Interview with Artur Wozniak, President, polski holding farmaceutyczny (PHF)

15.07.2012

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Polski Holding Farmaceutyczny (PHF) was put together in 2004 as a capital group consisting of three leading Polish pharma producers and the mission given by the State Treasury Minister was to privatise the three entities. You joined in March 2008, at a time when, if I may say, major steps for this mission started to be taken. What were the specific objectives you were given by the Polish Government when you were appointed to advance the process and complete the raison d'etre of PHF?

PHF was founded in 2004 indeed with the key mission to integrate the three Polfas and create a strong organism within the Polish market. However the formula did not work throughout the years so PHF does not represent today a strong economic organization. The new ruling coalition that took office in autumn 2007 decided that the three Polfas should be privatized individually. In the spring of 2008, it was announced that a new CEO would be appointed at the head of PHF in order to complete the sale. The authorities were looking for an expert in the field of privatization, which is why I won the contest, given my experience in this area.

The market position of these three Polfas was worsening: the companies had been losing market shares, according to multiple analyses. The Polfas offer generic products, not original drugs, so it seemed reasonable that these companies should be sold. Were these companies to receive good offers from industry investors, it would bring a new impulse to their structure and performance. A new ownership will mean new generic products and new innovative products, but also a new

management style. One needs to remember that the three companies, when I came in, employed altogether four thousand people, with revenues exceeding eight hundred million zlotys. That is why the guideline set by the Treasury Minister was that these companies should have industry investors only. One of the principles of PHF is to target industry investors rather than financial investors or developers, in order to ensure the continuity and the right future of these companies. Today PHF is addressing its offer to such investors only.

To what extent was it challenging to send the right message to the potential investing community?

There are certain limitations of informing and reaching all the investors, set by the legislation, as PHF is not organizing a public offering. This is why my advisors and I started to work on different solutions: from an initial list of seven hundred investors worldwide, PHF created a new list of two hundred investors who had the proper potential. PHF informed the business community around the world that the sector will be privatized in Poland through commercials and announcements in the industry press and the economic press.

Then, when it came to sending invitations, PHF sent them to only ninety companies around the world, among which five Polish companies. The key global players knew about the privatization, therefore it was not difficult to reach them with PHF’s message.

How do you ensure that the sale of the different enterprises is made for the highest price possible, considering the responsibility you have towards employees, who own part of the capital?

The revenues from the sale of the shares are a very important parameter. Since 2004, fifteen percent of the shares are held by the employees, and from 2006 these employees were able to dispose of their shares freely. In PHF’s sale proposal, a clause is included stating that within two years after the agreement, the investors agree to buy all the shares from the employees. Thus, shares are translated directly into revenue for the employees. Regarding Polfa Pabianice, the Polish company Adamed has already bought almost all the shares – 85%, plus 10% out of the 15% held by the employees; by the date of the proposal, some 5% have been sold by the employees to other investors. PHF was selling 85%; Adamed bought the remaining shares at a similar price. PHF would like this acquisition process to be applied to on-coming processes. I strongly believe these companies should be developing with their new owners, industry investors, who will make sufficient investments for this purpose This line of thinking has been implemented and is being applied at Pabianice. Indeed, the facility has been restructured, together with the new owner, however there were no lay-offs initiated by the new owner. If there happens to be redundancies, it belongs to the employee’s initiative to stay or to go. Apart from that, Adamed is transferring some of the

production to Pabianice. We are expecting the investors to behave the same way in the other processes.

Considering that there are many international companies looking for potential takeover targets in the Central and Eastern Europe region, especially in Poland, why was the local player Adamed chosen in the end?

The origin of the bidder is irrelevant; the Polfa is sold to the highest bidder, provided he shows a good potential for further development of the Polfa. There is no pressure to sell the company to any player. PHF is not looking to make the process fast or simple, therefore the group is not inviting any small players. The privatisation plan was set up by the Treasury for the years 2008-2011, however if the process is not completed by then, it will just go on.

Pawel Sztwiertnia of INFARMA told us that local companies had perhaps more political influence. How do you assess this statement?

In July I cancelled the first bidding process for Polfa Warszawa, even though there were only two investors short-listed, being local companies: Adamed and Polfarma. My expectations were not met, so I cancelled the bid. It is as simple as that. This shows that there was no pressure to choose Polish players as final investors. I made another announcement for Polfa Warszawa this autumn, and received eight bids.

This confirms that you were right to cancel the first time. What makes Polfa Warsaw such an attractive target?

The portfolio of the company generates today 360 million zlotys in revenues annually. With a better management, the company has the potential to reach 500 million zlotys a year with the same portfolio, so it is worth paying attention to it. The distribution channels of Polfa Warszawa are highly attractive, especially those in the former Union of Soviet Socialist Republics (USSR). The exports towards these markets are significant, including generics, which are well received in Russia, Kazakhstan, and Vietnam. The company’s products have a great potential, both for the domestic market and for exports. However, the liability of the offer is the plot: Polfa Warszawa is located on a very attractive land, which industry developers do not need.

Regarding Polfa Tarchomin, a few reference companies made an offer; the tender was however recently cancelled because the bids were not satisfactory. What was missing in those offers?

As I mentioned, the bidders do not need the land that the company has – Polfa Tarchomin is located on a seventy hectares territory – We want to sell the company to industry investors who

will be building up on synergies mechanisms, who will build a strong economic organism together with the newly acquired company, not who are interested in acquiring the land for strategic reasons. PHF is going to modify its approach of the privatization process in that respect and will still be looking for industry investors only.

One of the attractive assets of Tarchomin's portfolio are insulin products; although these products generate today only a few percent of the company's revenues, it still makes Tarchomin an attractive target for investors who want to develop their insulin production. Perhaps PHF will judge it necessary to accumulate different investors and sell separately parts of the Tarchomin's portfolio. In addition to that, PHF might take out the land from the offer.

Have you ever seen a two million people city with a factory of this size in the town centre? This is one of the most attractive plots in Warsaw. In a few months, figures will speak better than me. If the factory had been transferred outside Warsaw ten years ago, we would be talking strictly about business-related deals. It does not mean that such moves were not attempted: some transfer processes of Tarchomin were initiated but not completed.

Do you have a final message to the readers of Pharmaceutical Executive?

Do not be late! At the pace with which the process is going right now, there are eight investors, and I know there are some others that did not manage to make the offer on time, although these companies were great players in the generic market. There is a Chinese company, an Indian company, three Polish companies, a company from Ukraine, an Italian company and a company from Iceland. . There will be an official announcement in two days, where five companies will be announced as short-listed.

In my opinion, it is just a matter of time before Chinese companies control the European pharmaceutical market. There are currently in China social security programs being launched. China needs products today already in numbers exceeding what we are capable to supply. It is possible that at some point Poland will become the foothold for Chinese to Europe. I do believe that the three Polfas offer a great foothold for expansion in Poland and in Europe.

Production facilities of Polish companies are at worldwide level. The industry in Poland benefits from a high-skilled personnel considering they have been trained continuously for a long time. There are low costs of production to be found in Poland, perhaps not as a low as in China.

Polfas' potential, I mean Polfa Warszawa and Polfa Tarchomin, exceeds one billion zlotys in terms of sales. From a psychological and marketing perspective, the name Polfa is well received in Poland. The older the company, the better perceived it is. Last but not least, Polfas' products are a few

times cheaper than the western average.

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