Interview with Igor Krylov, CEO, Pharmstandard

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Tags: Pharmstandard

You have lead this company since its beginnings in 2003, when it acquired ICN pharmaceuticals. In 2007, Pharmstandard carried out an IPO of 43% of its shares. How has the company developed since the IPO?

We were honored on the London Stock Exchange as the Best Newcomer of 2007, and since then, we have doubled our capitalization. In my understanding, we were also the last Russian pharmaceutical company to offer an IPO in London—none have followed us! Despite the recession, our market cap today approaches $3.5Bn.

We are still growing, and our aim is to be a best-in-class generic pharmaceutical company, competing with other Eastern European generics players. Our EBITDA margins remain above 30%.

Let’s examine this growth a bit more closely. Pharmstandard recently reported its H12011 results, and company revenue grew by 59.8% in relation to H12010, with organic sales growth of 14.6%. How did you achieve such astonishing results, and can H2 be as successful as H1?

These results are, in part, flow-on effects from institutional products we launched in 2006 and 2007.

In continuing to provide value for our shareholders, we increased our activity and participation in the state business, on both the regional and federal level. We participate with both our own institutional products, and with Third Party Products (TPP).

TPP are, first of all, complimentary to our current product portfolio. But, most importantly, that TPP business is a long term strategy for us. TPP represent absolutely new expertise for us. We not only distribute these high-tech products, but also try to build long-term relationships with companies that possess their trademarks.

For example, we demonstrated strong performance in a collaboration with the Johnson & Johnson Company with Velcade®. Today, we not only distribute Velcade®, as we did in 2009. J&J has now transferred production technology to us, and we have begun secondary packaging. Every pack of Velcade® sold in Russia is packaged by Pharmstandard.

In our conversation with Ms. Adamian at Janssen, she mentioned this joint project with Pharmstandard. She noted that Janssen is considering going beyond secondary packaging in this partnership, but that localizing earlier stages of production would require a greater investment into GMP by your company. What plans do you have to further improve your production standards, and make yourself an even more attractive choice for multinationals?

Since 2003, we have invested more than $300Mn into existing production facilities, implementing a strategy of modernization and increasing our production capacity. Our capacity is now up to 1.4Bn packs per year. (To give you an illustration of what such capacity means: last year, we sold more than 700Mn packs. The population of Russia is 142Mn—this means more than 4 packs per person! This is why we are quite a strong player in this territory.)

All the production facilities fully comply with Russian manufacturing standards. Six production lines of JSC «Pharmstandard-Leksredstva» meet EU GMP requirements.

This aspiration to comply with the standards of GMP is the prerequisite for our extending co-operation with companies in the EU and worldwide. We have visited more than 12 plants in Europe, and collected information regarding how to properly build these kinds of facilities. It is not easy, and we have no such internal experience.

We are often asked about our TPP business. I will say the following. The core of our operations is the organic business, which is a portfolio of products that we develop in-house, produce, sell, and promote by ourselves. We produce more than 250 different pharmaceutical products. The split between the organic business and the TPP business depends on the season / fluctuates seasonally. In the first half of the year, TPP represented 35% relative to organic’s 65%.

In any case, we make this special division purely for the sake of our own analytics. From my standpoint as CEO, I look at the situation a bit differently. For example, two weeks ago, we started

to produce Mildronate for a company called Grindeks. In this case, are we talking about a third party medicine, or a Pharmstandard medicine? It is a bit of an arbitrary question of classification. For the sake of convenience and consistency, we consider TPP those products whose trademark is not owned by our organization, but we have some manner of partnership. We do not make a distinction as to whether we produce the product or not. For Velcade®, as I said, we already engage in secondary packaging; for Roche's Mabthera® and Pulmozyme®, we do the same; and for J&J's HIV medication Prezista®®, we engage not only in secondary packaging, but also filling. Of course, we are thinking about down-phasing all of these products.

Are these collaborations joint ventures?

For our organization, these are not joint ventures, but just contracts. We buy bulk, or buy the API, and produce the finished product. Depending on our relationship, we can co-promote, as well. Since 2007, we have built a relatively strong sales and marketing infrastructure, with more than 650 feet on the street (sales force) in the form of highly motivated medical representatives.

Pharmstandard has recently made a number of strategic acquisitions. For example, last year, you purchased 100% of Vindexpharm, and 11.3% of Grindeks. In January, you acquired 55% of Biolek shares. How do such purchases factor into your overall development strategy? Will we see more such acquisitions going forward?

Our history is an investment case; it is a history of acquisition. Our acquisition strategy has allowed us to grow because we do not simply buy assets—we integrate new companies and new products very well. You can acquire an asset, but if you do not know how to integrate it, then it would be an empty purchase.

Regarding Grindeks: we have a good partnership with this company. We promote and sell Mildronate in Russia; globally, Mildronate is a medicine that accounts for more than 50% of Grindeks annual turnover. We have asked Grindeks to produce strategic APIs for us, such as the API for Arbidol—this increased our mutual incorporation.

Two years ago, we decided, together with Grindeks shareholders, to buy some shares in the company, and we eventually did so. However, after that, the owner of the company asked us to sell the shares back to him. We respected his wish, and sold the shares back. Two weeks ago, as I said, we began the production of Mildronate at our facility, and we admitted a Grindeks' representative to the board of our Ulfavita plant. Thus is the nature of our relationship, and the degree of our integration.

