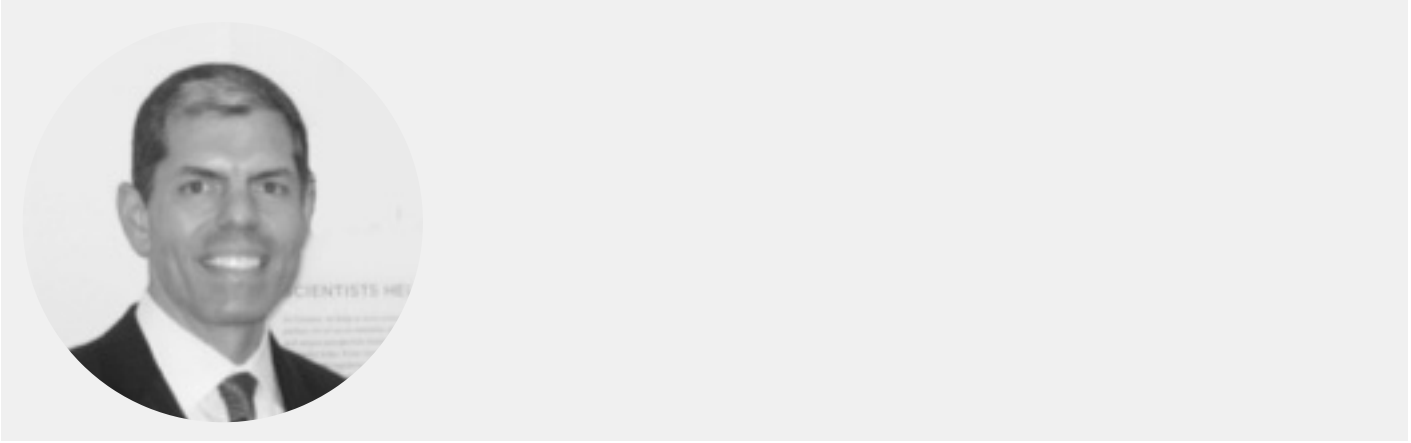
Interview: Jonathan Koch – Group President R&D Laboratories, Covance, Switzerland



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Jonathan Koch, group president R&D Laboratories at Swiss-based CRO, Covance, explains how the integration process with LabCorb has progressed over the last two years, Covance's embrace of digitally disruptive technologies, and becoming a "flexible service provider."

Two years on from LabCorp's headline-making acquisition of Covance, how has the integration process been advancing?

To date, the integration has been surprisingly smooth, both in the planning and execution and I am confident our clients would tell you exactly the same. Any time you try to amalgamate two very different organisations, you end up with a blend of very different skills and personalities. This was especially the case with LabCorp and Covance because we are talking about two multi-billion-dollar organizations, both with very different areas of focus and only a small degree of overlap. The trick is therefore to harness these differences to build a new offering that is greater than just the sum of the various parts.

In recent years, we have witnessed all sorts of unprecedented M&A activity in the CRO (Contract Research Organisation) segment. We have seen competitors teaming up with data and technology firms, sweeping consolidations and venture capitalist vehicles getting involved as well. The basic driver of this activity has been the opportunities inherent in the late drug development phase and the healthcare space. LabCorp was actually one of the early movers and was quite visionary in identifying and responding to these megatrends.

You undergo a process when you introduce a new environment and work ethos into the mix. Every employee has a choice to make: either you're going to sit back and see what happens, or lean forward, learn from the experience and set about reinventing yourself. Covance employees have always been quite progressive in adapting to change. When we were first acquired, we had new colleagues coming in asking quite provocative questions about why we were doing what we do in that way. We were able to harness these forces as an excellent opportunity to review and rethink our modus operandi. Ultimately both LabCorp and Covance are very growth minded and ambitious, and we have been learning a great deal from each other.

What do you identify as the main synergies from this arrangement?

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Both organizations were successful in their own right for decades, but together we can bring very unique approaches to clients' needs as drug development evolves and new possibilities unfold. As the way the medicines are discovered and developed undergoes profound transformation, we are in constant dialogue with our clients with regards to their shifting needs, then identifying new ways to leverage the combined capabilities to bring customers bespoke, pioneering solutions.

