

YOUR PROJECT IS CANCELLED: WHAT DO YOU DO WITH ALL THAT EQUIPMENT YOU JUST ORDERED?

→ BY **MATT HICKS**, FEDERAL EQUIPMENT COMPANY

Drug development from compound screening through commercial launch for pharmaceutical companies involves long lead times, highly complex and inflexible capital equipment, and high failure rates.¹

Project owners make decisions with high uncertainty for the product's market potential as well as uncertain and complex technologies. Late-stage clinical trial failures, typically those in phase III before approval, result in huge valuation hits for the product owners.¹ Unfortunately, these cancellations also usually result in some fair amount of exposure with regard to capital equipment purchased to manufacture that product at commercial scale. Replacement or back-up projects need to take the place of these projects as part of a robust product development strategy.¹ But what does a project manager do with this brand new, surplus equipment?

YOUR CAPITAL EQUIPMENT PROJECT IS CANCELLED; NOW WHAT?

If you have worked in or around the development and production of pharmaceuticals for even a short time, you have likely seen a cancelled drug project. Current estimations have the cost of developing a drug through marketing approval at \$2.6 billion. But only 12% of drugs that enter clinical trials will reach approval.² With so many project cancellations, the return on investment in pharmaceutical innovation has declined over the past decade.³ There is a high risk of project cancellation, combined with a strong desire to minimize the financial impact to the overall business. Even with these pressures, there are very few recommended – or even documented – procedures for cancelling an equipment order or contract. Likewise, there are very few guidelines and checklists for capital project managers to use to dispose of equipment ordered for a project that is now cancelled.

The project may be cancelled, but there is still work to do. The contracts to purchase the equipment remain. The equipment, both delivered and undelivered, needs to go somewhere. At the same time, your project budget and other resources like space and people may be gone. Your time and attention may be gone, and you also have new projects to take that cancelled project's place. You need a plan

to dispose of equipment from cancelled capital improvement projects. You can start the process to efficiently clean up your cancelled capital equipment project with one question – is the equipment still in-process or is it finished?

INCOMPLETE OR COMPLETE?

Even if you have multiple items of equipment purchased from multiple vendors, start by identifying where each piece of equipment is in the manufacturing process. Keep this first step simple: just identify the equipment as in-process or complete and then identify the equipment's physical location. Some equipment purchases may be cancelled before many raw materials are committed to the project – even still, you need to know the exact status of each piece of equipment ordered.

PHYSICALLY LOCATE THE EQUIPMENT

If the equipment is incomplete or in-process, then it is probably still at the original equipment manufacturer (OEM). If the equipment is complete then it is either in transit, in storage, or on the operational floor. For each piece of equipment, identify its physical location and document the address. This will be important later as you analyze whether there are any early termination provisions in your contract.

CHECK CONTRACT TERMS REGARDING CANCELLATION FOR IN-PROCESS EQUIPMENT

Hopefully, the contract to purchase the equipment included some sort of cancellation clause. These may also be referred to as termination clauses, including termination for convenience (sometimes referred to as "T-for-C") or termination for default (which can be referred to as "T-for-D"). Read carefully and see what can be done with the contract to stop the production. There will likely be some applicable formula based upon milestones and payments made. If termination terms were not negotiated up front, you can still negotiate them with the supplier. The most important thing is that they stop production (stop spending additional money or resources) until you and the OEM have determined how to move forward. The OEM must be supportive at this point in the process. You may be able to leverage future purchases or your current relationship with that supplier to negotiate some-

thing reasonable. Make sure you take into consideration the scrap value of the components and the supplier's ability to reuse materials in another project of yours or even another customer's project. In any event, you should have a financial framework to balance whatever funds remain in your budget with the status of the equipment in terms of how far along the equipment is toward completion. There will definitely be some financial analysis regarding whether to cancel the remaining portion of the contract or to simply finish the build and take delivery. You may want to cancel options if possible so that you have a simpler piece of equipment in the end to dispose.

TRANSFER OR REDEPLOY FINISHED EQUIPMENT

Assess the equipment for transferability internally. There may be another project, department, or company site that can use that equipment. Use your company's manufacturing network to market the finished equipment for redeployment internally. Use any resource or investment recovery teams or tools available to help your company build this network to transfer and redeploy equipment. This opportunity will vary depending upon the size of the company, as well as the level of customization for the equipment. In some cases, you may also be able to market the equipment to your company's network of suppliers, contract manufacturers, or toll manufacturers. As noted above, the physical location of the equipment and whether it is available for any inspection will be important at this point. Removal and shipping costs and procedures will need to be considered at this time if the equipment has already been installed. Generally, the site receiving the equipment will pay for loading, shipping, and unloading and at least split some of the removal costs (if any). These costs will need to be evaluated against what was already included within the original equipment purchase agreement. A used equipment dealer can assist you with tools for redeployment as well as marketing and transferring equipment for sale.

