

**CRO market soft in 2009 but we expect modest recovery in 2010**

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The Japan CRO Association (JCROA) published its overview of member contract research organization (CRO) earnings for CY2009 at its earnings reporting briefing on 25 February. Total sales were up 10% y-y at ¥113.0bn. Excluding site management organization (SMO) and non-clinical research operations, sales from CRO services alone (for pharmaceuticals, medical equipment, and foods) rose by a modest 3% to ¥89.3bn. In our view, growth weakened in 2009 as mergers among non-Japanese pharmaceutical companies prompted reviews of development pipelines. In terms of service type, demand was weak for monitoring services but strong for data management. Moreover, it appears that JCROA members have won an increasing number of orders for joint international trials. We expect a modest recovery in the CRO market overall in 2010, given the pickup in orders among CRO majors in 2009 Q4, particularly at **CMIC [2309]** (Buy; ¥18,770, 25 February close) and **EPS [4282]** (Buy; ¥365,500).

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- **Soft CRO market in 2009:** Total sales among JCROA members rose 10% y-y to ¥113.0bn in 2009. However, the main factor behind growth was the addition of non-clinical trial operations that some companies had not included in 2008, and adjusting for this factor we estimate that sales were broadly flat y-y. That said, sales from pharmaceutical-related areas rose 5%. Moreover, JCROA's forecast for overall 2010 sales is for a 6% rise to ¥120bn.
- **Data management solid:** Sales in the data management/statistical analysis category, which covers collating and analyzing clinical trial data, rose 13% y-y to ¥20.7bn in 2009. One factor behind this, in our view, was the large number of projects approaching their final stages, as this is when more data processing and other similar tasks are needed. Data management sales have been growing strongly for some time, and with no major changes in the business environment likely, we expect them to exhibit stable growth within the CRO market.
- **Monitoring sales down but we expect improvement in operating conditions in 2010:** Meanwhile, sales in the monitoring category, which covers the oversight of clinical trial procedures at medical institutions, fell 3% y-y to ¥54.6bn, the first decline in five years. In our view, this was a result of mergers among non-Japanese pharmaceutical companies prompting reviews of development pipelines. However, we think the picture in 2009 was due to one-time factors, as evidenced by the pickup in monitoring orders at sector companies in Q4, and as such we expect the overall market to stage a modest recovery in 2010.
- **CRO market changing:** Joint international trials (particularly those carried out in Japan) appear to be accounting for a rising proportion of clinical trials outsourced to CROs. Moreover, development trends among drug companies mean that a rising number of trials are likely to be in central nervous system treatments and other areas that require a high degree of specialization. We thus think joint international trials and specialist areas will drive the market. The industry overall also appears to be going through a shakeout. Smaller CROs continue to see tough business conditions, with staff leaving for larger companies and customers preferring to outsource to companies with strong track records, which are often the larger ones. Meanwhile, the business environment for major CROs has improved, judging by recent orders, and we expect further strong growth in earnings at CMIC and EPS. (KE)

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CMIC	2309 JP	18770.00 JPY	25 Feb 2010	Buy	49
EPS	4282 JP	365500.00 JPY	25 Feb 2010	Buy	12,49,50,81

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#### Previous Ratings

Issuer	Previous Rating	Date of change
CMIC	No Rating	21 Apr 2009
EPS	No Rating	21 Apr 2009

#### Three-year stock price and rating history

Not Available for CMIC

Not Available for EPS

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