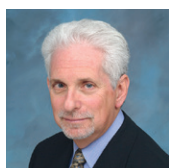


TRUSTED PARTNERSHIPS KEY TO LEVERAGING FULL BENEFITS OF SURPLUS PHARMACEUTICAL EQUIPMENT MARKET



→ **BY LARRY KADIS** CEO & President, Federal Equipment Company

Larry Kadis is CEO, President, and Co-Owner of Federal Equipment Company, founded in 1957. Along with his cousin, Michael Kadis, they have built the business into a global leader in the processing and packaging equipment industries. Larry's father Abe and uncle Morris founded Federal Equipment Company where Mr. Kadis has worked for more than forty years. He has focused recently on creating strategic partnerships for the business with multinational corporations like Pfizer and BASF.

ABSTRACT

Numerous trends in the pharmaceutical industry are driving the recent surge in merger and acquisition activity and the growing use of contract research organizations (CROs) and contract manufacturing organizations (CMOs). Cost pressures are one of the most significant drivers, with companies looking to eliminate redundancies, enhance efficiency, and increase productivity. The pharmaceutical equipment market is, as a consequence, experiencing strong growth. The supply of high-quality equipment has increased at a time when CROs and CMOs need to rapidly expand to meet increasing demand for their services. Finding a trusted partner that can provide support through the entire selling and buying experience is the key to realizing the complete range of benefits offered both to used or redundant asset owners and those looking to purchase them.

INTRODUCTION

The pharmaceutical industry has been undergoing significant change in recent years. Governments and insurance companies (payers) are looking for proof that new medicines provide value for their money. Blockbuster drugs have gone by the wayside and have been replaced by specialty therapies. Real growth in demand is occurring in emerging markets, where generics are in greatest demand.¹ Pharmaceutical manufacturers are responding to these trends in various ways. Two of the most prominent include consolidation and increased outsourcing of activities throughout the drug development process, from discovery through commercial manufacturing.

The level of merger and acquisition activity increased significantly in 2014, with several major deals completed within just the first several months.²⁻⁵ The trend is continuing in 2015, as evidenced by the recent announcement of Pfizer's plan to acquire Hospira for approximately \$17 billion.⁶ Consolidation is seen as a mechanism for not only achieving cost savings, but expanding pipelines and realizing synergies. So is the outsourcing of all aspects of the drug development process, from discovery research to commercial manufacturing. The use of CMOs also provides increased flexibility and access to specialized expertise while allowing pharmaceutical companies to focus on their core competencies.⁷

In turn, both the increased level of industry consolidation and the greater use of contract manufacturing services are driving growth in the used pharmaceutical equipment market when equipment at a pharma manufacturing center has become redundant or needs to make way for different equipment to develop new products. Merged entities are closing plants to eliminate redundancies and are looking to reclaim some of the value tied up in their excess equipment, and thus the supply of high-quality equipment has dramatically increased. At the same time, CMOs are looking to rapidly and cost-effectively expand their capacities and



INCREASED
LEVEL OF
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GREATER
USE OF
OUTSOURCING

capabilities to meet growing demand in a highly competitive marketplace. Generics manufacturers have a similar need for lower-cost equipment as demand for their products increases in emerging markets.

While the used equipment market certainly provides avenues to resource recovery for sellers and cost savings for buyers, the potential benefits are much greater. The best way to realize those additional benefits is to work with a trusted partner who knows the market; understands pharmaceutical laboratory, processing, and packaging equipment; has an established network across the industry; and can provide comprehensive customer support from certified appraisals to strategic management services and everything in between.

OPPORTUNITIES IN RESOURCE RECOVERY

To maximize resource recovery, pharmaceutical companies should develop a strategy for managing their efforts. There are three general approaches used in the industry: ① in-house, ② outsourced, or ③ a combination of both. The choice of strategy depends on the size of the company, the quantity of used assets to be

managed, and the available resources for investment in a recovery program. In the past, companies have often elected to manage these activities on their own. Today, however, that task can be daunting given the globalization of the industry. In-house programs, which are often managed by the purchasing department, require personnel, inventory and sales management systems, an advertising budget, and appropriate storage space. As a result, both large and smaller pharmaceutical companies are turning to third parties that can manage and facilitate the process.

Equipment dealers can help smaller organizations with limited experience selling surplus equipment and/or limited resources. Certified appraisers with extensive experience evaluating pharmaceutical equipment can help companies determine the value of their used assets. Quality used equipment dealers also have extensive marketing programs and broad, established networks of potential customers in place. As importantly, they have the physical space to store equipment under appropriate conditions (climate-controlled, clean) until it is sold.

