

Turning science into consumer brands

Barry Clare, former worldwide head of Boots Healthcare International, has set up a company to turn unique technologies into worldwide consumer brands. Deborah Wilkes reports on the business strategy.

“We see ourselves as an incubator,” says Barry Clare, the chairman of Healthcare Brands International (HBI). “We will take fledgling products and turn them into international brands.”

Clare explains that HBI is seeking deals up to £10 million (£15 million). With a war chest of £25 million at its disposal, he reckons HBI “should be able to buy five or six products”.

“These products will be cashflow positive within a year or two of us taking them over,” he adds “and once we are generating cash we will be able to fund further acquisitions.”

HBI is targeting companies which have developed innovative technology but do not have the commercial capability and resources to realise their true potential with consumers worldwide. It is focusing on consumer needs which are either unmet or only partially met by existing OTC products.

“We are looking at symptoms where the current offerings are not completely satisfying to the consumer,” says Clare, “and we are looking for products with some sort of protection or clinical trials that give them a competitive advantage.”

HBI is trying to avoid mainstream categories, such as analgesics. “I don’t think there is any space and the marketing budgets are just too high,” remarks Clare. “We are looking at more niche markets.”

Clare points out that the company is seeking to acquire medicines, medical devices and food supplements. He notes that medical devices could be important in the skincare field, as medical device legislation seems to be particularly appropriate for topical treatments.

Wants products rather than companies

HBI would prefer to buy products rather than companies, he says, but “if an entrepreneur wants to sell the whole company to us, then clearly we will consider that option”.

HBI’s first brand deal – announced on 5 October – is the acquisition of Sambucol, a food supplement containing a standardised extract of black elderberry that is claimed to help maintain a healthy immune system. In Canada, the product is a herbal medicine called Sambucol Anti-Viral Flu Care.

In addition to acquiring Sambucol, HBI is

obtaining the European rights to the cold-sore treatment docosanol. GlaxoSmithKline Consumer Healthcare already markets docosanol 10% cream as an OTC product in the US under the Abreva brand name through an agreement with Avanir Pharmaceuticals. Unlike many European countries, the US has kept two key cold-sore treatments – aciclovir and penciclovir – as prescription-only medicines.

Transforming Sambucol into an international brand should be an interesting challenge for Clare, who made his name building up The Boots Company’s OTC operation.

A natural science graduate from Cambridge University, Clare spent 10 years at Procter & Gamble in Europe before joining Canadian firm Diversey. He was recruited by The Boots Company in 1991 to head up its Consumer Products division, which had just been separated from the group’s pharmaceuticals division and renamed Boots Healthcare International (BHI).

Over the next decade, Clare developed the fledgling OTC company with sales of around £100 million into an international player with annual turnover of £460 million. He oversaw its geographic expansion through a series of acquisitions in Europe, notably the French skincare specialist Laboratoires Lutsia from Roussel Uclaf and German skincare firm Hermal from Merck KGaA. In 2000, BHI opened up the US and Japanese markets by paying Procter & Gamble US\$340 million (£270 million) for the Clearasil skincare brand.

An innovative approach to new product development and international marketing enabled

more than 70 products to be launched each year, through a distribution network established in over 130 countries worldwide.

Clare left The Boots Company at the beginning of 2003 (OTC bulletin, 24 January 2003, page 27).

BHI was recently bought by Reckitt Benckiser for £1.93 billion, which represented 3.7-times BHI’s turnover of £523 million for the year ending 31 March 2005, and 22-times its operating profit of £88 million. Justifying this “full price”, Reckitt Benckiser’s chief executive officer Bart Becht highlighted the potential of BHI’s three power brands – Nurofen in analgesics, Strepisils in sore throats and Clearasil in anti-acne (OTC bulletin, 17 October 2005, page 1).

Since leaving Boots, Clare has been involved with some of the leading private-equity investors. Clarat – the consultancy he co-founded with financial services expert David Karat – worked with private-equity firm 3i on management buyouts at Betapharm and Lichtwer Pharma. Earlier this year, 3i sold both Betapharm and Lichtwer Pharma’s product portfolio (OTC bulletin, 28 February 2006, page 1; OTC bulletin, 30 June 2006, page 3).

From BHI to HBI

Clare’s new company HBI – ironically only a reshuffle away from BHI – is backed by venture capital companies Abingworth, MVM Life Science Partners, 3i and Sofinnova Partners.

The business model for HBI is to a certain extent driven by current merger and acquisition activity in the global OTC industry.

When Reckitt Benckiser acquired BHI for a multiple of 3.7-times sales, Becht felt compelled to justify the full price. Since then, Johnson & Johnson has won the battle for Pfizer

Consumer Healthcare with a massive cash bid of US\$16.6 billion (OTC bulletin, 30 June 2006, page 1). The price represents 4.3-times Pfizer Consumer Healthcare’s 2005 sales of US\$3.88 billion, a multiple that Robert Darretta, Johnson & Johnson’s chief financial officer, acknowledged was “higher than what has been the typical experience within the consumer segment”.

