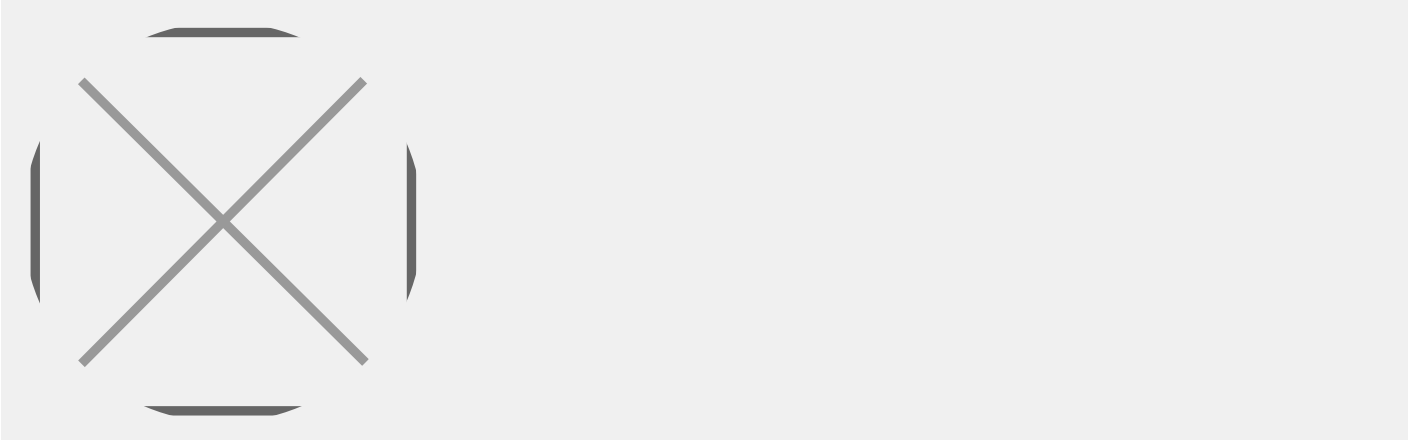
Interview with Jerome Gavet, General Dirctor, Servier Russia



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With the announcement of the Pharma 2020 strategy to develop the domestic pharmaceutical industry, multinational companies have pledged an excess of $1Bn in investment into local infrastructure. Servier, however, preempted this drive, and has had a Russian facility since 2007, the same year you took this position. Russia has traditionally been seen as an attractive environment for marketing, but a challenging environment for manufacturing. Looking back, what have been the specific challenges, and specific dividends of this investment thus far?

First of all, you are correct in noting that we preempted the Pharma 2020 strategy. Our decision was taken very early, and, on one hand, was based on the specificities of this market, its size, its medical needs, and on the nature of our product portfolio. On the other hand, Russia has long been a strategic region for Servier, and today, Russia is Servier's leading foreign market.

Four years after the 2007 inauguration of our plant, this facility allows us to pack 90% of the Servier drugs prescribed to Russian patients. At the end of 2011, we will be able to locally manufacture 60% of these products, as well. Therefore, our investment is at this stage fully in line with Pharma 2020. It is a demonstration of our commitment to invest in the Russian pharma market, and to be a partner in the development of the domestic industry.

But production for the local market is the first step. For us, the challenge is now to implement our second phase: to contribute to the positive trade balance of Russia by exporting drugs manufactured in the Moscow region to the CIS countries. We plan to start exportation of this kind at

the end of this year, beginning with Kazakhstan, Ukraine, and Belorussia. We need to set up a geographic platform for the CIS countries and the former Soviet countries in terms of production, and we are proud that such an effort matches with the authorities' strategy, as well.

In a pre-interview conversation with the managing director of one recently committed multinational, he mentioned to us that although the investment has been announced, his headquarters remains a bit skeptical whether it will pay off, as the government is quite unclear about matters such as the definition of local status. As a seasoned local producer, what is your response to this skepticism?

Indeed, there is a lack of clarity in this sense and I do confirm that it is not easy to implement such an important decision. Nevertheless, our investment is linked mainly with the potential of the market, and the 141 million inhabitants to whom we intend to supply our products.

