Interview with Jacek Glinka, President of the Management Board, Polpharma SA

15.07.2012

Tags: Polpharma SA

For years Polpharma has been the market leader in Poland. In many countries the arrival of multinational companies (MNCs) led to the loss of leadership by the historical players to the benefit of MNCs. How has the arrival of GSK, Teva or Sandoz, altered the playing field for the company and how have you adapted your strategy to retain your market position?

The pharmaceutical market is slightly different to other sectors of activity, considering most of the MNCs were already in Poland at the time when the economic system changed. In a way, Polpharma has had to compete with international players for a very long time.

With the privatization process in the 1990s, MNCs then started to establish a direct presence in Poland. They invested in local manufacturing plants and began to be treated as local companies, whilst benefitting from better platforms for the development of strong relationships with the local industry.

Historically, big pharma was doing business in innovative medicines in Poland with investment in local companies. They entered also generic market which gave Polpharma impetus and a motivating factor to work harder.

Did you observe any change to the operating environment in 2004 with Poland’s EU accession?

The whole industry went through drastic changes following Poland's EU accession. Companies were requested to upgrade their documentation for existing products to conform to European standards, which practically meant for most of them that 100% of the product portfolio had to be invested in or re-developed. Therefore a significant amount of work and investment were required at the time of accession.

EU requirements were initially only on the development side, but then also triggered major investments in manufacturing facilities. Everything had to be upgraded to some extent. The result is that Polpharma has today one of the most modern facilities in Europe, completed over five to ten years ago and based on state-of-the-art technologies. In a way, the company has been forced to build a more competitive platform to grow its generic business in Poland.

Polpharma is the leading drug producer in Poland and the best selling company within the Polish market, a company that was named a "Pillar of the Polish economy" at the beginning of the year. Can you explain to the readers of Pharmaceutical Executive the importance and contribution of Polpharma to the Polish economy and the pharma industry in 2011?

Polpharma is the leader in the overall pharmaceutical market in Poland and by far the leader in the generic business.

Within the generic industry, Polpharma has 13% to 18% market share depending on whether we are discussing value or volume. Within the whole pharmaceutical market, Polpharma last month reached 5,3% market share, thanks to an increase of almost 0,5% compared to last year's figures. Therefore, even though Polpharma is a mature company, it is still growing.

Polpharma is a diversified company with a relatively wide product portfolio: the company is very strong in the prescription market, in the hospital market, and also has a strong OTC portfolio.

The group is recognized as a local player that not only generates good commercial results but is also well respected by all stakeholders in terms of its corporate social responsibility (CSR) policies. Polpharma has received many prizes in this respect and is among the top 10 recognized companies in this field. This is a result of all the time and effort spent as a corporation on maintaining a good relationship with patients, suppliers, employees and scientific communities and its natural environment.

Polpharma is a good example of how the word social responsibility should be understood and applied in the pharma industry.

What have been the main growth drivers for the company and which ones will take your business forward?

As for any generic company, there are several key competitive differentiators. Polpharma has been a local player for many years, and today's main priorities are the company's expansion into other markets. Indeed, coming from a relatively low level of internationalization, Polpharma has massive growth opportunities in foreign markets.

Polpharma has been growing its exports extensively since 2003. This year, Polpharma plans to further increase its export operations by more than 50%.

Polpharma also leverages on its capacity to develop new products. The company invested a lot in research and development (R&D), like most of the local companies that have been privatized. For Polpharma, the context is different than for companies that have been acquired by foreigners, as they could benefit from R&D facilities somewhere else in the world. By contrast, Polpharma had to build its own facilities in Poland and therefore invested heavily in the Starogard Gdański facilities.

Recently, the group is opening a Biotech Centre in Gdańsk and also has a couple of other different centres, including a R&D partner in Barcelona. R&D Polpharma employs 300 people. Within this context, Polpharma is capable of developing a lot of good products, increasingly differentiated.

Polpharma invests as much as possible in proper R&D functions, as well as in efficient and effective manufacturing facilities. As an example, the Starogard plant was recently awarded for being the most modern facility in Europe.

After the privatization of the company, the first change that was implemented was a total restructuring of the manufacturing facilities. Then the next step was to invest in R&D and to reinforce the commercial presence in Poland, and eventually in other countries. These have been the most important strategic elements of Polpharma's development.

When you were appointed in November 2009 for the second time, you made the regional development of Polpharma in the Central and Eastern Europe (CEE) countries a priority, identifying the greatest growth opportunities in these markets. Where is Polpharma in the transition from a national to a regional leader?

