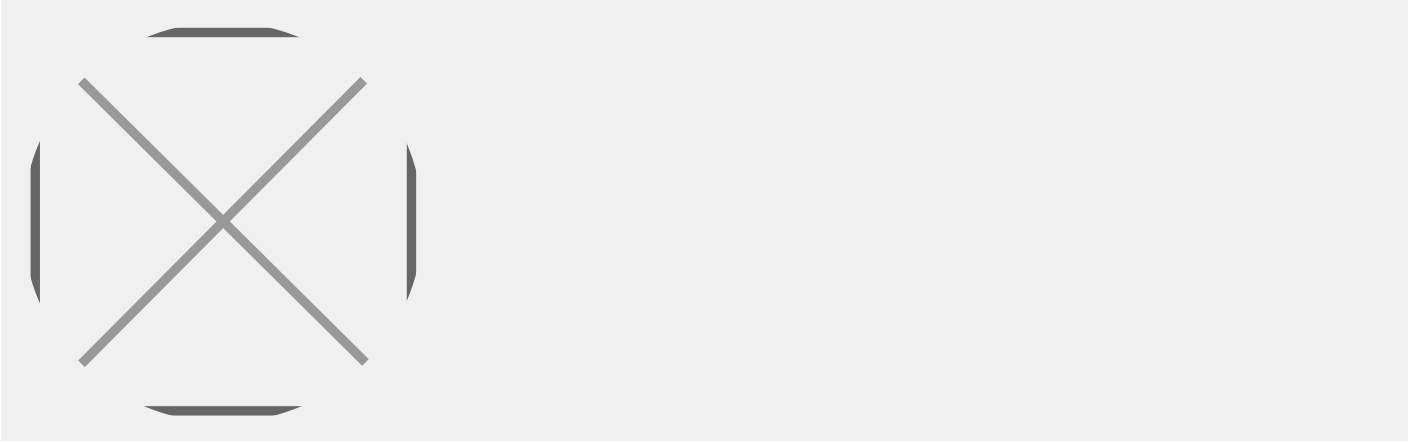
Interview with Sergio Daniotti, Country Manager, Boehringer Ingelheim Italy



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The main distinctive point of Boehringer Ingelheim Italy within the group is its business structure, which relies on three different units: Boehringer Ingelheim Spa, Bidachem and Istituto de Angeli. Could you describe the role of each entity together with its contribution to resources and growth?

Boehringer Ingelheim itself is responsible for the products' marketing – human drugs, but also animal health products- as well as all the administrative, financial and information services. This main entity is also responsible for its two subsidiaries.Bidachem, located in Bergamo, conducts chemical production for Boehringer Ingelheim and for third parties. This structure is currently receiving major investments, and the site's capacity is being doubled in order to produce the active pharmaceutical ingredients for worldwide distribution of our new oral anti coagulant Dabigatran, that has already been introduced in Europe and was launched in Italy in November.Istituto de Angeli, located in Reggello, carries pharmaceutical production for Boehringer Ingelheim and for other companies. 30% of the volumes are produced for third parts, reaching mainly Europe but also Russia and the rest of the Boehringer Ingelheim's network.These two additional legal entities don't only represent additional costs- but rather profit centres able to compete on the Italian and international markets.

While most of the major pharmaceutical companies are talking about delocalisation of production from Europe to more cost-competitive countries, how do you explain that paradoxically Italy maintained its strong manufacturing base?

Italy’s manufacturing base has been maintained despite the lack of help and promotion policies from the current and past Governments.Looking at the cost/quality ratio for the production of pharmaceutical products, the costs are higher compared to Eastern countries but lower than in the rest of Europe for similar quality and reliability. Of course, Europe is not competitive for activities such as packaging, but still makes the difference for the production of high quality bulk, APIs and generics. For this reason, Istituto de Angeli exports solid bulk to Chinese companies, and Bidachem remains one of the main producers of generic Ketoprofen worldwide. Therefore, it still makes sense to produce in Italy because of the country’s competitiveness price-wise in relation with the quality requested. Getting API’s from India or China is always cheaper, but with time it can create problems in terms of purity- and having to re-work a powder involves high costs and strong economic damage. In addition, it is worth mentioning that there is a long tradition of good chemists in Italy, and the academic know-how in Milanese universities is extremely high. You mention Boehringer Ingelheim’s intention to double the capacity of its Italian manufacturing facility.

What kind of investment is needed to achieve such an ambition, and what are the targets behind this strategy?

Boehringer Ingelheim is investing 60 million Euros in Bidachem. Construction started two years ago, and the new production site will be inaugurated and operative by mid-2009. It is a classical chemical plant, but much more automated and multi-purposed than it used to be. 70 additional employees will join the current teams, allowing the workforce on site to grow from 110 to 180.The reason why Boehringer Ingelheim mainly invests in the Italian plant out of the company’s four production sites worldwide is that it will allow the company to keep a strong toll manufacturing and remain competitive in this field. This business can be seen as opportunistic as it is aimed at covering fixed costs filling the plant’s extra capacity, but it is above all a profitable business that allows the company to survive and make the difference in a competitive environment.

What is the importance of the Italian activities in terms of growth and revenues for Boehringer Ingelheim globally?

