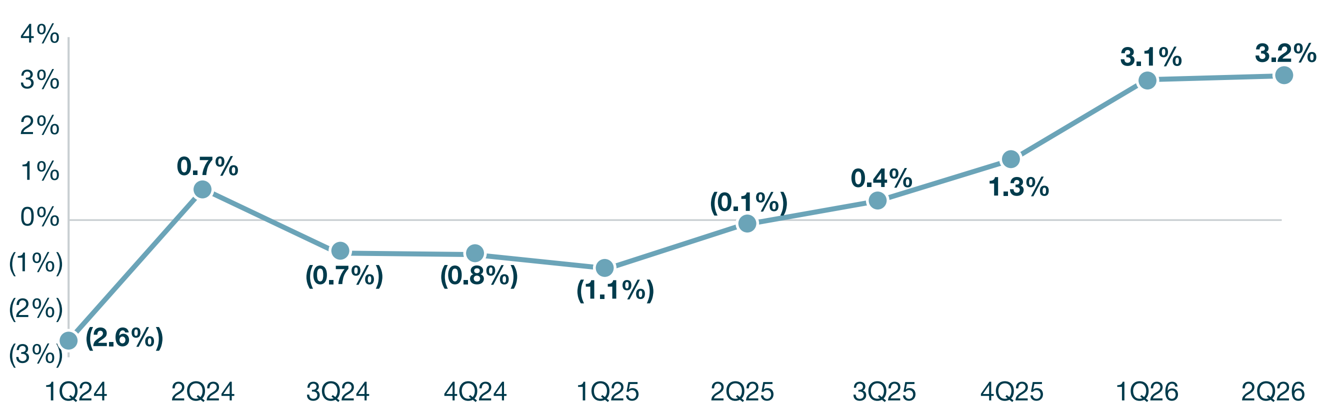
Exhibit 1: Quarterly Book-to-Bill Ratio



(1) ICON Q2 2026 book-to-bill metric shown on a direct fee basis. Q2 2025 metric excluded due to recent policy changes to backlog calculations.

Because reported revenue typically lags customer engagement, proposal submission, award, contracting and study startup, the improving leading indicators suggest that the market is moving beyond merely finding a bottom. However, we are already seeing signs of early revenue acceleration compared to prior periods across Lincoln's Private Market Pharma Services Index (LPMPSI) which enjoyed its highest level of sequential revenue growth in Q2 2026 since the start of 2024. It's become more evident that sponsors are increasingly committing capital, advancing programs and selecting outsourcing partners

