



Contract Services

Outsourcing Outlook

Jim Miller

Innovative outsourcing deals are still rare in the pharmaceutical industry, so when a new idea comes along, it merits some attention. What is particularly striking about these novel outsourcing arrangements is the client's considerable confidence in the contractor's ability to perform and the clearly win-win nature of the relationship.

A recently announced deal between **MDS Pharma Services** (Montreal, Canada) and **Sankyo Pharma** (Parsippany, NJ) seems to be a prime example of a mutually beneficial contract. MDS Pharma Services has built, and will operate on behalf of Sankyo Pharma, a 24-bed clinical pharmacology unit in Neptune, New Jersey. MDS Pharma personnel will staff the unit under the direction of an advisory board composed of Sankyo and MDS Pharma officials. The agreement, which has an initial term of five years, stipulates that Sankyo's payments to MDS will be partly fixed and partly activity based.

The arrangement gives Sankyo Pharma the best of both worlds — the consistent quality, priority access, and proximity of a company-owned facility along with the cost savings and expertise of a focused service provider. MDS Pharma Services runs seven Phase I facilities with more than 600 beds in Europe and North America, and it has large bioanalytical and central laboratory operations to support studies at its facilities.

"They have lots of expertise that we didn't want to re-create ourselves," said John Alexander, MD, president of Sankyo Pharma Development, Sankyo Pharma's R&D arm. "It's a way for us to get additional key staff, too." Sankyo Pharma also

will realize cost savings because MDS Pharma can offer the beds to other clients if Sankyo is not using all of them.

The deal with MDS Pharma Services comes as Sankyo Pharma's parent company, Sankyo Co. Ltd., Japan's second-largest pharmaceutical firm, is taking steps to establish infrastructure in Europe and North America. The company is developing and marketing its own products outside its home market rather than depending on licensing partners to commercialize its discoveries globally.

Diosynth is expanding

Nine months after acquiring the Research Triangle Park (RTP), North Carolina, biomanufacturing operations of **Covance Biotechnology Services** (Cary, NC), **Diosynth** (Oss, The Netherlands) is planning to expand the RTP site. According to Roger Lias, vice-president of business development for Diosynth Biotechnology, the company will exercise its option on land adjoining its current 30-acre site and is looking at additional property nearby. Diosynth RTP also is expanding its current 600-person workforce despite intense competition for staff with GMP experience in the RTP area.

The expansion plans come on the heels of a robust year for the Diosynth RTP operation, which earned \$110 million in 2001. The facility has sold out its capacity for commercial-scale fermentation and downstream processing for 2002, though it can meet requests for process development and clinical materials manufacturing.

In the meantime, Diosynth is completing an upstream facility at its site in Oss, which will begin operation in late 2003. That facility will have two microbial trains (5000 L and 10,000 L) and one 18,000-L cell-culture train; a large-scale purification facility was completed last year. Lias said the company is taking a "watching brief" on further expansion of cell-culture capacity, with a particular eye on the ex-

pansion plans of competitors and the development of alternative technologies.

Galen is divesting

The news that **Galen Holdings plc** (Craigavon, Northern Ireland) has agreed to sell its Chemical Synthesis Services (CSS) operations confirms speculation that Galen soon will exit the contract services arena. Galen CEO Roger Boissonneault said the deal "continues the process of focusing Galen on its fast-growing pharmaceuticals business" and notes the transaction will "free up additional resources to focus on our pharmaceutical growth plans." Galen's profile changed dramatically when it acquired US pharmaceutical company Warner Chilcott in 2000.

Galen's other contract services businesses include Clinical Trials Services (CTS), a clinical packager with operations near Philadelphia, Pennsylvania, and in Craigavon; Interactive Clinical Technologies Inc. (ICTI, Lambertville, NJ), a provider of interactive voice response systems; and Pharmaceutical Development and Manufacturing Services (PDMS), a provider of dose manufacturing and development services in Craigavon. CTS and ICTI are freestanding operations that would be simple to divest, but PDMS uses facilities that also manufacture Galen proprietary products.

A management team led by Dr. Allen McClay, the founder and former president of Galen, purchased CSS. CSS has two constituent operations, SynGal and QuChem, which employ a 110-person staff at two sites in Northern Ireland. CSS posted \$7.5 million in sales in fiscal 2001. CSS services include basic R&D, small-scale chemical synthesis, and kilogram-scale GMP production. The sale price of \$36 million in cash represents a multiple of almost five times revenues. **PT**

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