



Contract Services

Outsourcing Outlook

Jim Miller

Capacity is a pivotal commodity in the contract manufacturing business. If you have enough of the right kind of capacity, it's like platinum; conversely, too much of the wrong kind of capacity is like tin.

In today's market, biomanufacturing and parenteral fill-finish capacity are the platinum of contract manufacturing. Thanks to the robust biopharmaceutical pipeline, demand for fermentation, cell culture, and lyophilization capacity is outstripping supply. Because building and validating a new facility may require from two to five years, acquisition of existing capacity is a favored strategy, but the number of potential acquisition targets is extremely limited. Competing for acquisitions requires deep pockets and deep digging.

A prime example of deep digging was **Cardinal Health's** (Dublin, OH) October 2001 acquisition of a sterile manufacturing facility in Raleigh, North Carolina, from **Schering-Plough** (Union, NJ). The facility, which was part of the veterinary products business that Schering-Plough acquired from Mallinckrodt, never has operated and is not fully equipped. The acquisition came as a surprise to other contract manufacturers, who did not know the facility existed. Outfitting the facility to make it fully operational will take Cardinal nearly two years.

Ingenuity may unearth diamonds in the rough, but companies usually must pay platinum prices to buy capacity that is in heavy demand. Biomanufacturers have

sold at anywhere from three to six times revenues this year. The latest deal is **Cambrex's** (East Rutherford, NJ) acquisition of **Marathon Biopharmaceuticals** (Hopkinton, MA), which will generate \$8.5 million in revenue this year. The price was not disclosed, but Cambrex paid nearly four times revenues (\$132 million for revenues of \$35 million) when it bought **BioScience Contract Production** in May 2001. Marathon has two operating production suites and enough space in its 65,000-ft² facility to build three more suites at relatively low cost.

Paying platinum prices does not guarantee the quality of what is purchased, however. **DSM** (Greenville, NC) paid more than \$700 million last year for contract manufacturer **Catalytica Pharmaceuticals** but has had a slew of regulatory and operating problems at the Greenville site in the past year. Also, **Diosynth** (Oss, The Netherlands), the API manufacturing unit of Akzo Nobel, has run into problems at the former **Covance Biotechnology Services** (Research Triangle Park, NC) business it bought for \$200 million in June 2001. Industry sources report that the facility has had operating problems that have resulted in missed deliveries to clients, and members of the former Covance senior management group have had to leave. Diosynth recently increased its \$63 million biomanufacturing investment program in Oss by \$16 million to meet requirements in both the European and North American markets.

If capacity for biomanufacturing and fill-finish is platinum, then capacity for semisolid, nonsterile liquid, and solid dose manufacturing is tin. Major pharmaceutical companies are awash in standard dosage form facilities, especially where mergers have brought together large manufacturing plant networks. Contract manufacturers such as **Patheon** (Mississauga, ON) and **Famar** (Athens, Greece) have been able to buy these facilities for 20–30%

of their replacement values and get manufacturing contracts along with the physical assets. Famar recently announced the acquisition of an **Aventis** facility in L'Aigle, France, and Patheon acquired a facility in Whitby, Ontario from **Novartis** (Basel, Switzerland) earlier this year. We also have heard recently that several major pharmaceutical companies are considering putting their excess semisolid and liquid manufacturing capacity on the contract market. Pricing could become cutthroat in that segment of the market.

Huntingdon comeback

Huntingdon Life Sciences Group (Huntingdon, UK) has become a US company to escape the harassment and intimidation it faced in the United Kingdom by animal rights activists. The provider of preclinical and clinical testing services has been the target of these protesters in the United Kingdom for nearly two years. The protesters have intimidated banks, investment firms, and pharmaceutical companies that were doing business with Huntingdon, and the company was nearly forced into bankruptcy earlier this year.

Huntingdon's board of directors and an outside investor created a new US-traded company, **Life Sciences Research, Inc.** (LSR, Princeton, NJ), which acquired 100% of the outstanding shares of Huntingdon. Investors and officers will have better personal protection under US law, which only requires disclosure of investors who own 5% or more of a company. UK laws require full disclosure of investor information.

For the first six months of 2001, Huntingdon announced US revenues of \$46.8 million and a US operating loss of \$2.8 million. Management reported orders were up 12% during the same period last year. Activity in the UK lab was up 23%.

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