

# Reshaping CMC Development Services

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**A summertime burst of acquisition activity in CMC development services prompts the question: a coincidence of timing or the start of a trend?**

**A series of acquisitions this past** summer has shone the spotlight on an overlooked segment of the CRO industry: the chemistry, manufacturing, and controls (CMC) development services sector. The noteworthy deals were the acquisitions of **Lancaster Laboratories** and **McKesson BioServices** by the **Fisher Clinical Services** unit (www.fisherclinical.com) of Fisher Scientific, Inc. (Hampton, NH, www.fisherscientific.com); and the sale by **Quintiles Transnational Corp.** (Research Triangle Park, NC, www.quintiles.com) of its pharmaceutical sciences and clinical packaging businesses to **Aptuit, Inc.** (Greenwich, CT, www.apuit.com).

The deals are significant because they may mark the beginning of a new era for the pharmaceutical sciences and clinical packaging businesses, which have remained highly fragmented even while the clinical research, preclinical research, and manufacturing segments have been consolidating. The lack of acquisition activity in the sector reflects several characteristics of CMC development services:

- Although analytical chemistry, formulation, clinical supplies manufacturing, and clinical packaging are closely related, they have seldom been purchased as a package. Purchasing decisions for these services traditionally have resided with different groups within pharmaceutical companies, and selling synergies have been difficult to achieve.
- The small size of most CMC development companies has been an impediment to acquisitions. The economics of the business favor expansion of a single site over maintaining a network of small-scale laboratories and manufacturing and packaging facilities.

- Further, most CMC development businesses are far smaller than the size threshold most private equity investors have set for acquisition candidates.

So what's changed? Maybe nothing. The timing of the three deals could simply be a coincidence. In fact, the robust market conditions in the CRO industry make it a good time to buy and sell development services businesses. Thanks to rapidly rising revenues and prospects boosted by a drug development pipeline bursting with candidates, sellers of CMC services companies can command high valuations. The same conditions enable buyers to justify those multiples with confident expectations of future growth.

Timing and market conditions were clearly important factors for Quintiles. The sale of its non-clinical businesses was an opportunity to raise cash while divesting itself of businesses that did not fit well with the rest of its portfolio. The \$125-million purchase price significantly enhances the company's cash position and gives it the opportunity to pay down some of the debt it took on as part of the management-led leveraged buyout in 2003. It also gets the company out of businesses where the typical sale is \$50,000–250,000, *versus* the \$1–10-million average sale that it enjoys in its clinical and commercialization businesses.

Similar factors were at play in the sale of McKesson BioServices. Although BioServices was a good performer in its niche, its capabilities were not strategic to parent McKesson, and its results not meaningful in a corporation with \$80 billion in revenues. The impetus behind the sale of Lancaster Laboratories was even more straightforward: the seller was a private equity firm that bought the company five years ago with the express intention of selling it when the time was right.

### Strategic motivations

While there is a clear financial rationale for the recent acquisitions, there is a strong strategic one as well, and it lies in the changes that major pharmaceutical companies are making in the way they buy contract services.



## Outsourcing Outlook

In order to achieve major cost savings, Big Pharma procurement operations are focused on reducing the number of suppliers they work with and negotiating favorable pricing with the preferred providers that make the cut. Pfizer executives have said that nearly one third of their targeted \$4 billion in annual operating cost savings will come from savings on purchased inputs.

In this environment, suppliers of products and services to pharmaceutical companies have decided that there are competitive advantages in achieving preferred provider status by offering more services and by building up the total value of services sold to a particular company.

This is clearly a motivation in Fisher Clinical's acquisition of Lancaster Laboratories and McKesson BioServices (now Fisher BioServices). *PharmSource* estimates that the combined businesses push Fisher Clinical's revenues to nearly \$300 million, which is probably 2–3 times larger than its next biggest competitors. In addition, parent Fisher Scientific International sells

billions of dollars of laboratory supplies to pharmaceutical companies, in competition with companies like VWR and Sigma Aldrich. The combined product and service offerings give Fisher a huge presence in Big Pharma R&D budgets and an unprecedented opportunity to negotiate strategic supplier relationships.

### Aptuit takes first step

While Fisher is seeking to leverage its strategic position, Aptuit—which bought Quintiles's preclinical and pharmaceutical sciences and clinical packaging businesses for \$125 million—has taken the first step toward building one.

Aptuit was recently founded by several former executives of ChiRex, Inc., a contract manufacturer of APIs that was sold to Rhodia in 2000. Aptuit CEO Michael Griffith was chair and CEO of ChiRex, and Aptuit COO Frank Wright had been ChiRex's executive vice-president of corporate development. Aptuit has been financed with a \$150-million investment by Welsh Carson Anderson and Stowe

(WCAS), one of the largest and best known private equity investment firms.

Aptuit executives said they will run the acquired operations as three separate units: Preclinical Technologies, Pharmaceutical Sciences, and Packaging and Logistics. They also said they will invest \$50 million over the next three years to expand offerings, enhance operations, and build IT infrastructure. The acquired businesses employ 1400 people and have operations in Kansas City, MO; Edinburgh, Scotland; Mt. Laurel, NJ; and Singapore. Industry sources say they expect Aptuit to make additional acquisitions of related businesses in coming months and years, and WCAS has the resources to make that happen.

Along with Fisher Clinical Services and Aptuit, other CMC development companies with full or nearly full service capabilities include AAI Development Services, Cardinal Health, and Almac Sciences. Look for these companies to battle it out in the procurement department. **PT**

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