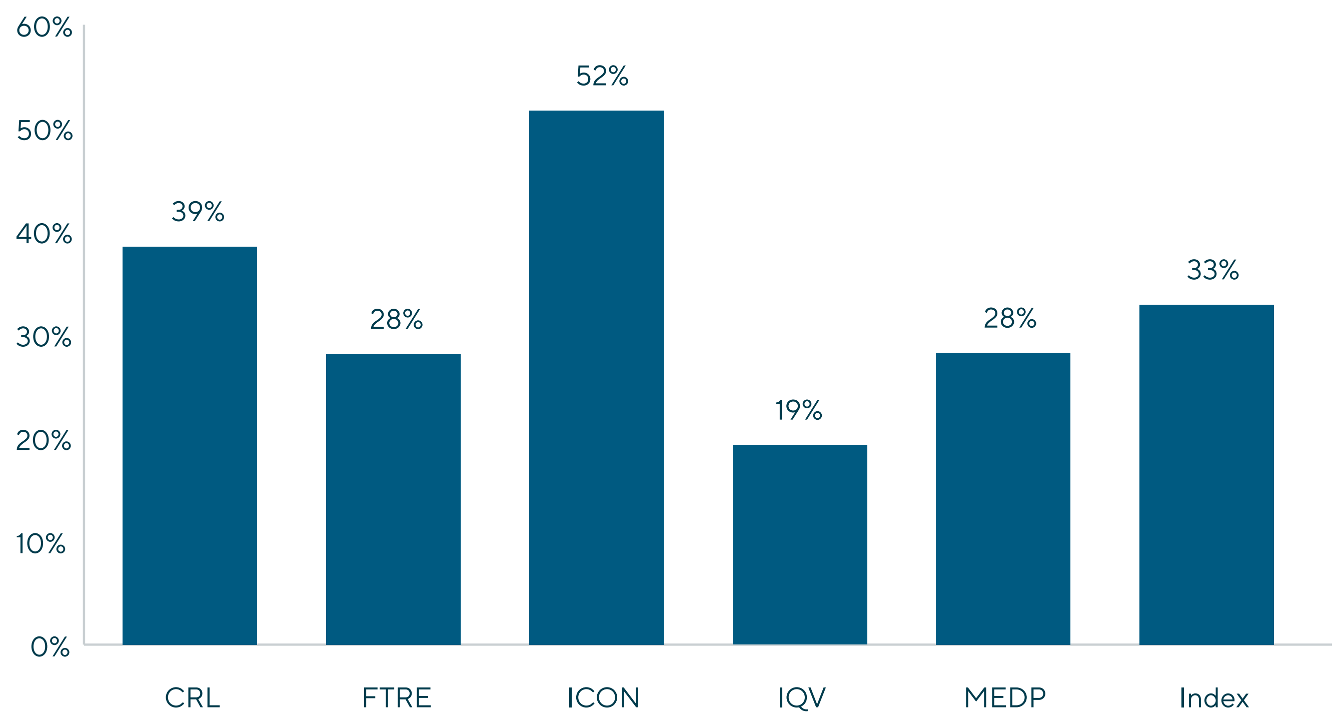
Exhibit 2: LPMPSI QoQ Revenue Growth (Median)



2 Clinical development emerging as the strongest initial leg of the recovery

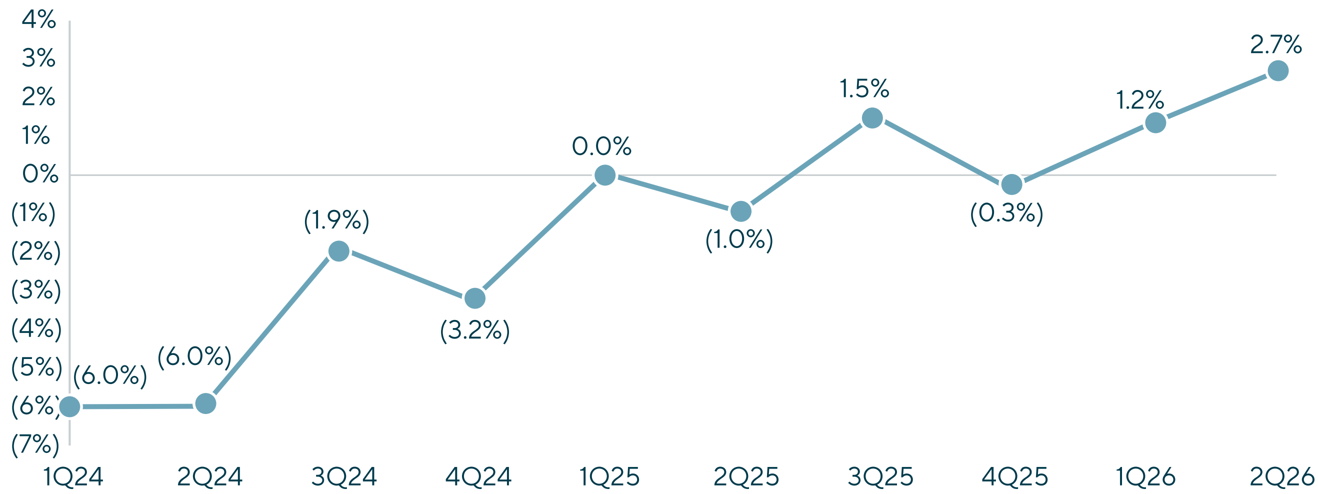
The recovery is not occurring uniformly across the pharma services ecosystem, consistent with our K-shaped thesis. The clearest momentum is currently visible in clinical development after a prolonged period of pressure, where providers reported stronger RFP activity, healthy bookings, stable-to-improving cancellation rates and improved visibility into future revenue.

