



Outsourcing Outlook

Jim Miller

This year started on a very promising note for the pharmaceutical outsourcing industry. The publicly traded contract research organizations (CROs) and contract manufacturing organizations reported good to spectacular growth in revenues and profits for the first quarter of the year (see Table I). Strong demand for earlier-stage services, including preclinical and Phase I testing, is a possible harbinger of improved Phase II and Phase III activity in coming years.

The news was particularly good for clinical CROs, which had difficult years in 1999 and 2000. Revenue growth was modest in most cases, but all 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. Most clinical CROs enjoyed a strong uptick in activity at their Phase I facilities in both North America and Europe; high utilization is a key to profitability in that segment. In fact, overall profits improved thanks to the increased volume, greater selectivity in projects the clinical CROs are willing to accept, and the fruition of restructuring efforts.

Demand for discovery, preclinical, and chemistry, manufacturing, and controls services appears to be especially robust.

Covance Inc. (Princeton, NJ) management said that demand for animal toxicology services has outstripped capacity, and it expects to invest \$10-20 million in new facilities for that segment later this year. Providers of bioanalytical and pharmaceutical chemistry services such as Covance, **PPD** (Wilmington, NC), and **Bioanalytical Systems** (West Lafayette, IN), which gets half or more of its revenues from instrument sales, indicated that revenues in those areas were particularly strong. Manufacturers and packagers of clinical trial materials, including **BioReliance** (Rockville, MD), **Patheon** (Mississauga, ON, Canada), and **Galen** (Craigavon, UK), also did quite well.

Activity seemed to be picking up from a variety of sources — big pharma as well as biotechs, Europe as well as North America. Although investment analysts still are being cautious — CROs have little direct control over their revenue streams, and market conditions can change quickly — there is a growing sense of optimism about the future.

Biomanufacturing transformation

The transformation of the biomanufacturing industry into an arm of the broader active pharmaceutical ingredient (API) industry will be complete when two recently announced transactions are closed.

The first deal announced was the sale of **Covance Biotechnology Services, Inc.** (CBSI, Research Triangle Park, NC) to **Diosynth** (Arnhem, The Netherlands), the pharmaceutical chemical subsidiary of **Akzo Nobel** (Arnhem, The Netherlands), for \$190 million plus assumption of certain liabilities. The second deal is the sale of **Bio Science Contract Production** (Baltimore, MD) to **Cambrex Corporation** (East Rutherford, NJ), the publicly traded specialty chemical company, for \$120 million and assumption of \$12 million in liabilities. Bio Science's owners may get another \$25 million, on the basis of operating results over the next four years.

The sale of CBSI was anticipated in the industry. Its parent, Covance, Inc., announced its intention to sell the operation in October 2000. CBSI, a start-up business plagued with operating problems, has been a drag on corporate earnings and requires substantial capital investment for necessary improvements and expansions at the facility. In Diosynth, CBSI will get a parent that is better positioned to support its growth. The company had 2000 revenues of \$350 million, most of it from specialty APIs, including steroids, opiate analogues, peptides, insulin, and warfarin. In November 2000, Diosynth opened a large-scale facility for isolation and purification of protein products and is building a new plant for cell culture and fermentation. Both are located in Oss, The Netherlands. Diosynth's parent, Akzo Nobel, had 2000 sales of \$13 billion.

The sale of Bio Science was unexpected because the owners' intentions had not been announced. However, given that it would have been the only remaining independent commercial-scale biomanu-

Table I: Recent outsourcing industry performance.

	Quarterly Revenue* (in millions)	Growth Rate**
aaiPharma	\$22.7	11%
Bioanalytical Systems	6.8	70%
BioReliance	15.3	15%
Cardinal Health	301.0	6%
Charles River Labs	99.0	37%
Covance	217.2	3%
Galen	18.5	32%
Kendle International	32.3	11%
Medichem	6.0	44%
Parexel	98.3	1%
Patheon	64.2	27%
PPD	107.0	32%
Quintiles	217.0	6%

*Revenues are for quarter ended 31 March 2001.

**Growth rate over revenues for quarter ended 31 March 2000.

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COVANCE BIOTECHNOLOGY SERVICES

quired **BioWhittaker** (Walkersville, MD), a provider of cell culture, sera, and media products and services. Interestingly, Cambrex often has been mentioned as an acquisition candidate in the current consolidation of the pharmaceutical chemicals industry.

Both acquisitions are further evidence that the veteran chemical API players feel they need contract biomanufacturing capabilities to compete effectively in the future and see strong prospects for the industry. They didn't necessarily see the prospects of the two companies equally, however. Cambrex is paying an estimated four to six times revenues for Bio Science, but Diosynth is paying just two to three times revenues for CBSI. **PT**

facturer, it's hardly a surprise. New owner Cambrex is a major player in the chemical API sector, with 67% of its \$493 million revenues in 2000 coming from the life sciences sector. Cambrex bought into the biologics business in 1997 when it ac-

FYI

Call for papers

Respiratory Drug Delivery has announced a call for papers for podium presentation at the Respiratory Drug Delivery VIII symposium 12–16 May 2002 in Tucson, Arizona.

Abstracts are limited to 100 words and must be submitted by 30 June 2001 by mail, fax, or e-mail as a Microsoft Word file attachment.

For more information, contact Peter R. Byron, PhD, Respiratory Drug Delivery, Virginia Biotechnology Research Park, Room 58, 800 East Leigh St., Richmond, VA 23219, tel. 804.827.1490, fax 804.828.8277, e-mail rdd@hsc.vcu.edu, www.rddonline.org.

Batch manufacturing conference

World Batch Forum is presenting its Second Annual European Conference 14–16 October 2001 in Paris, France. The conference theme is "Batch Manufacturing: Smarter, Safer, Faster, Cleaner."

For more information, contact World Batch Forum, 107 S. Southgate Dr., Chandler, AZ 85226-3222, tel. 480.893.8803, fax 480.893.7775, e-mail info@wbf.org, www.wbf.org.