SELL FINISHED EQUIPMENT

In some cases, the OEM may buy back the equipment, but this is generally not a reliable option. Selling back to the OEM may

New, Unused Equipment

Examples of unused equipment currently in Federal Equipment Company's inventory:

- 3470-3: 40 Sq Meter / 430 Sq Ft IMA Life Freeze Dryer Lyophilizer, Model Lyomax 40
- 3470-4: 40 Sq Meter / 430 Sq Ft IMA Life Freeze Dryer Lyophilizer, Model Lyomax 40
- 3446-1: Pamasol Aerosol Foam Filling Line
- 3294-1: IMA Atlantis IBC and Parts Washing Station
- 3177-4: Glatt Bin Blender, Model KCM1600, S/S
- 3177-8: Metolift Drum Lift/Dump, Model M2610-10
- 3177-19: IMA Case Packer, Model CPV20
- 3107-1: MP7 GEA Niro Fluid Bed Processor, S/S
- 2908-1: 600 Liter GEA High Shear Mixer, Model PMA 600 Advanced
- 3470-5: LB Bohle Granulator
- 3470-6: Servolift Blender
- 3470-7: O'Hara Tray Dying Oven
- 3470-8: Quadro Comil U20
- 3470-9: Quadro Comil U20
- 3470-10: Russel Sieve

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also not be a good deal for you, as the original buyer of that equipment. A reputable used equipment dealer should be able to evaluate the equipment's value, recommend a sales channel, and provide removal and storage options, as well as the marketing capabilities and experience to determine the best opportunity for you to reach a wide audience of potential buyers and maximize the price within the time constraints. Make sure that the OEM will agree to support the equipment with the new customer and honor any warranty or guarantee that was originally offered. They may be reluctant to do this, refusal may be a strong indicator of whether you should use that OEM for future projects.

THE LAST OPTION: SCRAP

For equipment that is highly specialized or highly customized or dedicated to a production process that is a trade secret, scrap may be the only option. Try to scavenge anything you can from the equipment before pushing it into a scrap hopper. You should pay particular attention to electronics and parts that can be used for other machines.

FINAL THOUGHTS

Throughout this process, the OEM should be fully supportive regardless of the route you choose to dispose of the equipment. Beware of OEMs that negotiate unfairly in these cases or refuse to support equipment transferred or sold to other entities. Short-term gain may cost them long-term business. A reputable used equipment dealer should be able to help you develop a thorough process to evaluate and then handle and dispose of the equipment from cancelled projects, as well as other surplus and idled equipment. The dealer should also be able to help provide tools to maximize your organization's internal network. The best place for equipment your company purchased is in use within your company. A redeployment tool that documents your internal asset-transfer policies, including customized forms and approvals, should help you make the most of the equipment from your cancelled project.

THE FEDERAL EQUIPMENT COMPANY DIFFERENCE

At Federal Equipment Company, we take pride in being dependable equipment partners that are there for manufacturers at all times, including when cancelled capital projects create an acute need to find the best solution for divesting unneeded

equipment. Federal Equipment Company can remove assets immediately. We can advise on a course of action for each piece of equipment and offer options for sale and disposition of equipment from canceled projects, including purchase offers, consignments, and liquidations. The companies who have hired us to run these auctions are from some of the best-known manufacturing companies.

Forming a strategic business relationship with the trusted equipment buyers at Federal Equipment Company means the difference between feeling helpless and overwhelmed or supported, prepared, and informed. Divesting valuable assets from your facility is a major decision-making process; however, the peace of mind that comes with working with a partner like Federal Equipment Company – a company that has your best interests in mind throughout – is empowering. We support our partners in realizing the best possible recovery for equipment investments, whether it is unused equipment procured for a project that was cancelled, equipment rendered redundant following an acquisition, or simply surplus, used equipment and closed facilities that are no longer necessary to their operation. ■

REFERENCES

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ABOUT THE AUTHOR



Matt Hicks

Chief Operating Officer & Counsel, Federal Equipment Company

Matt Hicks, Chief Operating Officer at Federal Equipment Company, is a pharmaceutical industry veteran with more than 15 years of experience helping companies get the most value and utility out of their manufacturing and process equipment assets.

LinkedIn www.linkedin.com/in/matthicks/

Email matt.hicks@fedequip.com

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think equipment,
think **Federal Equipment**

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