Exhibit 3: Q2 2026 YoY Net New Bookings Growth



The benefit extends beyond traditional CROs. As programs move deeper into development, spending expands across site networks, biometrics providers, central laboratories, patient recruitment businesses, clinical technology vendors, specialty consultants and other service providers positioned around trial execution. The LPMSI, which represents a broad basket of private pharma services companies, further supports this view based on EBITDA growth continuing to accelerate sequentially after multiple periods of contraction.

Exhibit 4: LPMPSI QoQ EBITDA Growth (Median)



For private equity-backed platforms, the opportunity is to demonstrate that exposure to clinical development is not merely cyclical. The strongest businesses will combine an improving end market with defensible positioning in a specific, mission-critical component of the development process .

3 Improving biopharma funding is beginning to convert into outsourced spending

Biotechnology funding conditions have improved meaningfully from the lows of the recent downturn with ~$35 billion in emerging biopharma (EBP) funding in Q2 2026, representing the strongest quarter since Q1 2024 per BioWorld. EBP trials now represent ~70% of clinical trial starts compared to ~45% a decade ago. More importantly, that capital is increasingly translating into clinical activity and vendor engagement which is being reflected through higher biotech RFP volumes, faster decision-making and increased contribution from new or returning biotechnology customers.

Further Proof Points

Improving biotech funding is beginning to translate into cro activity, with fortrea citing higher biotech rfp volumes and "healthier activity levels" and charles river reporting its strongest dsa book-to-bill in nearly four years, driven in part by small / mid-sized biotech clients

Smaller and emerging sponsors generally maintain less internal infrastructure than large pharmaceutical companies. When funded programs move forward, these customers often require more comprehensive external support across clinical operations, regulatory, data, chemistry manufacturing and controls and commercialization planning, which creates an attractive multiplier effect for differentiated outsourced providers.

Lincoln's experts continue to believe that the recovery is exhibiting sustained selectivity. Capital is not flowing equally to every sponsor or asset, but that selectivity may support healthier service-provider economics. Better-capitalized programs with compelling science and visible milestones are more likely to advance, remain funded through execution and support broader project scopes. Key implications for pharma services companies are to:

- Evaluate biotech exposure based on funding quality, asset maturity and therapeutic focus, not customer size alone
- Differentiate between project activity and durable customer lifetime value
- Prioritize services that become more critical as programs advance through development

4 The recovery remains K-shaped, with execution and differentiation driving separation

A healthier end market will not lift all pharma services businesses equally. Even among the largest providers, revenue growth, bookings performance and margin trajectories vary considerably. Some companies are already generating strong organic growth, while others are showing better bookings and operational performance before returning to top-line growth.

This dispersion supports the view that the next cycle will be defined by shifts in market share as much as end market expansion. Companies on the upper branch of the K are likely to combine scientific or therapeutic differentiation, direct customer relationships, strong commercial execution, mission-critical positioning and technology-enabled delivery.

Characteristics of likely recovery leaders	Characteristics of lower branch platforms / laggards
Deep therapeutic or scientific expertise in complex, high-value areas.	Bookings and / or revenue skewed by pass-through / reimbursable mix vs. direct (net) fee growth.
Direct, trusted relationships with sponsor decision-makers.	Single-customer or narrow-sponsor concentration remains pervasive.

Proven business development, proposal and delivery execution.	Margin profile that is structurally below peers despite healthy headline bookings.
Embedded roles in regulated, clinical or operational workflows.	High quarter-to-quarter book-to-bill volatility.
Technology that improves speed, quality, scalability and transparency.	Growth indexed toward more volatile therapeutic areas.
Sufficient scale and balance-sheet flexibility to invest through the cycle.	Reliance on transactional models limiting embeddedness, switching costs, or scientific differentiation.

Conversely, undifferentiated businesses, transactional models, lower quality customer bases and platforms with weak execution may not participate fully in the recovery. For PE investors, subsector exposure alone is insufficient; the more important diligence question is whether the company is structurally positioned to win as budgetary and funding environments improve materially.

Private equity diligence lens

Commercial momentum
Is pipeline growth translating into higher win rates, larger scopes and faster contracting?