Experienced equipment dealers can also very effectively support the recovery needs of large pharmaceutical companies with multiple sites around the world that do not communicate with one another. The greatest return on surplus equipment is achieved when internal redeployment is possible, because unnecessary capital expenditures elsewhere in the company can be avoided. Typically, however, the disparate sites within a company don't know what used equipment is available at other sites. For such manufacturers without an enterprise-wide equipment tracking system, a third-party equipment dealer can ensure that used manufacturing assets find the best home within the company.

It is crucial to select a used equipment dealer that not only provides a full range of services, but also acts as an extension of the company.

Why trust Federal Equipment to meet your used equipment needs

Your Trusted Advisor for Used Equipment Management

Federal Equipment has been helping pharmaceutical clients manage their process equipment needs for more than 50 years. We support both sellers and buyers of used equipment throughout the entire pharmaceutical supply chain. In addition to extensive market knowledge, our pharmaceutical team has an understanding of the requirements for used pharmaceutical equipment and can support the buying/selling process from beginning to end and beyond. With our extensive inventory; climate-controlled, pharma-dedicated storage warehouses; ability to complete fast training support; accurate appraisals; and resource recovery services, we are committed to meeting the needs of the pharmaceutical industry.

Let Federal Equipment help you reach your project and organizational goals for used pharmaceutical equipment. We have the experience, knowledge, facilities, processes, and commitment to be your trusted advisor.

- + Extensive knowledge of the pharmaceutical market and equipment needs
- + Long-standing reputation as a provider of high-quality, brand-name equipment
- + Long-term relationships with many leading original equipment manufacturers
- + Established relationships with pharmaceutical manufacturers that have ongoing resource recovery programs
- + Competitive total costs combined with flexible negotiations
- + Very responsive
- + Trained and certified appraisers that provide accurate evaluations
- + Modern facilities for the storage and testing of equipment
- + Emphasis on training with operator training videos and interactive classroom and hands-on workshops
- + Ongoing support for troubleshooting and maintenance issues

To have a truly successful resource recovery program involving a third-party provider, however, it is crucial to select a used equipment dealer that not only provides a full range of services, but also acts as an extension of the company. A trusted partner will weigh all of the relevant factors important to each project (location, project timeframe, removal costs, etc.) and develop a customized plan that achieves the company's goals, even if that means scrapping rather than selling a piece of equipment. Effective used equipment dealers also help ensure that all transactions are transparent and compliant with the various regulatory requirements that govern the sale and export/import of used pharmaceutical manufacturing equipment.

IMMEDIATE ADVANTAGES FOR BUYERS

For those companies looking to purchase equipment, used assets are often sold at 40-50%, and sometimes as little as 20%, of the cost of new systems. That can have a huge impact on the capital investment required for a new process, particularly for companies involved in fiercely competitive markets such as custom manufacturing and generic drug production. Perhaps as important as the lower cost of used pharmaceutical equipment is its immediate availability. In many cases, the delivery of new pharmaceutical equipment can take weeks or even months. Often CMOs do not have the luxury of waiting that long; they can lose a large project due to the lack of a single piece of production equipment.

Used assets are also valuable for both branded drug manufacturers and CMOs when equipment failures

USED ASSETS
SOLD AT
40-50%

occur. An experienced used equipment dealer can rapidly help manufacturers find suitable replacement equipment that will allow restoration of operations and avoidance of lost revenues and potential supply shortages. Used equipment can also be purchased as cost-effective back-up equipment in advance in order to mitigate downtime in the event of a failure or even an extended period of planned maintenance. A trusted used equipment dealer should also be able to help evaluate the equipment needs for a client's process and determine whether used systems will be appropriate, or new and possibly customized equipment is needed. In the latter case, a dealer that has strong relationships with original equipment manufacturers (OEMs) can help connect the client with the most suitable equipment supplier.

FACTORS FOR SUCCESS

While used equipment does offer significant cost and time advantages, it is important for potential buyers to recognize that the experience is different from buying new equipment. Most notably, unless a very standard piece of equipment is desired, it is very difficult to find pre-owned equipment that meets a pharmaceutical manufacturer's detailed design specifications for a given process. To avoid complications, it is highly recommended that the decision to consider used equipment be made at an early design stage when general equipment needs have been identified, but highly specific designs have not yet been developed. Doing so affords greater flexibility and a higher likelihood of finding suitable used assets. Flexibility and adaptability are also very important. Because used equipment typically does

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When you
think equipment,
think Federal
Equipment

We sell high-quality machinery
We buy surplus equipment

OPTIMIZE YOUR CAPABILITY

When you need to upgrade your facility or reduce the risk of equipment failure, Federal Equipment gets you online with the right machinery in the shortest time. As a trusted source of processing equipment for over 50 years, we have extensive industry expertise and a vast inventory viewable in pharma-dedicated warehouses.

