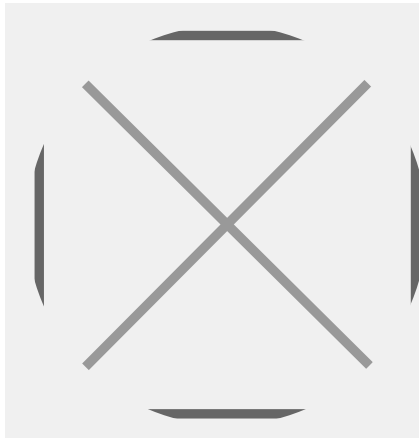


Interview with Hagop Barsoumian, President, Chiesi Brazil



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Yesterday, Minister Pimentel unveiled the Brazil Maior plan to increase competitiveness and growth across a variety of industrial sectors. If you had to give recommendations to improve the Brazilian pharmaceutical sector, what would they be?

That is an extremely difficult question. I believe it is better to support two kinds of pharmaceutical companies in Brazil: companies that have a national presence and manufacturing sites in Brazil, as well as companies that have internal resources allocated to manufacture products in Brazil.

There is a “first time effect” when the government accepts giving a priority for products manufactured in Brazil. It does not matter the origin as long as the products are manufactured in Brazil, so it can be either an international or a local company. The point is that you are talking about employing Brazilian people. That is one of the aspects we will probably be having in the public sector tender business in the future.

Another point is to consider that the pharma industry, today, is a global business. Many companies have excellent centers of production. They have production centers in Europe, for example, that supply everywhere in the world. In business, this will be taken into consideration when we analyze and we are providing the public sector with products.

In the private sector, Brazil has free competition and does not have a reimbursement system. The patients and corporations pay out of their pockets for the products. I believe in the near future we must have some kind of reimbursement.

Is there not reimbursement for some segments like diabetes, hypertension, and schizophrenia?

Yes, but the point is it occurs only with the very basic medicines. For the same diagnoses, for example, we do not have access to the newest products or even to those drugs not so new. If you need to treat a patient today, it only covers some of them. Even for diabetes, for example, we have just one type of insulin, the short action insulin, but other kinds are not included.

I think that if the pharma industry is a big contributor of taxes in Brazil, then it must be respected. Most of the time, we are not a priority for the industrial sector in the eyes of the government. And, yet, we are providing health, so we should be considered one of the priorities of the country, but we no longer are.

It is interesting to see that Brazil taxes products to the end consumer at the highest rates in the world, at 33.9%, yet the sector has continued to blossom. How has Chiesi's growth trajectory fared?

Chiesi has grown in many ways. First, we installed a new spray line of production in the country because we needed to replace the existing CFC products, which is an old propellant forbidden by the Montreal Protocol. We changed to HFA technology, for which Chiesi developed a special technology.

Now, the plant in Brazil caters to the local market and provides a backup for exports. Today, Chiesi is even exporting to Europe –England, France and Italy – as well as to other countries in Eastern Europe. Chiesi is preparing to become one of the major suppliers to the public sector in asthma treatment. You mentioned before that the basic diseases, like hypertension and diabetes, are well-covered by the public sector, but that also includes asthma.

Treatment of asthma is mainly covered by individual cities around the country. In 2004 the federal government decided to buy a huge amount of sprays, and, at the time, Chiesi sold 1.6 million units to Brazil – basically sprays for the whole country. That was the time they decided to update their plans and make investments. After that, the federal government decided to no longer buy directly and the rights to purchase went to the cities. The federal government and the states put some money in and, then, the cities were told to play their part. What you have today is underperforming, and the result is that asthma is still not well-treated in Brazil.

The question is: why? Asthma competes for resources that are already allocated to hypertension and diabetes, which are already established. Today, people suffering from hypertension and diabetes already know that they have basic medicines supplied by the government. Asthmatics do not realize they have access, and it will take some time to make them aware. Chiesi has the production capacity established, and we think the demand will increase over time. We will be prepared to supply the government with our drug because it is the basic drug for asthma treatment.

It seems counter-intuitive that people would not be seeking out the treatment. Unlike hypertension, for instance, which is a more “silent” killer often without symptoms, asthma is something you would notice. Where is the disconnect between people not getting the treatment even if it available?

Many people are getting the treatment, but we must understand that a great part of our population does not have access to health at some point.

In reality, there are different kinds of Brazil. You have people that can afford to pay, people that cannot afford to pay and have a lower income, and, then, people that cannot afford to pay at all. Recent social programs created a new class: people that are subsidized by the government and have started to acquire things, but these people continue to be very weak in terms of their purchasing power. Some of them do not realize that they have access to basic treatments for some diseases. What we have are people who complain about asthma or respiratory problems, for example, but as a country, we still have to improve the quality of the attendance and, then, prescribe the right treatment. This is a kind of secondary education that we need to perform as well.

The people that suffer from asthma may go to a hospital and receive a kind of old-style treatment for the crisis. They are hooked up to oxygen and given Salbutomal, short-acting β_2 -adrenergic receptor agonist which opens up their lungs and makes them to feel better, but that is not the issue – because what you really need is a longer-term treatment. Potentially, there is a huge market that will grow in Brazil, particularly for basic medicines. In my opinion, it is just a question of time.