Customer quality
Are growth and backlog supported by funded programs and durable sponsor relationships?

Differentiation
What capability is difficult to replicate and mission-critical to the customer workflow?

Capacity to scale
Can the platform absorb volume without compromising delivery quality or talent retention?

Margin conversion
Will incremental revenue produce gross profit and EBITDA growth after reinvestment?

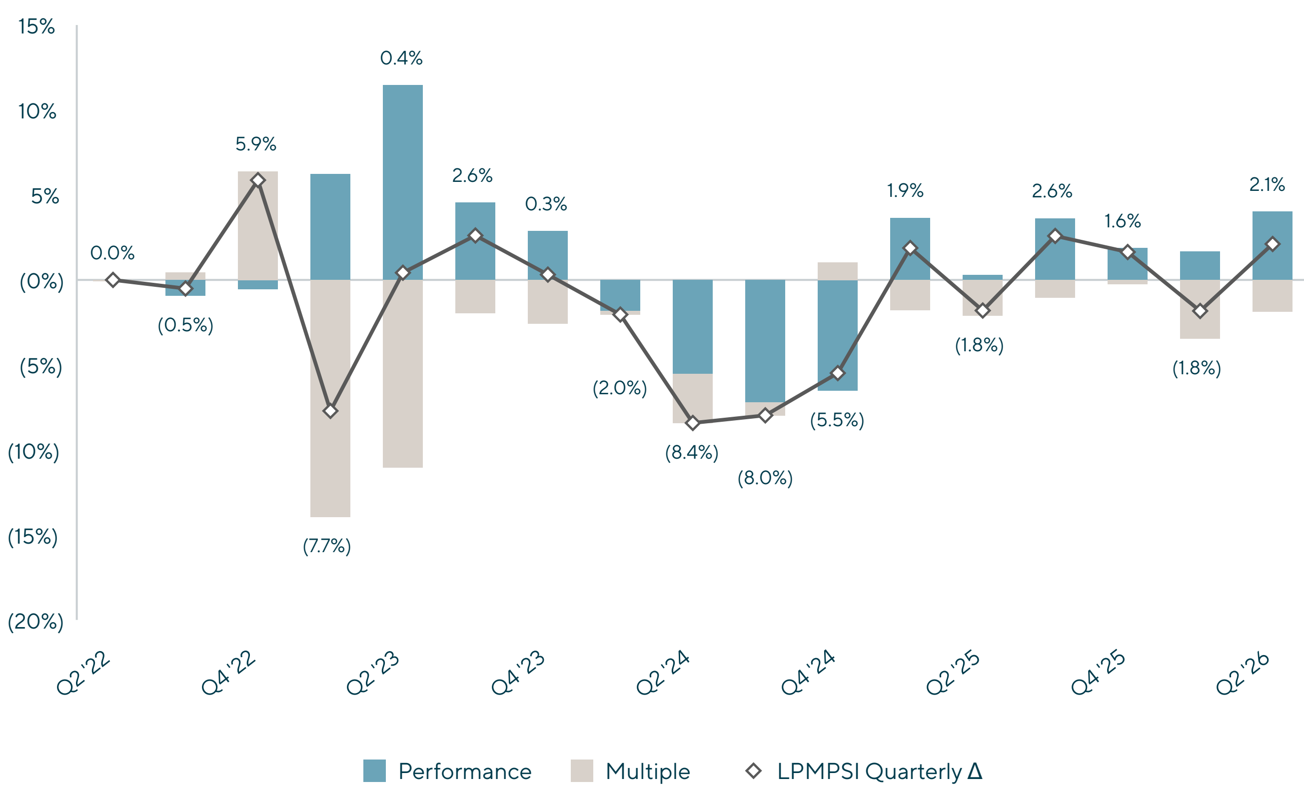
Exit relevance
Does the company become more strategically important as the market recovers?

5 Revenue quality and operating leverage will matter as much as headline growth

Improving market activity should support revenue growth, but reported figures may remain difficult to interpret. Clinical development-focused services frequently incur significant pass-through expenses associated with investigators, sites, travel, laboratories and other third-party costs. These expenses can increase reported revenue and bookings while reducing reported margin percentages, without materially changing the underlying economics of the service provider.