Commercial activities represent the major part of Boehringer Ingelheim’s business. Italy represents 5% of the global turnover, with third-part business representing about 10% of total sales in Italy.The development of third-part activities involves new customers and implies a strong need of change in the people’s mindset. When a client asks for an offer Boehringer Ingelheim cannot take two weeks to make a cost calculation- we have to provide an answer in 24 hours, otherwise there is the risk to lose the customer to the benefit of a competitor.

As you used to work at Istituto de Angeli prior to its integration to Boehringer Ingelheim in 1992, do you consider that working for an independent company helped you keep this entrepreneurial spirit?

Many people working now in Boehringer Ingelheim come from the old Istituto De Angeli.The changes and integrations generally help us keep an entrepreneurial spirit: for example, when Bidachem was created, its General Manager was also coming from Istituto De Angeli.We started together to work for a larger group and in these situation it is very important to keep an entrepreneurial spirit.

What would you highlight as the main specificities of the Italian market, and how is Boehringer Ingelheim addressing them, in order to keep generating good revenues and consolidate its market positioning in the country?

A main Italian specificity is the current pressure on prices. More than 10 price reductions were implemented recently- some of them being really against innovation, like the price cut penalizing the best performing drugs. Such measures can be applied to products that kept growing above the market for many consecutive years, but are not relevant for products introduced in the past two years, as these products should by definition grow at high rates of at least 40-50% in order to be successful and profitable.Another distinctive point is that the Italian market is still strongly retailed for the moment- it probably won't be the case in five years, with an increasing generics penetration. Boehringer Ingelheim is facing strong competition in Italy in the hypertension, cardiovascular and respiratory areas.The generics penetration in the Italian market is perceived as very low, but it obstructs the fact that the brands have to lower their prices to the generics level and drastically reduce their margins not to lose markets share in terms of volume. Whereas in the US, brands can increase their prices when generics are introduced, and lose some sales in terms of volume because the price difference is paid by insurances, in Italy there is only one payer, and therefore it is necessary to keep the prices at the lowest level to remain competitive. Pharmaceutical companies can only keep more or less 1 euro difference that the patient is willing to pay to get a branded drug instead of a generic.

How do you explain the Italian Government reluctance to implement joint policies aimed at promoting generics so far?

The lack of generic culture in Italy relies on historical reasons.As a result of an agreement between government and pharmaceutical companies in 90s patents could be extended up to 18 years through the 'Certificato Complementare di Protezione' (Complementary Protection Certificate). This length has been progressively reduced to five years like in the rest of Europe.But as all the pharmaceutical companies who enjoyed the beneficial effects of this extremely long additional patent were not ready to reduce it, the government could not develop generics. Therefore, the responsibility is not totally relying on the government, but also on the industrial sector who decided to refuse to review the previous agreement. But the situation is now getting slowly harmonized; major products are going generic – like in the rest of the World.

Under such conditions, and facing ever-changing regulation, how can a group like Boehringer Ingelheim keep growing in Italy?

In the past two years, the State kept cutting prices but also saw its pharmaceutical costs decrease, with the genericization of major molecules.Boehringer Ingelheim is growing above the declining market and going up in the rankings due to its innovative patented drugs like Spiriva, Mirapexin and Micardis. Therefore, the company is focusing on these three products- but also achieved good results with a new thrombolytic treatment, and is willing to enter in the diabetes and oncology areas.

Relying on these new therapeutic areas, what are the expected commercial targets for the years to come?

Boehringer Ingelheim Italy experienced a 9% growth in 2008, is targeting a similar a level of growth for 2009, and expecting a slowdown from 2010. Some patents will expire from 2011 but the growth will be fuelled by the launch of new products like Pradaxa (dabigatran) and Respimat.Having a pipeline full of products is the only way for pharmaceutical companies to survive. The pharmaceutical industry is globally under pressure from an ethical point of view. Companies have to face increasing criticism about their ambition to generate profits becoming more important than their initial aim to cure people.

Being a doctor by formation, how does it influence your assessment of this issue?

When I started medical studies I wonted work in biological researches and I have never practised. I am now proud to work for a pharmaceutical company, and even more proud to work for Boehringer Ingelheim.The industry is aimed at curing people, saving lives and improving the quality of life. And in order to successfully achieve these goals, the companies' first social responsibility is to make profits. Of course, some mistakes have been made in the past, but the pharmaceutical industry should now have enough courage to follow what the chemical sector did when major environmental issues emerged twenty years ago with the implementation of the Responsible Care program.At the time, the companies decided to change towards more open-minded and transparent models, and to implement clear targets in terms of fight against pollution- which resulted in an improvement of the chemical sector's image in the public opinion. In the same way, I believe that, for example, the voluntary publication of all results of our researches will be highly appreciated and increase our industry's recognition.

What makes you especially proud to work for Boehringer Ingelheim?

Boehringer Ingelheim's main specificity is to remain a privately-owned company. This status allows having long-term views and encourages innovation within the group.But on the other hand the shareholders have to know why risks are taken, and why sometimes products have to be dropped,

or to face delays in their development- so we must work hard to defend the company and allow it to keep being family-owned. You have been in the industry for nearly 30 years before reaching the top-management position that you occupy now in one of the biggest pharmaceutical companies.

What is the most motivating thing about the sector that keeps a man and a manager like you running everyday?

I believe it is matter of heart. I am personally proud of my job, my people and my company- and the key to succeed relies in the ability to do things with passion, aiming to contribute to the development of the company and the country.

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