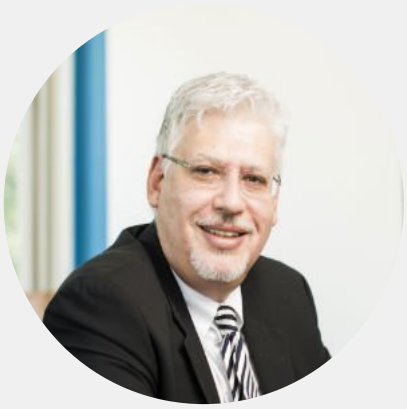
Ahmad Tabari – Managing Director, Pharmax, UAE



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Ahmad Tabari, Managing Director of Pharmax, gives his insight into the regions major challenges, why he thinks that, regardless of the amount of money the government invests, the problem of a small talent pool in the industry will not go away quickly or easily, and Pharmax's strategy to overcome this problem.

Given your extensive experience in finance, how and why did you first decide to become involved with the pharmaceutical industry, first through your distributor company, Al Itihad Drugstore, and now with plans to manufacture through Pharmax?

Al Itihad Drugstore is a pharmaceutical distributor that was created by my uncle in 1968, where my father also serves as a 50 percent owning partner. I became involved with the business in 2000 with the idea of modernizing and professionalizing the company. My ideas were not entirely welcome by my uncle, so in 2003 my father and I bought his shares of the company to execute the vision I had in mind.

This entailed moving away from a purely distribution model to becoming more active as a pharmaceutical marketing company. Since then we have been constantly moving up in the food chain looking to improve our margins that typically stand around 10 percent for distributors and 35 percent for marketing companies. Distributors constantly have their margins squeezed by new regulations, which is why we would like to diversify into other activities within the industry that

have more stable profits, such as manufacturing.

Our marketing business has been very successful so far and it includes innovative as well as generic products. Big Pharma was reluctant to launch many of its products in this market, either because it is too small or for some other risk they fear, so we see the opportunity to take such products and bring them to market. We did this for one of Sanofi's products and after only three years it became the fifthmost popular molecule in the market. At that point they also realized the opportunity and decided to market the product themselves.

Will the recent price cuts implemented at the beginning of June 2013 greatly affect you?

Not too much. The price cuts didn't make much of a difference for distributors, except maybe for those that had their portfolio in dollars while they purchased products in Euros. These cuts have also affected the European pharmaceutical companies, because essentially all products have not been dollarized in order to provide more stability in terms of pricing.

For our operations the dollarization actually benefits us, because there were times when the Euro was very high then we would have to sell some medicines at a loss because we were buying them in dollars. We were restricted by the authorities from raising our prices so this dollarization of all pharmaceutical products is a positive step to create a more stable market. Overall it allows for greater visibility so that we can forecast and adjust our strategies according to changes in market conditions.

In the past, when distributor profits were squeezed, we would try to pass those costs onwards, for example by adjusting credit terms. It used to be the case that pharmacies would pay us on a 150-day basis, which is unheard of in other markets. When I arrived I went to speak to the other distributors so that we could all agree to shorten the credit period for pharmacies in order to improve our own cash flow. I was proposing a 30-day credit period, however, most companies thought this was too drastic. Today we provide 60 days whereas some other distributors operate on a 90-day basis.

You mentioned that distributors are affected by a constantly changing regulatory environment. What have been some of the latest changes that are transforming the way you do business?

The most impactful recent change in regulation has been the prohibition of providing free goods to the pharmacies. Personally, I think this was necessary and is a positive move, because there is no need for pharmacies to be receiving free medicines. The problem is that this regulation is not being closely monitored or enforced, so now we have a situation in which the multinational pharmaceutical companies refuse to provide free goods, yet the local generic producers still find ways to do it. Frankly, the MOH does not have the personnel and capabilities to police this at the moment.

Tell us about your vision to establish a local manufacturing company, Pharmax, and what your expectations are of that market segment.

This was the natural progression in our development, as we realized that manufacturers are the ones with the largest margins. The plan is not to conduct R&D but rather to produce generics locally and sell them with our proprietary brand. At this point in time there is no need for pharmaceutical companies to conduct R&D, because all the technology to be a manufacturer is readily available to be purchased. You can buy all the dossiers and simply import active pharmaceutical ingredients and the scientific manufacturing experts. The UAE lacks the brains and people needed to conduct R&D, which is why I do not see this happening in the near future. Often we hear about the government wanting to develop a scientific base here, but I find it will be very difficult to attract and develop the necessary talent, regardless of how much money they invest in it.

As a generic manufacturer, what advantages does the UAE offer you that other countries in the region do not?

The most obvious advantages are clearly the economic and political stability of the country. Beyond that, the UAE authorities are truly focusing on developing the healthcare sector at the moment. This includes balancing costs with both innovative and generic products. The government here has a verbal understanding with innovative companies that generics cannot be marketed before patents expire. Nevertheless, generic manufacturers can begin registering products before they are off patent in their country of origin, which then speeds up the process to launch the generic versions into the market. As such, there is no formal patent registry for pharmaceutical products. Overall, everyone is quite happy with this situation because it is beneficial for all parties.

Given that there are not many local manufacturers in the UAE, there have been some challenges for us to set up the company and begin operating, because there is no established department in the MOH that handles new pharmaceutical factories. The country is only now beginning to see this new wave of pharma companies, so there are still some improvements that could be made facilitating such processes for new pharmaceutical manufacturers. Ultimately, these are all stages that individual pharma industries must go through. On the other hand, local authorities do tend to favor local products and manufacturers, so things tend to balance out somehow.

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