

Interview with Giovanni Recordati, Chairman & CEO, Recordati

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Recordati was created in 1926, and the combined work of three generations turned the small laboratory not only into a local success story but also a broad European Group. Your grandfather Giovanni Recordati transformed an apothecary into a modern drug-based scientific business; your father Arrigo Recordati took the company towards listing, and you are now building on this legacy since 1999, leading the company through a new important stage of its development, with a significant expansion policy. What have been the major milestones of the groups' history?

A key milestone of Recordati was its early listing on Milan's stock exchange in 1984, making it the only public pharmaceutical company in Italy. My father then started expanding the operations with the company's first acquisition in Spain by the early 1990's. His vision has been maintained throughout the years after his unfortunate death in 1999. As a result, Recordati's current international sales represent over 70% of the total and investment in R&D is one of the key success factors. Indeed, Recordati maintained a high level of investment in this field even in periods of strong price control, such as the seventies and eighties as well as today, when frozen prices are still a reality. Nowadays, the company is still betting on a virtuous circle that starts with research activities, directly leading to the development of very profitable proprietary products such as Lercanidipine, which can be successfully exported to foreign markets- and therefore enable to generate profits to be reinvested in research. However, developing in new markets is a challenging process. Becoming a "European Speciality Pharmaceutical Company" requires to be very cautious

when entering a country, taking into account the cultural and contextual peculiarities that can be found inside the European Union in order to fit each target. For instance, being competitive in Germany or in the UK implies searching for specialty niches in a generics-dominated market. On the contrary, Southern European countries still offer opportunities for co-marketing and primary care, whereas Eastern Europe is still an adequate land to launch branded generics or other products that would be outdated in the western part of the continent.

As the architect of this expansion which enabled Recordati to have a foot in France, Germany, UK, Greece, Portugal and since last December Turkey, could you explain the rationale behind focusing on mature Europe versus emerging countries, as it is the trend for most of your counterparts?

Recordati has been very open to new emerging European markets. Acquisitions in such countries sometimes failed – like in Poland six years ago – showing that successfully purchasing companies sometimes also relies on luck. It has been the case when Recordati tried to enter Turkey and was offered, by chance, a good opportunity. The process eventually led to the successful acquisition of Yeni Ilaç, despite the fierce competition with other pharmaceutical companies looking at similar investments. Good fortune also played a great part in achieving Recordati's German ambitions – while it seemed almost impossible to negotiate with the Merckle family, they themselves approached our team for the sale of their pharmaceutical activities.

Recordati's strategy seems to be based on expansion through acquisitions more than on building affiliates greenfield. Could you comment on that?

A mixed strategy has been adopted. Recordati also created some start ups, for instance in Greece and in the UK, where the Lercanidipine's rights were regained from the existing licensee. However, acquiring local companies is easier and safer than launching start ups, even though it can seem more expensive from the start. For instance, Recordati's success in Russia relies on the purchase of the French company FIC Medical, directly distributing the Bouchara Portfolio from Paris to the Russian market, together with other products from middle size European companies. Recordati's direct presence in Russia helped developing a better understanding of the market – therefore significantly reducing the risks. In a few words, Recordati's main value is to be a real European company, present in its major markets, without being represented by others. Having its own market share and sales force enables the group to make the difference.

How are the current expansion trends due to evolve in the future and do you see Recordati growing international mainly through acquisitions or licensing agreements?

International expansion is partly driven by the growing difficulty to release and license new products on a national and European basis. But many international companies, like some American and Japanese ones, prefer to licence in the European market which is easier and accelerates the products' development. As drugs lives are getting shorter, losing one year of development means losing one year of sales. Thus, it's very important to develop through partnerships in order to have a quick access to the market. Recordati has a clear strategy to cover all Europe, with a very effective and dynamic marketing organization, relying on more than 3000 employees, half of them being representatives. Together with the company's wide European presence, its strong workforce is a credible value to our counterparts seeking partnerships to penetrate the European market.