As you mentioned, we recently purchased an interest in Biolek. Biolek is a small company, but it produces vaccines. We are trying to understand how we can participate in that market segment. It is extremely difficult / definitely not easy to acquire a Ukrainian company; for us, it was our first acquisition abroad.

Of course, we continue to think about growth, and are constantly reviewing acquisition opportunities. Another frequently asked question is why, to this day, Pharmstandard does not pay dividends to its shareholders. At the last annual general meeting, it was decided that we would not pay dividends for this fiscal term either. The reason is that we believe, it's currently the right time for acquisition and the consolidation of the industry. When we think about acquisitions, we focus, first of all, on products. We do not wish to collect facility after facility—as I mentioned, our capacity is enough to cover our immediate ambitions, and we continue to tune our capacity line by line. For example acquisition of Afobazol®, a Russian patent-protected product that is quite successful.

This product is patented in the U.S., UK, and Germany. However, it is not easy for a Russian company to penetrate Western regulatory markets. I would say that we, as an industry—and I am now speaking about more than just Pharmstandard—are too 'domestic.' We are not in compliance with standards like GLP. To get there, we would have to reinvest our time, and our money, to conduct all of our preclinical studies again; moreover, there is not one clinical laboratory in Russia that is certified by European authorities. This is the problem.

However, we believe that step by step, Russia is heading in the right direction, and it will approach Europe in its standards.

What, then, is your internationalization strategy? You made your first acquisition abroad with Biolek—what is next?

First of all, we try to find a target with business in Russia or the CIS. We understand this market, and such companies are much better for integration.

In terms of acquisitions, we try to find the right product, or a company with the right product portfolio. This company may be based abroad, but should operate in Russia as well. This is our current strategy.

Exports account for no more than 2% of our current sales. However, from Moscow, we are trying to understand how we can penetrate foreign markets with regional products. We will try to find partners for this endeavor—it is not easy to go in by ourselves.

We have seen companies going global out of India, China, Israel, and even Iceland! With the size of the Russian market, why not use it as a springboard to become truly global?

We have not sped up our export plans because the Russian market clearly demonstrates good growth, and this growth covers our ambitions. We want, first of all, to be a leader here. At one time, we touched the sky—we were the number one overall company in this market. But our strategic goal is only to be in the top three. It is not easy to even be amongst these three, with the number of M&As occurring in the environment.

We try to acquire new products, but first, we want to actively promote our well-established products—and we do so. You can note our performance in vitamins: we are one of the few companies that continue to grow in this segment. We also launch new products in a timely manner: 8-10 products per year; since 2004, we have launched more than 55 products. If you look at our portfolio after this period, you will see that our revenue is more than 50% based on new products.

Indeed, Pharmstandard is historically known for the active and expedient release of new OTC medicines onto the market. However, you have lately been increasingly active in the Rx segment, with the success of products like Rastan® and biotechnological project “Generium.” Where does the future direction of this company lie?

First of all, I would point out that in America, OTC products are like toothpaste in a supermarket! In Russia, on the other hand, OTC has a bit of a different connotation. Afobazol®, for example, is a patent-protected, original molecule, that nonetheless has OTC status in Russia. This is an advantage for us, because in this case, we can use an advertising campaign. However, we also promote this product amongst doctors. Arbidol®, a product with real heritage, 20 years of usage experience, and a wealth of clinical research, also has OTC status—without government resistance. In Russia, it absolutely does not matter what you register: a product with OTC status or Rx. If you register it for the first time, you will likely receive Rx status, simply because regulators are not yet sure about the safety of your product. After five years, you can submit documents petitioning a shift toward OTC status. This is an illustration of the difference between the West and Russia.

Of course, as I mentioned, OTC does make a difference in terms of promotion. We need to have a TV campaign, radio, press kit, Internet advertising etc. Unfortunately, we are the pharmaceutical leader in advertising space! However, our performance is thus quite strong.

Pharmstandard has been the leading company by sales in the commercial market for some time now. Arbidol®, as a brand, has been the best-selling product in Russia for the last three years. Even two years ago, as much as 95% of our business was in the retail sector.

Today, 60% of our sales are in retail. We participate in state auctions with our institutional business, and we are trying to build our Rx franchise. It is not easy to assume a 50-50 Rx-OTC model.

Regarding the future of this company, we will spend our energy, time, and investments to ramp up the Rx franchise; but we will remain a national leader in OTC. Russia is today a self-medicated country, and will continue to be so for the foreseeable future.

Pharmexpert ranks you the third most influential businessman in the Russan pharma industry. To what degree, in Russia, does the success of a company hinge upon reputation?

Of course, we consider our reputation—and not only do we consider it, but we act accordingly. We try to operate in accordance with people’s expectations of this company.

We try to build a domestic pharmaceutical enterprise by maintaining best practices. We develop and select our people very carefully. Our entire top management team has been with the company since 2003, and we all come from Big Pharma. Our people have strong experience, and we built this company from zero. We created the Pharmstandard brand. Our strategy is not to work like a European company, but to be a real, Russian, domestic company.

We are open, and transparent. It is not easy to be public, especially on the Russian market—but we try to do our best for our shareholders. We constantly think of our investors. This is why our reputation is very important.

What is your final message to the international readers of Pharmaceutical Executive?

I believe that the main message, for those who previously did not invest with us, and found investment too risky, is that we are open to collaboration. Our core is not that of a contract manufacturing organization—nonetheless, we are open to partners: if a product is patent protected and we cannot develop it in-house; or if a patent expires and a company is nervous about generic attack.

We are open and ready to cooperate!

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