What are your biggest priorities or challenges in the meantime?

The big challenge for us in Chiesi Brazil is to repeat the success of Europe with our new product, Fostair.

Fostair is an innovative product that reaches the small airways. This is a uniqueness of Fostair that treat the all lung.

In Brazil we have additional difficulties on distribution as our product is refrigerated and in a continental country like us with different average temperatures this creates special requirements. Today, for most of Chiesi's products, Brazil is one of the countries with the lowest pricing in the world, whereas in the past this was not true. When dossiers are submitted, the prices of every market in the world are included, such as Portugal or Greece, which have the lowest prices in the world, and the Brazilian government says you have to match these prices. This creates a situation where the companies, that innovate sometimes, cannot even launch their products or refuse to do so because it could jeopardize the business worldwide.

At the end of the day, Brazilian authorities need to understand that, for the generics companies to survive, they need to help the innovators to survive too. Because if they do not launch innovative products, they will not have the generic versions of these innovative products down the road. We

need to live together.

At the top of the priority list, now, is to continue to push Fostair, followed by licensing and acquisitions. Acquisitions are becoming more and more unlikely in Brazil because they are overpriced, but there are quite a few companies available. Licensing, however, is a priority for Chiesi. I do not say it is an easy game because it takes longer to define and to go ahead, to obtain registration, and sometimes, as well, it takes time to develop a country-specific bid.

Chiesi has two big opportunities that are in the final phases to launch. That is an attractive position to international companies so they can see we have a business established in Brazil in a niche area that they could add a sales force to launch special products.

Chiesi, as a strategy, is looking for products in respiratory and cardiology, which are the areas we are focused on. Then we need to go for niche areas, such as CNS, neurology, or orphan drugs. Today, the biggest product for us is the surfactant, called Curosurf, which we sell to neonatology centers. We have just launched a product for cystic fibrosis which we have been selling for the last couple of years which previously came from the US.

Chiesi Brazil is looking for new products, maybe under licensing deals, from companies that are not present in Brazil or from companies that do not work in some areas that we could cover. What we can offer to these companies is reliability, because today we already have some good cases of licensing. Seven years ago, we launched Zyxem with UCB, from Belgium, and the product was a success.

What is good is that we can show to other international companies that we continue to push the branding of those products. The products do not belong to Chiesi, they are just licensed to us. In Brazil we are putting our efforts behind them and, in most of the cases, we have created a good history of success. That is what we can offer to those international companies looking for partners in Brazil.

Looking towards the future, where do you want to take Chiesi in the next five to ten years?

I will give you two perspectives from my point of view: one is of Chiesi and the other is of the country.

Regarding Chiesi, I would suggest that it continues to be a company focused on specific healthcare areas, with a concentrated sales force and marketing efforts. Specifically, we will target such areas as respiratory and a little bit of cardiology and, then, create new business and bring in new areas with innovative products or added-value products.

The company should continue to be this size, or a little bigger, concerning the sales force, but not to expand into the markets of GP doctors, Ob-Gyn or pediatricians. Those markets, in Brazil, have huge numbers of doctors to be covered – we are talking about 60,000 GPs, easily 30,000 pediatricians and 30,000 Ob-Gyns. Such markets belong to the big pharmas or to big local companies. We compete with a different set of doctors and markets.

We should try and obtain success from licensing or bringing in some new products every two or three years, but Chiesi will continue to be a niche company that is productive and profitable because we need profits to generate new business.

Regarding the country, in the future, we will still have three kinds of companies. On one side, the innovative companies with reference products, like Chiesi. On the other, the generics companies that are today moving a little bit from the national companies into the hands of international companies. I do not know how they will behave in this market because there are a lot of needs in this area that the multinationals are not used to work with. The margins are pretty low and the trade discounting you need to give is pretty high. So I do not know if this will continue in the future. In between, we have the companies – in particular the national companies – that will be working with co-marketing or even product branding activities, even with the products which patent already expired.

What is your final message speaking about Brazil and the commitment that Chiesi has here?

Brazil is the place to be. I have worked many years for some American companies where, sometimes, people would say, “Brazil is always for the future, but what do you have today?” Well, now we are today.

I have a suggestion that can be perceived as being contradictory: Be open to the country, and be flexible to understand and to realize how things happen in this country. When I talk about business, it is necessary to understand the way that we work in Brazil and the way the market behaves in Brazil. However, do not forget about your heritage and what you know about business overseas that you could use here, but do not simply apply established structures you have already developed in other countries.

We have, here, some situations where multinational companies try to identify similar behaviors between countries. Sometimes Brazil has been compared to Russia. More recently, as the companies move into Turkey, they say that Brazil and Turkey have the same behaviors. This is not true. Each country is unique. Also, we are not, in any way, resembling to the USA!

There are also important differences within Brazil: the needs of the south are totally different from the needs of the north. Even the kind of diseases that you treat in the north is not the same one you treat in the south.

Be open-minded. We have a big opportunity here. Watch, listen carefully and do not be distracted with preconceived ideas. There are a lot of companies that have decided to enter the country, recently, and they have come to realize that Brazil behaves in a different way. Some companies need a centralized vision, but they need to keep an open mind.

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