Key Trends In CDMO Space As Dissected By Piramal Pharma Solutions CEO

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Executive Summary

Piramal Pharma Solutions CEO Vivek Sharma discusses a range of issues shaping the buzzing contract development and manufacturing segment in an interview with *Scrip*. Heightened consolidation and attractive prospects in the area of antibody drug conjugates, where over 600 clinical trials are being conducted worldwide, are some of the trends to watch out for.

VIVEK SHARMA, CEO, PIRAMAL PHARMA SOLUTIONS

There's a lot going on and anticipated in the contract development and manufacturing segment including consolidation and some big ticket M&A, expanding growth opportunities given pharma's continued appetite for outsourcing and challenges posed by the supply squeeze for active pharmaceutical ingredients (APIs), intermediates and key starting materials with China clamping down on polluting industries.

Vivek Sharma, CEO of **Piramal Pharma Solutions** (PPS), which has been in the thick of some of the action, shared his views on a range of key sectoral issues in a freewheeling interview with *Scrip*. PPS is part of the $10bn diversified Piramal group of India.

Sharma, highlighted, among other aspects, the exciting prospects of contract development and manufacturing organizations [CDMOs] in complex areas such as antibody drug conjugates (ADCs), where 70% of manufacturing activities are currently estimated to be done by contract manufacturers for biopharmaceutical companies. He also expects the fragmented CDMO space, which has a significant number of private equity investors, to witness continued consolidation and doesn't deny that there has been some interest in PPS as well. (Also see "CDMO Space In Focus As Piramal Mulls Sale " - Scrip, 18 Oct, 2018.) (Also see "Strides' Founder Considering Stake Sale In UK CDMO?" - Scrip, 19 Nov, 2018.)

For now, though, Sharma, a former managing director at the Boston-based global private equity fund, THL Partners, maintains that Piramal is on buy side of the M&A equation.

Q How have things played out in 2018, in general, for CDMOs amid commentary that some parts of business such as APIs has been shifting to the West from the East, though PPS has a fair split of its sites in the East and the West?

A Overall 2018 has been a very exciting year and we have seen tremendous growth; there are different ways of looking at growth - the pipeline, future orders. Our order book is significantly higher [Piramal added 23 new customers in the services business during H1FY2019] and we are very excited with the trend we have seen in 2018. The macro trends are all very positive with pharma companies outsourcing more and looking to partner with companies like us that have global capabilities. Pharma wants to partner with companies that have a good track record – financial success, quality delivery and execution - and we play very well on these aspects. We have not seen an impact of the apparent shift from Asia to the West. In fact, our India business is growing. We've actually added some new, strategic customers to our Indian sites. We have not felt the pressure of companies moving [business away from the East]. Piramal is uniquely positioned with half its sites in the East and the West, and can serve the launch needs of customers across geographies.

Q But lumpiness appeared to constrain PPS's growth in the second quarter of FY2019?

A The nature of the industry is very lumpy. The reason is that CDMOs are dependent on other people to project their quantities. Also, the way deliveries are done in contract manufacturing - everything we do is customized. The nature of the projects tend to be long. Sometimes there are multiple projects and sometimes you can keep doing a lot of work but you don't generate any revenue in that quarter because the project hasn't ended. At times, customers want things in a certain quarter for tax reasons/financial planning, so there is a lot of dependency. Revenue generation happens at a slightly different time. So, there planning, so there is a lot of dependency. Revenue generation happens at a slightly different time. So, there is lumpiness. In general, our fourth quarter, which is the first quarter for a lot of our customers, is usually the largest quarter for us. People tend to begin their new year confirming their annual requirements, so spending occurs in Q4 (customers' Q1) whereas in our third quarter typically, people control costs/inventories. It's the nature of the business.

Q What has API shortages as a result of China's clamp down on polluting industries meant for the CDMO space?

A The China issue has posed some challenges but also presented some opportunities. From a customer perspective, people are moving away from China - to diversify and mitigate supply risks. They are looking at companies like PPS that can supply from India or other places - so it has opened up some opportunities. But we were also dependent on China for a lot of supplies. We used to source intermediates from China and some of those manufacturers have shut down, leading us to evaluate alternate supply chain. One of the things we've realized in the process is that we probably need supply sources in India for these products to mitigate risk exposure, and we are working on achieving this.

Q The CDMO sector has seen significant consolidation including Lonza's acquisition of Capsugel for $5.5bn and the implied enterprise values (EV) of acquisition targets, in general, has risen 35% per year over the recent past. Do you see continued M&A momentum?

A It's a highly fragmented segment and customers are looking to consolidate suppliers establishing strategic partnerships, so there is a need from the customer's side as well. And then as the CDMO sector is growing, everyone is looking to add capacity and capability and it's perhaps easier to buy a competitor than build these. There have been many deals and there may be lot more happening. The nature of the sector is such that some of the activities were triggered by significant private equity interest in the last three-four years. It has become a visible sector and in my view, it has always been a good sector that was somewhat neglected, and it is now in the spotlight and people are making investments. I do see consolidation happening as CDMOs build scale, geographical reach and add capabilities to better meet the future needs of their strategic partners.

Q So, is Piramal on the buy or sell side for now?

A We are always looking at acquisitions that add value to our customers and our investors. There has been some speculation in the market about PPS; we do not comment on such speculations.

Q The ADCs market is expected to expand at an estimated 20% compound annual growth rate until 2030 with 17 news drugs in late stage development. How is PPS geared in this niche space?

A ADCs is a niche market and we are one of the unique providers in that space. It's a fast growing, good margin business. PPS has one of the best records in the ADC space having manufactured more than 850 ADC batches and worked on 180 different ADCs from over 110 antibodies. We have experience with almost 50-plus different toxin/toxin-linker systems. We continue to be a leader in ADCs, a vehicle for drug delivery, and have augmented that platform by integrating to our high potency API acquisition and our fill finish capability to offer a fully integrated solution to our customers. We are seeing enormous interest in this area with 600-plus clinical trials being conducted on ADCs worldwide. For instance, at Piramal we are working on four late phase programs, some of which have the potential to be breakthrough therapies significantly impacting patient life while providing attractive returns for Piramal. Depending on the results, we will be looking at expanding capacity at the site.