Interview with Lyudmyla Borysova, General Manager, Sperco

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As the first Ukrainian pharmaceutical company backed by foreign capital, explain to us how the idea of creating “Sperco Ukraine” as a joint-venture with UCRAFARMA emerged?

The idea to create a pharmaceutical company such as Sperco Ukraine emerged in 1994 when a group of Spanish investors arrived in Ukraine looking for investment opportunities. At that time I was working in the foreign-economic sector and I had the opportunity to meet one of the Spanish investors, who was a pharmacist, simply by chance. Essentially it was his idea to create a pharmaceutical company in Ukraine with a mix of foreign and local capital. In 1995 the company was registered and two years later began the reconstruction of the manufacturing facilities that we use until today. This was a completely novel idea for Ukraine at that time, so initially we started only renting the land that we were working in and only decided to purchase it after the company was operating and successful. The entire project was a sort of adventure for the Spanish investors which was implemented successfully with our participation.

At first the idea was simply to set up a pilot manufacturing plant that was based out of an old optic-mechanical factory that we refurbished specifically for the production of pharmaceutical products. Our first registered products were all made using an investment machine. As Sperco continued growing we progressively took over more and more space at the site until finally in 2006 we purchased the entire factory. Today we are producing 44 different products out of 36 active ingredients that focus on anti-inflammatory, gynecology, neurology, pediatrics, antibiotics, etc. We

are also looking to increase our activities in the cardiology.

Upon completion of your manufacturing facilities, what do you consider have been the main milestones and achievements of Sperco?

Perhaps our greatest achievement ever has been to set up the operations of a leading pharmaceutical company in a region of Ukraine where there was no legacy of pharmaceutical production or scientific research. Our modern manufacturing facilities were the beginning of the industrialization of the Vinnytsia as it later attracted other industrial projects once we had proved that it was possible to find qualified professionals in the region for this kind of activities. Essentially, Sperco was the catalyst for the development of Vinnytsia's economy as we provided employment and educational opportunities that did not exist before. And it is no coincidence that the Vinnytsia Medical University opened afterwards the pharmaceutical faculty, and the students of this faculty undergo practical training in Sperco and many graduating students work with us.

Surely such a bold and pioneering project was no easy task and involved a great team to make it a success. Now that the company has established itself as a prominent manufacturer in Ukraine what do you consider to be your main challenges?

I am sure that I will not be telling you anything new by saying that Sperco Ukraine experiences great difficulties in operating in Ukraine due to a widespread culture of overwhelming bureaucracy and corruption. Aside from Cuba, which also has a socialist history, I have never worked in any other country so I do not have much to compare with. Nonetheless, I am aware that many of the regulatory procedures for pharmaceutical products in European countries are conducted with greater ease than what we experience here in Ukraine. Processes are much more simplified and transparent, especially with things such as customs clearance, and therefore we waste a lot of time and effort on these matters in comparison what occurs in developed markets.

Another of our great challenges has been to convince our Spanish partners to continue investing more money to further develop Sperco's operations. For the most part, the initial investment was theirs and since then it has been us in Ukraine that have repeatedly invested our profits back into the company to ensure its growth. Even though I am very pleased with our results so far, I would also like to see more investment on behalf of our Spanish counterparts, as this would allow us to grow and achieve our objectives at a faster rate.

Finally, the last challenge I would like to mention is the sheer competitiveness of the Ukrainian pharmaceutical market, because truly it is a fast-paces and cut-throat environment in which all companies are wrestling for fractions of percentages of the market. Such intense competition is

also due to the lack of necessary regulation on behalf the authorities, which allows for situations of unfair and unethical practices by some companies to get ahead of the game. We always strived to operate in the most ethical and transparent way, so it is hard to compete with those that questionable methods to obtain favorable results for their products.

Despite such obstacles, Sperco Ukraine has still managed to position itself within the top 15 local pharmaceutical companies. What has been your recipe for success?

I can only be objective when answering such a question because it has been asked many times in the past and people tend not to believe my explanation. Truly the determining factor of our success has been our ability to full incorporate our employees in all the decision of the company and to make them feel like a true part of the decision-making process that defines Sperco’s future. Our 300 employees truly feel as if Sperco was their own and this motivates them to work to their fill potential and always look out for the best interests of the company.

