

The survival of the fittest

Where have great European brands gone?

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At the turn of the century, chemical giants spent about \$3 billion in two years buying up pharmaceutical fine chemical specialists. This was part of a wider restructuring that added up to \$14 billion of M&A activity between 1998–2000 in fine chemicals. Certainly in the last decade there have been three major waves of restructuring:

- Pharma giants increasing their market share through mergers while shedding chemical operations.
- The emergence of “new” chemical companies such as Avecia, Ciba, Clariant, Degussa, Rhodia and Solutia.
- Traditional companies radically restructuring or simply disappearing.

Leading consultants and financial analysts succeeded in convincing these companies that pharmaceutical fine chemicals would be a high growth, high margin, noncyclical sector with synergies with their existing businesses. Quel désastre.

Wrong decision?

Several years later, and the manufacturers are not happy — they got into a business they did not understand and by the time they were doing the right thing, the shareholders had had enough. One after the other Avecia, Rhodia, Solutia, Bayer, Clariant and Degussa either sold or spun-off their pharmaceutical fine chemicals. Once strong assets with great brands (commanding premium prices) were being sold for insignificant sums — assets that had recently sold for hundreds of millions were now being sold again at fire-sale prices: “Nicholas Piramal India has bought British custom manufacturing firm, Avecia Pharmaceuticals, for £9.5 million” (<http://economictimes.indiatimes.com>). The public never knows the complete story behind these deals, but one thing is for sure in the “exuberant optimism” period of the late 1990s, £9.5 million would have been a rounding-off error, today it buys you a business that sold £36.1 million in 2004.

India

So now we focus on India. There is little doubt that India has

- a large number of highly qualified scientists and managers
- a home-grown tradition of pharma fine chemicals
- well-developed domestic capital markets and a world-class elite of industrialists.

There is every ‘ingredient’ for India to go global. Its international expansion started with a bang: the 2005 unwelcome takeover by Mittal of Arcelor to create the world’s biggest steel company. In the UK, NPIL bought assets from Avecia and an ex-Searle/ex-Pfizer plant; Shasun bought the ex-Sterling Organics/ex-Chirex/ex-Rhodia assets; and in Switzerland, Dishman bought Amcis and Carbogen from Solutia.

Will Indian firms succeed where so many of the big chemical giants failed? It is not obvious that all Indian investments abroad in pharma fine chemical plants will succeed, but at least one will surely be successful, just as Indian generic firms have firmly established themselves as key players in all major world markets. In pharma fine chemicals, I believe the jury is still out on India, and will remain so for the next 2–3 years. It is likely though, despite many in Europe having misgivings, that some Indian firms will become reliable, global players. At trade shows, one hears many negative comments, including: “If they paid so little for a business, are they really committed to it long-term?” and “How long will they pump in funds for?”

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The basis for the comments is mostly emotional, there is still little fact available to make a judgement. While it may be true that many of these Indian investments may have been facilitated by a buoyant stock market; NPIL, Shasun and Dishman do have a head-start over the chemical giants. They know the business very well. Can they execute their strategy? Can they manage vastly different cultures under the same leadership? If one excels in a low-cost environment will that translate into winning practices in high-cost locations? These will still remain unanswered questions for a few years.

Survival of the fittest

I should point out that there are some companies that neither bought, sold or threw money out of the window — the well-established API producers. All these firms seem to have one thing in common: they follow an old Venetian saying “andarghe drio ai altri no se pasa mai davanti” (you never get to be first by following others).

For those in the industry, it is disappointing to see great brands (such as Finorga, Gist-Brocades and Laporte) disappearing. Great brands are the result of a lot of work by great people.

In less than a decade, Big Pharma merged, consolidated and shed nonpharma operations; chemical giants lost billions in their foray into pharma fine chemicals, and India seems to be picking up the pieces. Unsurprisingly, the well-established independent API producers remain beacons of reliability in a turbulent industry. But the story has not ended, we have yet to discuss China. **PTE**