It is true that the position of the authorities is to encourage investment without providing transparent legislation on the definition of local producers—but for now, the barriers to importation are still acceptable for those who wish to keep production abroad. The decision must be a business-driven decision! If you have demand that warrants a large volume of production and your aim is to produce for a significant segment of the population, your investment is well founded. Expectation of fiscal exemption and inclusion in reimbursement lists must not be the reason you invest in local manufacturing. These must be considered as additional benefits, but must not drive the investment. You can expect only one thing with certainty: barriers to importation will increase with time.

Do you believe it is realistic that, by 2020, over 50% of drugs will be produced locally—in line with the ambitions of Pharma 2020?

It is sure that if we want the situation to move forward very quickly, we need a strong commitment from multinational companies. If you look to our experience, we have 2-3% of the market, and in approximately 7 years we have been able to shift our market share from importation to local production. Three years have been necessary for downloading production activity in our factory, which has been a big effort. I believe that overall market could do the same if there is a prompt and massive reaction. To achieve the goal of producing 50% of drugs locally by 2020 seems, to me, doable. Conversely, the localization of R&D, and the creation of innovative medicines via partnerships and JVs—the next stage of Pharma 2020—is far more ambitious. We need to have the technology in place, and I believe it will take quite some time. We should be prudent in this regard.

Servier is ranked fourth on the Russian market—a far stronger position than the company has globally. Moreover, the company has kept growing, moving up two positions in the rankings since 2009. What explains your strong positioning here, and how do you manage to keep ascending the rankings?

Unlike many other markets where we entered and had to face existing competition, in Russia, we penetrated the market at the same time as many of our competitors—or even earlier. We started on an even platform. We had strong promotion, and although we did not have a large portfolio, we had strong brands that were well-recognized. We were able to establish a solid foundation in Russia.

One time period that was particularly significant was the crisis of 1998. Many foreign companies decided to leave, but we decided to stay. This was a firm decision from our top management and Dr. Servier himself, and he was recognized at the time as manager of the year in Russia.

We stayed, and we kept our employees. Today, we have people with a truly extensive history in the company, and they are the pillars of our activities. I recently looked into the figures, and we have nearly 50 people with more than 15 years in the company! Servier offers robust advancement opportunities to its employees, and many of my first-line managers were people who were in the field 10 or 15 years ago. As the company grew, they grew with it.

According to 2010 IMS statistics, Servier is ranked third in Russia's retail segment, but has far lower positions in the DLO and Hospital segments. In fact, in these latter segments, you have lost market share relative to 2009. This is interesting, because it would seem that a great asset for a local manufacturer is preference in state-run tenders. Is this marketing mix a matter of portfolio or a strategic decision to focus on retail?

It is both. Our portfolio is more retail-focused, That's why major part of our products are distributed in retail segment. Nevertheless, we take into consideration government purchases with less success due to competition on prices and generic presence. With our plant, in the future we expect to be closer to the demand, more flexible and better in supply of government tenders.

We have to strike the correct balance. We focus on retail, which is our core market; and we supply, when we are able to do it, the public sector.

The localization of your competitors is one sign that competition on this market is increasingly intensifying. How will you retain a competitive advantage in such an environment?

The environment is becoming definitively more competive but we are confident in our development. Our production site is not our sole advantage, but is a part of a global strategy of development in Russia we initiated long time ago based on the quality of our medicines, our long term partnership with the physicians through epidemiological or educational programs, the relations we developed with Russian centers and opinion leaders by carrying out clinical studies, the strengh of our brands, and the professionalism and loyalty of our team.

As for our manufacturing facility: while our competitors are discussing transition periods, and postponing the start date of operations, etc., we are already acting. And if you look at competitors, they are announcing that in 2013 or 2014, they will start packaging—which is not true manufacturing. We are already delivering to the market tablets produced in the Moscow region. So this still remains a competitive advantage for the coming years. Today, we are in a market where, due to our portfolio, it makes more sense to be mainly present in retail. We have no products in the Seven Nosologies, and we have very few products in the DLO. But tomorrow, if the reimbursement program is implemented on a much wider scale, and with the introduction of new innovative drugs, we will be able to adjust our strategy to reinforce our position in government purchases. Such is the capability afforded by our plant.