Overall, export operations provide 35% of the revenue. Polpharma has expanded in other countries with direct and indirect commercial presence. The company is the largest in Poland, has more than a 1.000 medical representatives in the whole region, has a direct presence in Belarus, Ukraine, Latvia, Estonia, Lithuania, Kazakhstan, Vietnam, Hungary. Moreover, the group is indirectly

operating for instance in Uzbekistan, Turkmenistan, Georgia, Armenia, Moldova, etc.

Wherever the company’s portfolio is believed to be competitively launched and can be offered to patients in other countries, those markets are entered. The group invests in most cases directly into its own field force, its own regulatory teams, and if necessary also in production facilities.

Is there any particular country you are targeting at the moment?

Polpharma has been long looking for new markets in the Middle East region and in South Africa. However, the recent events and political situation has put these initiatives on hold for the time being. These are still interesting markets, but the timing is not right. The company is today focusing on Asian countries, and plans to further expand from Vietnam to the rest of South East Asia. There are in fact many territories under consideration at the moment.

Polpharma is still a regional player, therefore today the opportunities are limitless. The question is more in terms of internal resources and management capabilities, whether the company can grasp every opportunity.

Today, around 60% of your international sales come from Russia. Are you not afraid that the discussed “localization” in Russia might put your business at stake there?

Russia is growing much faster than any other country. The generic and pharmaceutical penetration are rather low in Russia, and there are interesting programmes that have been launched by the government to support the industry, like the famous D.L.O – Provision of Supplemental Medicine – programme by President Putin.

Nevertheless, there is indeed still a preference for the local players. Polpharma is in fact considered to a large extent as a local player, and can enjoy privileges of being treated favourably in this market. For instance, the company has strategic alliance with one of the most advanced and successful local companies in Russia.

Overall, the experience in Russia has been very positive also in terms of product development. Patent law and regulatory framework are not as strict as they are in Western Europe.

Even though the company was privatized in 2000, it is still controlled by Polish capital. Why was it important in you views that Poland retained a national champion?

When the privatization process was about to finish, Mr Starak was the only one who made an offer. It was therefore not a political decision that Polpharma should remain in Polish hands, but a matter of circumstance.

In the whole CEE region, the other formerly state companies were privatized much earlier and every multinational company that wished to have a presence in the region had had its opportunity. The privatization process in Poland was relatively late compared to the other countries and Polpharma was the last big company to be privatized.

Polpharma was believed to have a lot of environmental issues, and its acquisition was said to be a risky move. Mr. Starak was brave enough to take this decision, which proved to be the right one. The investments he has made were critical in order to upgrade the facilities, develop the commercial strengths, and the R&D functions.

With pharma being such an internationalized industry, and considering the cost of development of new medicine, is it a realistic possibility to ever become an innovator?

No, not in the short or even medium term. There is a clear distinction in the business models of generic and innovative companies as well as in the way to manage them. Innovation requires totally different capabilities and financial resources. There are many examples in the industry, where generic companies tried to develop into innovation – Pliva was the last one – but they were more or less unsuccessful.

For Polpharma, it is simply too early. There are so many opportunities in the generic business that to pursue innovation would be for the moment a waste of talent and resources. Moreover, today the group does not have the right capabilities to invest in projects of 100 or 200 million dollars – the generic development is between one and five million dollars in average -, with the risk that at the end of the day, it may not be approved.

You were President of the Management Board of Polpharma between 2004 and 2006, and then returned to this position in November 2009. In the meantime, you sat in the board of various pharma companies such as Herbapol Lublin and Medana Pharma. Can you explain to our readers why did you leave at that time, and what made you come back?

Over the last 9 years, I have worked in the whole family of investments owned by Mr Starak. I was asked to spend some time as a CEO of Polpharma, and then joined the supervisory Board of Polpharma as well as other ventures, where Spectra had interests. Since November 2009 I am back in Polpharma with a more operational role.

What is your vision for Polpharma for the next five years?

Geographically, Polpharma wants to be the strongest player in generics in the CEE region, with a good presence in other markets as well, including in Africa, Middle East, South East Asia, perhaps

even Latin America. The group also plans to expand a bit in Western Europe in the meantime.

Five years from now, I want Polpharma to be a successful company with a much higher level of innovation and differentiation that will have strongly developed its Biotechnology business.

What is your final message to the readers of Pharmaceutical Executive on behalf of Polpharma?

In my view, Polpharma is one of the most interesting companies today in the medium league of players in the generic industry. The company is managed from Poland, which gives a lot of opportunities for creative and strategic thinking.

It is one of the most dynamic companies in terms of organic growth and has been performing well in the recent years, and prepared to expand to merger and acquisitions (M&A) activities, as the market has become more favourable in this respect due to the outcomes of the financial crisis. I believe this is the right time to think more seriously about different M&A operations that would help Polpharma get faster to the role and position that it has aspired to reach in a five years time.

See more interviews