In my personal experience, Sperco Ukraine has truly been my family and in some cases I have dedicated so much time and effort to it that my personal life was affected by it. Luckily for me my husband understands my passion for the company and respects the fact that I work very long hours. I am fully dedicated to my team and they are to me like a family and I feel at home with them. My commercial director, Oleksandr Humenchuk, has been working together with me for the last 17 years since we started the company. I consider him to be one of my best friends and we have fill trust in each other. I am quite sure that if anyone dedicates themselves as much as I do to Sperco, they would also obtain successful results.

How has such personal sacrifice paid off in terms of the results of the company in the last couple of years?

In 2011 we manage to grow our business by 10% when compared to 2010, however out of this growth we achieved close to a 13% increase in our profits. Even though these are encouraging figures, they are not as impressive as our performance in 2010 compared to 2009. What I feel has happened is that the 2008 crisis didn’t full end in 2009, but rather it has been extended over the last few years until today. Essentially this has been eating away at the company’s savings which has limited our ability to invest further in our development and therefore to achieve the growth that we all wish for.

Given this reality of the current economic climate, what are you objectives for the company’s growth in 2012 and beyond?

This year we are expecting to increase our revenues at least by 15%, but this of course is dependent on there not being a severe global economic crisis. The Ukrainian pharmaceutical market is expected to grow around 12% this year and our ambitions are always to grow slight faster than the market average.

Sperco is currently undergoing a modernization and expansion of its facilities to fully implement GMP standards throughout its production. What has been the progress so far with this project and when do you expect to have completed it?

This is indeed one of priorities at the moment and it is something that we have working ourselves up to since 2006. So far we have been able to reconstruct about one third of our facilities under GMP standards and expect to complete another 25% by the end of 2012. We expect to complete the entire project by the end of 2013 or beginning of 2014. Aside from the GMP modernization project we also have expansion plans that involve the construction of new warehouses and office buildings and this will be carried out over the next five years.

Beyond the expansion of your facilities in Ukraine, Sperco has also been increasing its exporting activities over the years. Which international markets are the company’s priorities today and where would you like to move into next?

Sperco currently exports its products to Russia, Belarus and Moldova and the next regional market that we are looking to explore is Kazakhstan. When our GMP expansion plan is complete and given that our partners in Spain facilitate our access to EU markets, we will be able to offer our products and services to European companies. I am confident that this will be an interesting proposition for some European pharmaceutical producers because we will be able to offer the same quality standards at a lower price. We already offer contract manufacturing services to local companies that do not require a GMP certificate and we hope to do the same for European companies in the future. The idea of expanding into the EU is only at its initial stages now so we have not yet begun to prospect for future partners and clients, but the idea is that we will look for small to mid-sized companies that require GMP production. It is often very difficult for such companies to find partners that are willing to process small batches and therefore we would like to fill that gap in the market. To this end we will also maintain some production space that is still manually operated even though our production facility will be fully automatic. This will be reserved for any special orders that require very specific production conditions.

In Ukraine we already see partnerships between national manufacturer and multinational companies and I believe this is a trend that will be carried out in the future. Similar to the

development of the Spanish pharmaceutical market, I am sure that international innovative products will increasingly play a more important role in the local market and authorities will require that the production of such product are localized in one way or another. For this reason I believe that cooperation between companies is the way of the future and Sperco is open to such collaboration as long as the conditions are appropriate. The decision to forge such collaboration will also depend on our Spanish partners and their desire to forge such cooperation schemes with other companies. Ultimately this will also require that we convince others to invest in Ukraine and to get over their fears of the challenges that this market holds, because ultimately the opportunities are much greater than the hurdles along the way.

It seems like you have all the right things in place to continue Sperco's success well into the future. What can we expect from the company in 5 years' time?

Our aim is to become one of the top 10 pharmaceutical producers in Ukraine and I believe this will be possible once we complete the expansion of our production facilities. I also hope that our experience and expansion will serve as an example to the rest of the Vinnytsia region to attract greater investments for other companies and industrial sectors. The climate for investments in Vinnytsia is very favourable, the city administration gives the support. If indeed we achieve the success that we aim for, I think in five years we might even have to build a new factory beyond the space that we already have and also be exporting our products to five new markets. For me "5" is a lucky number. The future of the Ukrainian pharmaceutical market has only just begun and I would like to see more international players present in the market and introducing their high standards of operation as the benchmark for national companies.

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