Recent earnings demonstrated this dynamic more clearly as several companies reported stronger revenue and bookings alongside pressure from elevated pass-through mix, while others expanded EBITDA margins despite flat or declining revenue through cost actions, improved utilization and more favorable project mix. Favorable project mix can be one of the clearest signals of differentiation, but it can also mask a temporary tailwind. This dynamic is also beginning to appear across private pharma services companies, as the LPMPSI exhibited operating performance as the main driver of the index's value in more recent quarters.

Exhibit 5: LPMPSI Quarterly Performance Drivers



6 AI is becoming a competitive capability but still in the early innings

Both public and private pharma services companies have provided commentary that reflects a meaningful evolution in the industry AI narrative. Clinical services providers are deploying AI to improve study design, accelerate contracting and startup, support data review, reduce administrative work and identify operational risks earlier. Some companies also attributed customer wins to AI-enabled capabilities and announced partnerships intended to embed AI more directly into clinical workflows. At the same time, customers continue to place significant weight on therapeutic expertise, qualified personnel, global infrastructure and delivery track record.

> *Most Rfps Ask About Ai Capabilities, And Having A Credible Roadmap Is A Competitive Differentiator.*
>
> *However, Ai Capabilities Are Not Yet The Primary Decision Factor Over Operational Experience And Team Capabilities.*
>
> *Fortrea's CEO on the Topic of AI*

In Lincoln's view, it is still too early to assign winners and losers in the face of AI adoption and there are valid points on both the bull and bear cases. What is clear is that pharma services companies need to be proactive in how they will benefit from, or pivot, in the face of AI evolution in the sector

For PE-backed platforms, a generic AI strategy will have limited value. The greatest value will accrue to businesses that combine technology with scientific expertise, proprietary information and control of a mission-critical workflow (i.e. continuing to derive value from a human-in-the-loop model). Lincoln's team expects the M&A market to favor assets that can demonstrate measurable improvement in customer outcomes, productivity or win rates.

Key takeaways for PE and executives: Is this the "all clear" signal?

The latest data appears to point to the sector moving confidently into a swift recovery, but as noted previously, it has been subject to false starts in the past. Potential risks to recovery include bookings volatility, EBP funding contraction, AI implications and increasing global competition from China. However, it appears that the predominately positive data emerging on both the public and private pharma services landscape outweighs the downside risks.

The latest public company results support a constructive outlook for pharma services, further validated by our LPMPSI data from the most recent quarter. The clinical development market appears to have moved beyond stabilization, biotechnology activity is improving and leading indicators point toward stronger growth over the coming quarters.

However, the recovery should not be interpreted as an all-clear for the entire sector. The next phase is likely to create greater separation between companies rather than less. End market improvement will benefit differentiated platforms, but it will also expose weak commercial organizations, limited customer relevance and underdeveloped operating infrastructure.

For investors, the priority should be identifying businesses capable of converting the market recovery into sustainable organic growth, market share gains, margin expansion, customer diversification and enhanced exit optionality. For management teams, the environment presents an opportunity to move from defense to offense through targeted investments in business development, specialized talent, technology and M&A.

This latest data will also have an impact on the sector's valuation and investors' views of it, and not just within CROs specifically but in the broader pharma services landscape, as well as on deal flow.

- Stronger public market sentiment and improved operating environments can support private market confidence and activity.
- Clarity, stability and improving visibility can help unlock the bid / ask spread that may have existed in previous years.
- Buyers are no longer simply looking for exposure to the recovery but are placing premiums on platforms that convert the recovery into durable organic growth and market share capture before repricing is complete.

This analysis serves as a continuation of an ongoing series, in which Lincoln's experts will further explore how investors can evaluate opportunities across the pharma services landscape. Future installments will dive deeper into the team's framework for assessing subsector dynamics, identifying relative winners and losers and underwriting investments through the next stage of the cycle.

> Ready to discuss the opportunities ahead for you?
> Connect with a senior professional at connect@lincolninternational.com