Looking at these new upcoming partnerships and as our readers are your partners, why should a company choose to market Recordati's products like Zandip in other countries? What makes you the partner of choice?

Strategies of all companies, including the largest multinationals, have radically changed in the past few years. Nowadays, due to the difficulty of releasing new products, many of those that defined themselves as "non-generics" just two years ago are now trying to position themselves in this category. Others started to diversify into biosimilars. The rationale behind launching Lercanidipine was that all the opportunities have to be considered, in a context when retaining a small share of wide markets such as calcium antagonists is very profitable. As it seems increasingly challenging to find and launch new products, Recordati acquired Orphan Drugs Europe in 2007.

What does it says about the company's will to explore new therapeutic areas?

Recordati is trying to restrict the vulnerable products' share in its portfolio, especially those that are attackable by generics, by finding new patented products and investing in specialty care. The Orphan opportunity was very interesting to diversify Recordati's portfolio with products such as Normosang and Carbaglu, which were first aimed at orphan diseases and later developed as "billion Euros products". The unavoidable growth of generics will create the need to diversify into other kind of products like specialty, orphan or OTC. As you explained when presenting your 2009-2011 business plan, "acquisitions made recently will generate sales growth and contribute to the group's profitability.

We will therefore continue with our acquisition policy to add impetus to both sales and profits growth."Relying on this strategy, where do you want to take the company in the next five years, in terms of growth, revenues and market positioning in Italy and Europe?

Recordati will remain a European company based on both R&D and licensed products. This does not exclude expansion outside Europe, for example in the US. The American market offers great opportunities for orphan products, for which very small promotional efforts are needed. In addition, Eastern European countries are identified as a growth area even with their current financial difficulties. For instance, Russian per capita consumption of medicines is of just 60 US\$; compared to Western Europe's 600US\$. Some Italian companies are worldwide recognized but there is no real equivalent to other top ranked European multinationals.

What would you say has stopped many Italian companies to reach the step above in terms of worldwide recognition?

Italy doesn't have an industrial tradition like Germany or the UK and is historically a country of commerce and fine arts. The specific circumstance that reinforced this pattern of small and medium-sized companies in the pharmaceutical field is that patent protection was introduced only in the 1970's. There is also a cultural reason; Italian entrepreneurs tend to be more individualistic and eager to run their companies in their own way, what makes mergers a more difficult process than in other countries.

How is Recordati going to overcome these very specific Italian challenges in order to keep growing as a European speciality pharmaceutical company?

First of all, by maintaining the internationalization strategy. It is always safer to depend upon a bigger basket of markets than just one. Naturally, Recordati has first seen the opportunities in Western European markets, which have more similarities with Italy and in which the company identified niches for its products. For example, Recordati has had a very good success in France with Lercanidipine, co-marketed with Pierre Fabre, whose sales now represent twice the Italian ones. The industry will face great challenges in the times to come, but in any case, Europe will remain a major market in terms of size and purchase power. In addition, it is more stable than the so-called "emerging markets" whose economies and markets suffer much more political pressures than ours.

This is why European consolidation is the best strategy for a company of our size. Recordati has been built from one generation to another, you built and transformed on your father's legacy, what legacy do you want to leave behind you?

Throughout our history we went through three different stages. My grandfather, the founder of the company, was the typical figure of pharmacist. He had his little pharmacy in Italy's countryside and started as many other pharmaceutical companies did. My father then moved the company to Milan

and later into the stock exchange. From a small company it became Recordati, a R&D based group. He was also the one responsible for the start of our internationalization. When I took the company's leadership I maintained the European strategy which is part of the company's heritage. Recordati is still mainly a GP-orientated company, but we are confident about our diversification into a broader portfolio and a wider European market. To remain independent and offer high growth rates, we must continue to be profitable and deliver results. In the end, success is not about size; it's about the quality of growth.

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