I would say there are three main areas where this collaboration has already delivered considerable extra value to our clients. Firstly, by pooling our data we can provide much more integrated solutions along the drug development continuum. Recently our informatics team was able to utilize LabCorp's proprietary lab data combined with Covance's operational data to assist a large pharma client identify where patients would be available based on their indication and very specific biomarkers, and subsequently to anticipate, through data, how specific sites would perform in enrolling patients for a clinical trial. We were also able to provide them with insights into how their protocol was designed and give them considerations on inclusion and exclusion criteria to speed their recruitment timeline. The client in question was thoroughly impressed and went on to choose Covance as one of two preferred CROs to support late phase work.

Secondly, as a combined company, we can now offer a companion diagnostics service alongside the classic CRO functions. In short, we can offer a very efficient pathway to develop a novel therapy along with its associated companion diagnostic and we can do that from an early development services, non-clinical setting all the way through clinical phases and approval. Previously Covance was lacking in lab capabilities to offer that companion test to go along with the drug once it was approved. Because LabCorp has these capabilities, however, it can assist with the commercialization of the test within its own labs, thus markedly reducing costs for the client along that continuum and also reducing time for a therapy's availability for patients.

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Thirdly, our coming together has also served to reveal additional aspects of value in real-world

evidence. For example, we have been partnering with a customer interested in biomarkers related to the use or non-use of a commercially available product. Through the collaboration we were able to bring a solution that we could never have been able to implement independently. For this particular contract, we not only screen the subjects, distribute the study kits to patients' homes and collect and compile the data, but also oversee follow-up visits to LabCorp patient service centers and obviously run the lab tests as well.

So, one clear benefit has been to enable you to embrace digital disruption more thoroughly…?

Certainly. Each organization was doing a lot with the data it had and each was very progressive in the use of digital technologies to advance capabilities. Bringing together laboratory data combined with Covance's wealth of information in the drug-development setting has opened up a world of possibilities for using big data and provides a very different angle of looking at and responding to the question being asked. It's not for nothing that Covance is sometimes referred to as the "Google of blood!"

How, in a nutshell, are customers' needs evolving in the prevailing context? It seems that Covance and LabCorp have played their own role in shifting the paradigm.

Covance and LabCorp together changed the broader environment of how customers view their service providers and there have been a lot of other moves taking places across the CRO segment subsequently. I think what you've been seeing within the last 12-18 months is that drug development has been becoming considerably more complex. As a result, if you ask clients to name the service providers they've had to engage with to get their body of work done from pre-clinical work through registration, then dozens of service providers would be involved to cover those additional complexities.

I think it reached a point where service providers started seeing the sense in bringing a lot of those capabilities either into their own organization or vesting them in a fully integrated "one stop shop" provider. Clients are attracted to an organization that can simplify drug development and reduce the sheer proliferation of partners that they have to engage with. Simplification is logically preferable because it allows you to condense timeframes, reduce costs and accelerate the speed with which you can bring your product to market. Right now, CROs are pursing all sorts of different combinations and consolidations to reply to this demand.

This year's acquisition of Chiltern seems to fit very nicely into this trend towards consolidation. What was the underlying rational behind this particular purchase?

The acquisition of Chiltern is, to my mind, a key milestone in taking us to the next level and optimizing our service offering. Firstly, Chiltern's bread and butter is very much in supporting the mid-market, emerging biopharma segment. From a client-base perspective, it is important to be

active in this area because it is it is growing significantly with the advent of biologics. We already have a lot of competence in serving these types of clients, but adding Chiltern's capabilities demonstrably strengthens us as wide reaching service partner.

Secondly, it helps us reassert our leadership in cancer research. As you are aware, one of the therapeutic areas where we are especially strong in supporting clinical research is oncology. Chiltern is highly complementary to us in terms of bolstering Covance's late-phase oncology footprint with additional capabilities in the early clinical stage. It will beef up our scientific and technical expertise and we will welcome a number of mid-cap and small-cap oncology oriented clients.

The last facet of great value is what the deal contributes to our global reach. There are two regions where we are especially keen to continue to expand our existing presence and capabilities – Eastern Europe and Asia Pacific. Fortunately, Chiltern possesses a strong presence in both theatres of operations. It no longer suffices for an American-based CRO to just have execution arms in non-US geographies. We have to be truly multinational in the pure sense and maintain the full span of capabilities – whether that is managerial, scientific, medical or operational – in all core regions. Drug development has become a truly global endeavor and horizons have been broadened. Nowadays we have to be ready to engage, at a moment's notice, with the CEO of a small Chinese biopharma or a scientifically orientated outsourcer that hails from Korea.