These multiples for big established businesses are out of the reach of private-equity investors, says Clare, noting even recent mid-market deals have notched up “astonishing” prices.

GlaxoSmithKline’s intended acquisition of CNS and Chattem’s agreement to purchase five OTC brands from Johnson & Johnson and Pfizer Consumer Healthcare both involve high multiples (see front page of this issue).

Viewing the market from a fresh angle

Clare’s response has been to look at the market from a fresh angle. “I thought let’s start at the other end,” he says. “Let’s be creative and take smaller brands and turn them into attractive bigger brands.”

HBI’s senior executives include Dr Robert Gilbert and Rob Morgan, who both held key positions at BHI. Indeed, HBI boasts that its 10-strong management team has “more than 100 combined years of experience in identifying and commercialising new and unique healthcare product and brand opportunities whilst at Boots and other leading consumer-goods companies”.

Noting that the management team includes people with experience of key markets such as France, Germany, Spain and central and eastern Europe, Clare points out that HBI has “people who know how to find and deal with distributors in the various geographies”.

Clare highlights that HBI will be run as a “virtual company”. “We will operate through best in class partners in each country,” he explains. “Many national players are keen to have additional products, because it is hard these days for them to acquire or register products.”

When BHI bought Clearasil, recalls Clare, the company used third-party partnerships in many countries around the world and it was very successful.

Sambucol – which has annual sales of about US\$5 million – is already available in a number of countries, including Austria, Belgium, Canada, Denmark, Finland, Israel, the Netherlands, New Zealand, Norway, Singapore, Sweden, the UK and the US. HBI says it will retain partnerships with existing distributors, such as Brunel Healthcare in the UK and Nature’s Way in the US.

HBI will now develop Sambucol – which is available in a number of formats, includ-

ing a liquid, a syrup and lozenges – in existing markets by increasing availability and consumer awareness, notes Clare.

Now that the Sambucol acquisition has been announced, HBI is seeking distributors for the brand around the world. Clare picks out France, Germany, Italy, Spain and central and eastern Europe as the priorities, but he is keen to hear from potential distributors in any country. “Sambucol is a very interesting product and we believe people who know this space will be interested,” he says.

“Sambucol is an under-exploited asset, and we think we can do a more professional job with our experience and financial backing,” says Clare, noting that HBI will offer “higher-profile marketing support” and is considering applying for herbal medicine status for Sambucol in the European Union.

HBI’s first brand was acquired from Razei Bar, the Israeli firm specialising in the research and development of products based on black elderberry (*Sambucus nigra* L.) which has marketed Sambucol for around 10 years. The company was founded by Dr Madeleine Mumcuoglu, a virologist whose research led to the development of Sambucol.

According to HBI, a double-blind, placebo-controlled clinical study during an outbreak of influenza found that patients with symptoms who took Sambucol saw significant improvements within 1-2 days. Furthermore, the duration of the influenza was reduced to 3-4 days, compared with more than six days in the placebo group.

HBI also highlights a randomised double-blind, placebo-controlled clinical study conducted in Norway, which found that patients taking Sambucol were relieved of their symptoms on average four days earlier than those in the placebo group. Furthermore, their symptoms improved significantly within two days, compared with six days in the placebo group.

In vitro study on avian flu

The company also draws attention to an *in vitro* study conducted in early 2006, which found that Sambucol was at least 99% effective at inhibiting growth of the avian influenza virus H5N1.

“The elderberry is a traditional remedy now backed by modern science,” says Mumcuoglu, commenting on the trials. “Formerly known as ‘the medicine chest of the people’, it has active properties as an antiviral, an antioxidant and in helping the body’s natural defence mechanisms.”

Meanwhile, Clare says HBI is “excited by the clear evidence that Dr Mumcuoglu has developed a unique product from elderberry which helps relieve the symptoms of flu. The Sambucol brand is the only elderberry product with



Healthcare Brands International is seeking distributors for Sambucol around the world, says chairman Barry Clare

these clinical trials to support such claims.”

According to HBI, Sambucol is a “powerful example of taking the pioneering work of a leading scientist and delivering a product to meet the needs of today’s consumers”. HBI is now seeking other products “with real differentiation that meet a relevant consumer need”.

Clare points out that HBI wants to talk to owners/inventors/entrepreneurs who have been successful in their own country but need help and advice on how to internationalise. “Our company has such flexibility that we can do very interesting deals with these people, so instead of giving them a buyout price upfront we can offer them an opportunity to take some equity in the business and share in the upside that we create,” he says.

According to Clare, there may also be opportunities for HBI within the portfolios of bigger players. “The big boys are concentrating on their big brands, but they have drawers full of interesting products that get neglected,” he notes.

Clare points out that HBI is already talking to a number of companies about product opportunities. “One product has just lost its reimbursement status in Europe, but the parent company has no OTC experience,” he says.

If HBI succeeds in internationalising its products, then Clare expects the major players to come knocking at the company’s door because they prefer to buy established brands. “The way we have structured the company means we can sell products individually,” he says.

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Healthcare Brands International’s first acquisition is marketed in Canada as Sambucol Anti-Viral Flu Care