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Contract manufacturers seeing upside

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PHILADELPHIA (July 3, 1:15 p.m. ET) — There's an impressive wave of optimism — and confidence — among a number of medical contract manufacturers.

"We're looking for the year to be even better than we thought it would be three months ago," said Jeff Somple, president of Mack Molding's northern operations, based in Arlington, Vt. "I am probably more bullish than I was in February.

"We are seeing new-product activity like we have never seen before," Somple said in an interview at the Medical Design & Manufacturing East show in Philadelphia in late May. "We could have 20 percent top-line growth, which is pretty good. Medical is growing fast and approaching 40 percent of the sales of Mack's northern operations."

Next year could be even better, as Mack has a project expected to come to fruition later this year that will fuel growth in 2013, Somple said. "It is one of the largest programs we've ever done. It is totally new technology and is going to be a game changer," he said.

Brenan Riehl, president and CEO of GW Plastics Inc. in Bethel, Vt., which gets two-thirds of its sales from medical, expects "double-digit growth in the low-to-medium teens this year."

"With the acceleration of merger and acquisition activity in the last two years, the fact that we've got stable leadership resonates well with our customers," Riehl said. "We are seeing pretty impressive growth opportunities in minimally invasive surgical instruments, in the life-science and diag- nostics area, and in drug delivery."

That recent, and ongoing, M&A trend has created larger contract manufacturers such as Phillips-Medisize Corp., Vention Medical and MedPlast Inc.

When MedPlast acquired United Plastics Group Inc. in April, it gained a strong Chinese manufacturing presence and a larger collection of in-house capabilities, said MedPlast's executive vice president, Matt Langton.

"We were growing at a double-digit clip at UPG," said the former UPG executive, who expects that growth to continue. "There are not too many companies that can bring together our depth of capabilities," he said of the MedPlast-UPG merger. "Not many people can offer the internal capabilities we have."

The consolidation trend toward creating larger companies doesn't mean, however, there isn't room for smaller suppliers.

"I expect to see additional acquisitions and mergers going forward and you may see some consolidation where you get larger players and more geographically diverse organizations," said Langton. "But I don't see why smaller, independent medical contract manufacturers can't survive as well."

In fact, Riehl thinks that's a marketplace advantage for GW Plastics. "The merger and acquisition activity has a purpose and there are some successful companies that have grown through mergers and acquisitions," he said. "But we have chosen not to do that.

"Our strategy is not to be the biggest, but to maintain a highly focused culture, and have a deliberate and focused growth strategy, so we don't make a promise we can't keep. That is a point of differentiation for us."

Riehl said the most unique aspect of privately owned GW Plastics is its ability to continue to reinvest capital into the business "with a longer-term horizon."

"Customers are looking for companies that have the ability to take a product from the initial design stages all the way through molding, assembly and product packaging," he said.

GW Plastics does that through integration and a large range of capabilities like multishot molding and liquid silicone rubber manufacturing, Riehl said. He pointed to GW's recent $2 million investment in its U.S. tooling facility and a just-completed $3 million silicone expansion.

"We can provide customers with design, molding, assembly and packaging all in one step, and give them a finished product for distribution both in the U.S. and in China," he said.

Somple says Mack offers mold-making strength and expertise and an ability to be nimbler than some of the larger firms that have been created through M&As.

"Mergers mean fewer competitors, so I don't mind it," Somple said. "There still might be a shakeout in the industry, but we don't grow that way and we don't plan to grow that way.

"A lot of the mergers have been because companies were acquiring a technology that they didn't have, or because they wanted to move into a geographic region," he said. "But we don't need to be bigger to be competitive. We like to grow profitability and sustainably so that we have the working capital to grow rapidly internally, if there is a need for that."

Vertically integrated Mack offers fast time to market for medical-device firms, Somple said.

Also good for Mack is "the increased scrutiny that the Food and Drug Administration has put on the medical industry," he said. That scrutiny "has forced customers to evaluate their suppliers, and control their manufacturing and supply-chain," Somple said. "That means a smaller group of suppliers are getting a larger share of the business."

Another factor spurring growth at contract manufacturers like Mack, he said, is a rebounding U.S. manufacturing arena that's releasing pent-up demand for new products and technologies.

"There comes a time when you have to get off the dime and invest. So when the dam bursts, there are millions of dollars in investments available for projects and tooling," he said.

"People are now more optimistic that they can bring a new product to market and sell it. We haven't seen this since 1990 when high-tech was driving the economy," Somple said.