# Roger's View

The latest deal I came across is the acquisition of F.I.S. Fabbrica Italiana Sintetici S.p.A. (F.I.S.) by Bain Capital, announced early July of this year (1).

If we take a look at the ownership landscape of larger CDMO's, most of them have Private Equity as major shareholders. Name any such as Corden Pharma, Axplora (formerly Pharmazell and Farmabios), Seqens, Curia (formerly Euticals) and more, and now another big one. Why is this?

Looking at F.I.S.' 2022 balance sheet (can be downloaded from their website www.fisvi.com ), we find an unusually high debt ratio. The margins do not really look good, showing a net profit of € 2.6 Mio. against Sales of € 672 Mio, means they were are at break-even. Raw material cost amounts to 65 % of Sales where 30 – 40 % would be in the average range. In this situation it is difficult to serve high debts.

Not a healthy situation. I think, this is properly why Private Equity comes into the picture. Operations like F.I.S. with over 1800 employees and 3'500 $m^3$ reactor capacity, seem just "too big to fail". And mothballing a Fine Chemicals site can be very costly. Therefore, these big ones are doomed to be kept alive.

Other groups emerged from growth strategies by M&A like Seqens or Curia. But is size really important in the CDMO world?

In 1999, the Deutsche Bank published a report "Pharmaceutical Contract Manufacturing" that triggered a period of acquisitions stating an exaggerated growth rate of the sector and forecasting the survival of the biggest players (2).

What happened? Today, in 2023, we still see an "ecosystem" of small, medium and large providers with diversified offerings. Some of those big players pulled out of the Fine Chemicals business like Solutia – remember that name? - and are history. In 1999, I was Sales Director of Helsinn Chemicals SA, Switzerland, and we were a small operation. Earlier, around 1994, a well-known opinion leader told me that he would not expect us to survive. Well, we did and prospered.

F.I.S. has been a family business for 66 years, and losing control over this legacy may be a sad story (While most probably, the transaction will flush a lot of cash into the former owner's pockets.). Of course, it can be helpful where an institutional investor takes control in such a situation.

But, once the Private Equity Fund has taken over the operation, they need to fix several problems such as improving margins, operational excellence, organizational changes, recomposing the Board of Directors.. Also, the PE fund will

1) https://www.baincapital.com/news/bain-capital-private-equity-acquire-fis
2) Fine Chemicals Revisited, Guy Villax, Hovione, Pharma & Bio Ingredients, July/August 2005, 38 – 41
3) The Practice of Management, Peter F. Drucker, first published by Harper & Row Publishers, Inc., 1954

have its own exit strategy, i.e. once the company is again profitable, they may want to get their share of cash.

This looks like a contradiction. A privately-owned operation can decide to renounce on profit during a period where business is not going well. If they kept enough "hay in the barn", they can survive a 2 – 3-year dry spell period and turn around. This is what I experienced when I was with F.I.S. in 2004 when the company was down with sales having lost approx. 10 % of turnover for at least four years. But the family ownership did not want to downsize the company but keep the personnel to be ready for another take-off. Fortunately, with a lot of mistakes, "blood sweat and tears" we made it in 3 years and continued to grow fast, by the way organically.

Can a Private Equity Fund be ready for this kind of attitude? I think this calls for experts in the specific business in our case for experts in CDMO, Fine Chemicals and Pharma Chemistry APIs.

And here we are back to basics. Becoming successful in CDMO means to stay humble, no cherry picking, customer oriented (an old sermon but true), problem solving attitude, full transparency down to open books costing and pricing, continuous improvement and most important a team approach within the organization (no silos), manage conflicts, empower people, delegate and keeping financial discipline.

Yeah, I know, this is written in thousands of textbooks. But try to apply it in your daily work! Peter Drucker's book, first published in 1954 "The Practice of Management" is still very valid (3).

Hence, the take-over of a sick company by a Private Equity Fund can help to gain time, to fix financial issues. But this is only the starting point. F.I.S. got another chance, and I hope they can tackle this and become again what they were before their debt ratio went hayward, even if not anymore privately owned. But over 1800 employees count, they are the real value of an enterprise (sounds like Marxism…).

I wish the new management of F.I.S. and all other Private Equity owned companies much wisdom and energy to maintain and grow the jobs and to serve the patients badly needing good drugs.

*Roger Max LaForce*

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