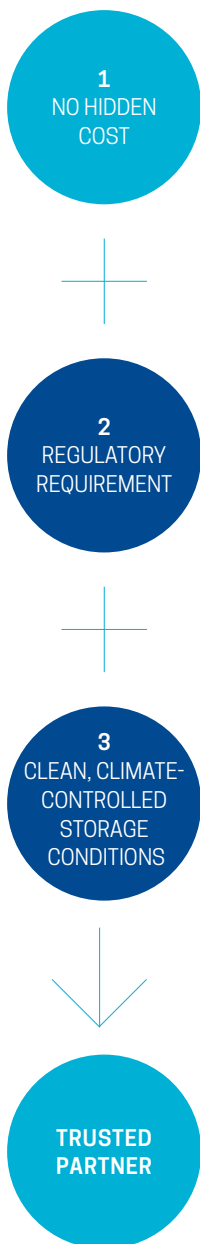
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Company

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not meet exact design specifications, process engineers must have the ability to adapt and develop creative solutions. Indeed, a knowledgeable dealer should be contacted first to fully assess exactly what piece of equipment is actually best for the need at hand.

WHAT MAKES A TRUSTED PARTNER?

Access to high-quality pharmaceutical research, development, manufacturing, formulation, and packaging equipment is crucial for drug companies to bring new life-saving therapies to market as rapidly and safely as possible. The use of pre-owned equipment can help reduce costs and lead times for getting a new operation up and running. To provide real benefits, however, the equipment must meet the pharmaceutical industry's exacting requirements for quality and safety.

A trusted used equipment partner understands the unique needs of the pharmaceutical industry with respect to quality and safety, including cleaning and validation processes, and has knowledge of the equipment, how it functions, and its applications. A trusted partner also acts as a true advisor, taking a holistic approach to the evaluation of buying and selling opportunities and making recommendations that help clients achieve their goals with respect to resource recovery and equipment purchases. To achieve that end, strong relationships with pharmaceutical companies looking to sell equipment and OEMs are equally important; without both networks, it is not possible to consider the full range of options and ultimately select the most cost-effective equipment with the appropriate design functionality for a given project or process.

A true partnership between pharmaceutical manufacturers and used equipment dealers will also involve activities that go well beyond the actual transaction itself. First, the entire process is transparent with no hidden costs (removal, transport, installation, etc). The provenance of the equipment is known, and, whenever possible, history records are provided. Second, the dealer takes responsibility for ensuring that all regulatory requirements are met. Third, storage under clean, climate-controlled conditions is also provided for sellers, and facilities are offered where buyers are encouraged to inspect equipment before they commit to a purchase.

True partners also continue to provide support long after the deal is completed. For instance, with its extensive knowledge of pharmaceutical equipment, Federal Equipment is helping its clients meet their ongoing need for operator training. Many pharmaceutical manufacturing plants today are multiproduct facilities that produce many different, smaller-volume drug substances and formulated products. It can be challenging for operators to remember all of the exact steps and their specific sequence for a process that is run only a few times each year. To help ensure that all processes are completed according to the proper procedures, Federal Equipment has partnered with Techceuticals to offer training facilities and systems for use with process and packaging equipment. With a fully integrated training system, operators can view procedures or animated videos that show the steps that must be completed to start up and run a process using a specific piece of equipment.

Federal Equipment also has an on-site laboratory and training facility located in its equipment warehouse in Cleveland, Ohio, where customers can participate in interactive classroom and hands-on workshops with many different types of pharmaceutical process equipment. This service is offered through Techceuticals, and is just one example of the way a used equipment dealer can be a trusted partner of pharmaceutical manufacturers, regardless of where they fit in the supply chain.

CONCLUSION

The sale of used pharmaceutical equipment can help asset owners recover some of the initial investment made in assets that are no longer useful to them. The purchase of used equipment can save buyers money and provide significantly reduced lead times. A used pharmaceutical equipment dealer that chooses to act as a real partner can bring many more benefits to the equation. A trusted partner helps its customers—buyers and sellers—make the right decisions for any given project and for their companies as a whole. In other words, clients can rely on a trusted partner to be a trusted advisor with the ability to assess equipment-related needs, identify all of the practical options, and help them reach their goals, whatever path is chosen. ^A

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