What are the therapeutic areas that will drive this business?

We will remain clear leaders in cardiology and diabetology. Today, 50% of our business is in cardiology and this will remain our core. But we are an innovation-based company and we look forward to develop our activity in markets where therapeutic need is still insufficient: such as in psychiatric disorders (depression, Alzheimer disease), and musculo-skeletal disease (osteoporosis, arthrosis).

What is the image of Servier in Russia?

We always focus on the scientific and ethical approach of our drugs by demonstrating their benefits with clinical trials. Thus, we have been able to establish a very long-standing, ethical image with our prescribing physicians. Our main objective is to be close to the patient and the prescriber, and to satisfy the needs of both.

Servier remains the largest independent French pharmaceutical firm, and you have been with the company for over 10 years, since your days as a regional operations manager for the Russian territory in 1999. In that time, Servier has increasingly internationalized operations. How have you seen Servier evolve as a company, and how have you seen its attitude towards this market evolve along with it?

At the beginning, we developed from the French market and Western European countries. But we have accelerated our internationalization, particularly in Eastern Europe, during the last decade. This is visible in Russia: in 1999, we were achieving around 20Mn EUR, and today we are close to 300Mn EUR.

Today, Servier Russia represents around 10% of the total activity of the group, and we have around 5% of the headcount. We have our plant, and we also have a strong base of clinical activities. We conduct Phase II and Phase III studies for our new drugs in Russia, and we have 60 people working in this department. We use to enroll more than 1000 patients yearly in our studies.

This means that in Russia, we have developed all of the different traditional areas of a pharmaceutical player, except one: pre-clinical research. And this is the next step. Development is done, production is done, marketing and sales is done—now, as suggested by Pharma 2020, we will soon develop new drugs in Russia. We have started investigating opportunities in this regard, and although we have no conclusive partnerships at this time, it is within our strategy to do so. We want to develop molecules here.

New managers in Russia often protest a lack of transparency, and slow implementation of initiatives. Seasoned Russian managers often smile and say, you should have seen what it was like 10 years ago! What is your assessment of how this market has developed?

It is true that the administrative aspects of this market are challenging. This is the reality of Russia. But that is the case in many Eastern markets, and I think that at the same time, Russia is improving if you look at matters from an objective standpoint. If you consider what has been done over the past five years, it is quite remarkable. For example, in 2005, we saw the implementation of the DLO, and it was initially a failure due to difficulties in the management of funds. But the idea was extremely valuable, and the authorities returned to it with the Health 2020 initiative. Then we had the 2009 financial crisis, and again there was a problem of resources. But progressively, we are advancing. The list of Essential drugs is the first step, where there is a definition of which products are strategically important for the Federation. We are improving and defining standards of treatment. We are controlling price, clinical studies, and registration of medicines. Progressively, step by step, we are approaching a more developed market.

The difficulty is that the system is not transparent, and there is a lot of go and return. But Russia is tremendously complex, and it is not easy to facilitate, from one day to another, what is needed for the market. At the same time, the will to do it is there, and if you look to the chronology of events, the path is correct. It may take 10, 15 years, but we will get there.

The will is what is most important. Even if Pharma 2020 is fully implemented in 2030 instead, it is acceptable. We have a visible strategy, and the authorities will not change their minds.

What is your greatest motivation?

Russia is a very exciting market in terms of size and exposure, and it is very interesting. The people and the history are remarkable. It is not just about the pharma market for me. For French people, there is a mythical quality to this nation. Despite incomparable history, French and Russian people have a lot of common features. It is not by chance that Russia and France have been partners during several wars. Despite difficulties with my team, we are all focusing on solutions and performance with certain level of success. If we mix people, country, and market, all is attractive. Of course you face many challenges when you live in Russia: weather is difficult, language is difficult, etc. But you must take it as a glass that is half empty or half full! It depends on your

understanding of life.

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

Russia is definitively a strategic market for pharmaceuticals, as the health needs of 141 million inhabitants are important. Of course for multinational companies, the strategy for the Russian pharmaceutical market is balanced with the global strategy. As investments are significant for such a large market, the decision must be rational and driven by the size of your operations today and tomorrow, your product portfolio, and a long-term strategic commitment to the region.

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