



## Outsourcing Resources

# Outsourcing Outlook

Jim Miller

**T**he consolidation of the contract manufacturing industry has spread to the parenteral fill-finish segment, with two deals announced just before this year's Fourth of July holiday.

The first deal is **Baxter Healthcare Corporation's** (Deerfield, IL) acquisition of **Cook Pharmaceutical Solutions** (Bloomington, IN), a provider of small-volume parenteral development and manufacturing services. The deal is expected to close in September 2001. Cook Group is privately held, so no terms were announced.

The second deal is **Cardinal Health's** (Basking Ridge, NJ) acquisition of **SP Pharmaceuticals Inc.** (Albuquerque, NM), also a provider of small-volume parenteral development and manufacturing services. SP's owners include members of management and an investment firm that bankrolled the management buyout from **Pharmacia Corp.** (Peapack, NJ) in 1996. Again, no terms were announced.

The deals are significant because they continue the trend of multibillion-dollar, NYSE-traded corporations bringing their financial stability, capital, and operating resources to the contract pharmaceutical manufacturing and packaging business. The biopharmaceutical manufacturing business, the upstream cousin of the parenteral fill-finish business, recently has undergone a similar consolidation.

**Jim Miller** is president of PharmSource Information Services, Inc., and publisher of *Bio/Pharmaceutical Outsourcing Report*, a monthly newsletter covering the contract drug development industry. A trial subscription can be obtained by calling 703.914.1203, by e-mailing [info@pharmsource.com](mailto:info@pharmsource.com), or on the Web at [www.pharmsource.com](http://www.pharmsource.com).

In both deals, the major force was the high cost of staying competitive and regulations-compliant in parenteral manufacturing. Driven by the growing demand from the biopharmaceutical pipeline, parenteral fill-finish manufacturers must spend tens of millions of dollars on new capacity, especially lyophilization. Affording the investment is a strain for smaller companies such as SP; its acquisition by Cardinal will give it access to both the capital it needs and a large business development organization that can help fill the new capacity.

Cook's parent company had the financial resources to invest in a major expansion in recent years, including three 220-ft<sup>2</sup> lyophilizers and an 80 million-unit pre-filled syringe-filling capability. However, Cook Group also has major opportunities in its medical device business and chose to reallocate its capital there.

The Cook acquisition also sets up head-to-head competition between Baxter and **Abbott Laboratories** (Abbott Park, IL) in the contract parenteral manufacturing arena. The two companies already are fierce rivals in the hospital products business, in which both offer premixed drugs and nutritional products and have competing proprietary infusion systems. Once the Cook acquisition is closed, both companies will have strikingly similar offerings, including massive-scale manufacturing operations, a full range of sterile-product capabilities (lyophilized, Schedule II, cytotoxic, and protein-based drugs) and packaging capabilities (vials, ampuls, bags, syringes, and blow-fill-seal), and proprietary delivery systems. Baxter will be able to offer development services from the Cook site, and Abbott offers development through an alliance partner.

### Good year for CRO stocks

This year has been pretty good for the stocks

## Outsourcing Resources

**Table I: 2001 CRO stock performance.**

<b>Company</b>	<b>3 July 2001 Closing Price</b>	<b>2001 Change</b>
aaiPharma	\$15.50	60%
Bioanalytical Systems	\$10.43	400%
BioReliance	\$13.00	0%
Covance	\$11.00	90%
Kendle	\$17.91	70%
Parexel	\$19.55	86%
PPD	\$32.53	33%
Quintiles	\$24.43	33%

of publicly traded contract research organizations (CROs). Share prices for most of the major CROs were up between 33% and 90% by the Fourth of July holiday, a far better showing than in recent years.

Several factors seem to be at play in the strong showing. For one, CROs reported good to spectacular growth in profits for the first quarter (see *Pharmaceutical Technology's* "Outsourcing Outlook" column, June 2001). Revenue growth was modest

in most cases, but all companies reported a significant reduction in project cancellation rates, which had been especially high in 1999 and 2000, and a sharp upturn in new project bookings. Overall profits at the clinical CROs improved thanks to the increased volume, the greater selectivity in projects the clinical CROs are willing to accept, and the fruition of restructuring efforts. A secondary factor has been the lack of competition from electronics and Internet stocks, whose spectacular crash has left investors looking for other places to put their money.

The biggest reason for the pop in CRO stocks, however, is the expectation that the industry will see a major boom in 2002 and later. The main reasons cited by analysts include the maturing of the bio-

pharmaceutical pipeline and the settling down of the postmerger turmoil among big pharmaceutical companies. Record numbers of biopharmaceutical candidates are entering development, and nearly 300 are now in Phase II and Phase III, which is where the big development dollars are spent and where the big CROs are geared to serve. Analysts are citing strong demand for earlier-stage services, including preclinical and Phase I testing, as a possible harbinger of improved Phase II and Phase III activity in coming years. **PT**