

Another acquisition for Dr Reddy's

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DRL captures numero uno position in generic market

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Dr Reddy's Laboratories has signed a definitive agreement to acquire Dowpharma Small Molecules business associated with Dow's Mirfield and Cambridge, UK sites.

Dr Reddy's Laboratories (DRL) is in news once again. Towards the beginning of April, the \$1.2-billion Indian pharma major, and one of the world's leading generics players, announced that it had entered into a definitive agreement with the US-based Dow Chemical Company to acquire a portion of Dowpharma Small Molecules business associated with its UK sites of Mirfield and Cambridge. The financial terms and conditions of this deal is undisclosed for the time being. The transaction is scheduled to close on April 30, 2008 pending regulatory approval. "We will start consolidating the acquisition from Q1 FY09," confirmed a DRL source. The month of April has seen two significant acquisitions for DRL. Just three days following the Dowpharma agreement, DRL also announced the acquisition of Jet Generici Srl, a company engaged in the sale of generic finished dosages in Italy, completed via Dr Reddy's Italian subsidiary, Reddy Pharma Italia SpA.

Company insights

The Cambridge site of Dowpharma was primarily used for R&D while the Mirfield site was used for manufacturing purposes. The two sites of the business employs around 80 personnel. Dowpharma offers contract manufacturing services, serves the

pharmaceutical and biopharmaceutical industries with services in technology, products and services for clients in drug discovery, development and manufacturing. Parent company, Dow Chemical's annual sales clocked \$54 billion with an employee strength of 46,000 worldwide and has a broad range of services. Dowpharma has also has an active manufacturing site in Midland, Michigan and a biopharmaceutical site in San Diego. In fact, DRL is not the first Indian company. Dowpharma has had a transaction, confirmed Michael Altmann, global communications manager, Dowpharma, "In 2007, the Serum Institute of India, licensed the Dowpharma Pf?nex Expression Technology, for the development and production of low-cost vaccines." Pf?nex Expression Technology is a Pseudomonas-based system, enables customers to express their recombinant protein or peptide reliably and cost-effectively. This technology can increase protein expression, secrete proteins to the periplasmic space, maintain solubility, increase downstream yield, scale up easily, address protease issues, and improve activity characteristics, lower cost of goods. In developing Pf?nex Expression Technology, Dowpharma continues to invest a significant amount of research and development in identifying high-performing strains of Pseudomonas fluorescens and further improving them through the application of sophisticated genomics tools. At the 2007 CPhI Annual Conference in Milan, Italy, Dowpharma won the bronze innovation award for the use of Pfenex Expression Technology for the development of biocatalysts.

For DRL, despite the reported financials reflecting a 20 percent decline in revenues and the Mexico business recording a decline of 31 percent, there was an upward growth in other areas as per the Q3 FY08 results announced this January. DRL had declared that "in the Custom Pharmaceuticals Service (CPS) business, the organic business is in a high growth mode and continued its growth momentum in this quarter as well." In the same quarterly results, DRL registered an overall growth margin of 49 percent in Q3 FY08 as against 44 percent in Q3FY07, gross margin in APIs was at 32 percent compared to 39 percent in the third quarter of last year. Gross margin in the generics segment, which includes the US as well as Europe, was at 45 percent in this quarter as against 36 percent in Q3FY07.

Benefits from the deal

The Dowpharma acquisition is sure to give a boost to DRL's R&D and manufacturing capabilities, especially for its CPS business which is a high growth area for the company. The acquisition is also a sure sign of DRL's attempt to penetrate other key markets in Europe. "We will execute towards building a sustainable and profitable presence in the key markets of Europe over the next few years," confirmed GV Prasad, CEO, DRL. From its commercial partnerships in the past, DRL had established a strong presence in North America, Europe and the BRIC nations out of which Germany was and still is an important market for the company.

Dr Reddy's will also have a non-exclusive license to Dow's Pf?nex Expression Technology for biocatalysis development. Satish Reddy, managing director and chief operating officer, Dr Reddy's Laboratories, said, "The proprietary chiral and biocatalysis technology at the Cambridge site and the scale up capability in the Mirfield site will add significant value to the company. This acquisition will also bring strengths in industrial synthesis of complex prostaglandins and carbohydrate chemistry. These newer capabilities will add to our existing R&D and commercial infrastructure to position Dr Reddy's as a leading provider of custom pharmaceutical services globally."

DRL sources also confirmed that "The acquisition would give us access to technology that we may not have within. It also allows us to offer technology-advantaged services to our customers, ultimately leading to very high quality services to our customers." Also, for the Hyderabad-based company, the acquisition will also include the relevant business, customer contracts, associated products, process technology, intellectual property, trademarks as well as the transfer of the facilities at Mirfield and Cambridge in the UK. On the other hand, for Dowpharma the agreement is a strategy to reconfigure its portfolio to ensure sustained growth. "We are preferentially investing in the high-return performance product businesses that allow us to better compete in downstream markets. The divestiture of Dowpharma frees the resources that we will use to further strengthen our performance plastics and chemicals offerings," added Altmann.

However, the agreement only covers the Dowpharma assets in the UK at Cambridge and Mirfield and Dow's US sites will remain untouched. Altmann clarified, "Dr Reddy's will have complete control of the Cambridge and Mirfield assets upon closing of the agreement. These assets will become part of Dr Reddy's and will no longer be connected to Dowpharma. The Dowpharma sites and businesses in the US as well as the Pf?nex Expression Technology remain with Dow and are not part of the transaction."

What next?

Post the DRL-Dowpharma agreement, commenting on future plans, Altman asserted, "It is public knowledge that Dow has been seeking outside funding to support and expand the biopharmaceutical portion of the business. I cannot comment on other plans." DRL is now all geared up to dominate the biosimilars market and launch its first biosimilar product in Europe by 2010.

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