Tell us more about the growing importance of "flexible service provider" capabilities.

There are many more types of organizations participating in drug development today, from small biotechs to mid-size biopharma, to large multinationals. These clients have a wide range of different needs and as a top-tier CRO you have to be versatile and flexible enough to respond to these dynamics. The one-size-fits-all template of yesteryear is no longer fit for purpose.

Some clients come looking for a partner that can be highly and truly full service in nature. Others may be conducting the trial predominantly in-house, but nonetheless require an element of support maybe in the data resources or monitoring or programming or oversight. Functional service providers are agile enough to conform to whatever is required at a particular moment. Chiltern allowed us to round out those FSP solutions by bringing us added strength in areas such as clinical analytics.

A couple of years ago, Covance invested considerably in upgrading and extending its Meyrin, Geneva facilities. How would you describe those capabilities today?

In 2015, we decided that the moment was ripe to further invest in our Swiss facility, one of our five global central laboratories This entailed deploying state-of—the-art automation across some 4500 square meters of laboratory space. Today, our Meyrin lab stands proud as the largest of its kind within Europe and, quite frankly, one that would also rival many equivalents in other geographies

such as the United States.

Significant investment was channelled towards readying our Swiss assets to respond to future market trends. This meant looking ahead and amassing new competences in fields like oncology, genomics and companion diagnostics where we aspire to be pioneers and leading the way.

In addition, a large part of our investment went towards attaining a very advanced level of automation. This includes increased efficiency and a reduced possibility for human error that, in some instances, is eliminated in automatized functions such as sample receipt and unpacking. This transition to automation was completed without scaling back our labor force. Instead we managed to reassign and redeploy personnel hitherto engaged in routine tasks to emerging areas where there are new assays and platforms.

Just how strategically significant are Covance's operations in Switzerland, bearing in mind that your in-country lab capabilities here now rank as larger than those of any other CRO across the entirety of Europe?

Switzerland has been highly significant to the evolution and performance of Covance, and remains important to us both from a legacy perspective and present-day operations standpoint. The nature of the clinical trials process nowadays is such that the vast majority of later phase trials have a global dimension, frequently including the involvement of one or multiple European states. Covance has always found it useful to place one larger, "lead" laboratory in each regional geography where we maintain a presence and Switzerland fulfils that function for our Europe-wide activities.

There were a number of reasons underscoring the initial decision to grant our Swiss affiliate these additional leadership and coordination responsibilities. Firstly, we felt there was a tremendous resource base in terms of skills, education and scientific technical capabilities that we were eager to tap into. This was perhaps an educated guess at the onset, but we have actually seen that play out and be validated over time. Our local labor force has undergone considerable expansion to the point where we now maintain an in-country staff of in excess of 700 people and yet we have always found it comparatively easy to source the talent that we required, whether in professional services like project management and data management, or in the medical science and clinical categories.

Secondly, we benefit from our physical proximity to the global or regional headquarters of a number of prominent pharma players, especially some of the leading pharmaceutical companies engaged in the fields of cancer and immuno–oncology, which happens to be one of our strong suits as an organization.

Thirdly, if you consider Switzerland's geographic positioning right in the heart of Europe, there are obvious logistical advantages. Goods movement and the transport of lab samples from investigator sites to Switzerland support much of our laboratory work across Europe. The Swiss infrastructure

runs like clockwork and never lets us down when it comes to handling collection supplies and retrieving samples.

And why did you decide to invest in Geneva specifically, as opposed to Basel or Zurich?

Within Switzerland, Geneva was considered as a great location to place significant investments partly because it is a multicultural melting pot that draws in different nationalities, work styles and ideas. On top of that, the local authorities have been tremendously supportive in putting in place the right kind of operating environment, notably with regard to land regulation and fiscal incentives. In hindsight, we can say the decision was very fortuitous, because we now witness a thriving and dynamic life sciences community developing all around us.

What do you identify as the main challenges ahead for Covance?

In the CRO world, you need to stay cutting edge enough so that you see the technology coming and the possibilities of what may need to be applied and used to support clinical trials. But you can’t pursue them all because there is a lot of attrition in those technologies. You have to be abreast of these new technologies and work with clients to discern which of those are the most productive and effective tools to support their research programs and then be able to implement them just in time or just ahead of the need. In other words, we have to be on our toes to anticipate disruptive technologies.

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