Miguel Salazar – President and Country Managing Director, Boehringer Ingelheim Mexico



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Boehringer Ingelheim is turning 130 in 2015. Miguel Salazar, president and country managing director for Mexico,

explains how he is steering the company to bypass the currents of the ever-changing Mexican market to lead the company to enter the top five in the coming future.

How has the pharmaceutical industry in Mexico changed since we last met you in 2012?

A tremendous energy can now be perceived in the Mexican healthcare industry and it is a great time for doing business in the pharmaceutical sector. Many companies typically classify Mexico as an emerging market, although it is rather behaving as a mature one; we are still an out of pocket country, but the market is growing at only a 3 percent rate. Therefore we find ourselves in a very interesting position within the industry. There is so much accumulated energy that everything can only go in the right direction, whether towards biotechnology, R&D, distribution, innovation or generics – the changes in the pharmaceutical industry represent excellent opportunities.

Mexico is a great seeding area where companies have a tremendous growth potential. Indeed, this industry must be the most regulated in the world, as our products are dedicated to the benefit of human lives and Mexican authorities are doing a great job in translating this energy into benefit for the patients. I do not see any dark clouds in the horizon, which, on the contrary, appear to me as clean and shiny. Of course tough winds and challenges may arise and slow us down, but flying at

different altitudes will help us bypass the currents.

Boehringer Ingelheim (BI) Mexico ended 2013 with sales hitting USD 375 million, 6.8 percent more than estimated, and you expect to end 2014 on a positive note. How did you reach these positive results taking in consideration the overall flat performance of the industry?

In 2014 the prescription-based pharmaceutical industry in Mexico is foreseen to grow by not more than two percent, while sales of BI in the private market are expected to increase by ten percent. This means we will be outgrowing five times the market, which is great news as it tells us that all the things we have done are finally catching up with the opportunity.

There might have been a component of luck, but my board of directors and the rest of the management clearly have a good direction. A year ago we all sat down together to write our view for the future. BI has a very clear corporate vision: value through innovation. The mission to save lives is very straightforward. However, when it comes to our local dream for Mexico, it is different. Our dream is to change this country by setting the example, being inspirational, innovative, a role model for our employees, our patients and doctors. For this reason it is a huge honor to be in this industry. When our families ask about our jobs, we can say that at BI we do not only sell products, but we are fully committed to help our patients, as – at the end of the day – we save lives.

Despite the outstanding work of COFEPRIS (the Federal Commission for the Protection against Sanitary Risk) to reduce approval times, the inclusion of new molecules into the national formularies of public healthcare institutions is still a long process, putting Mexico in a disadvantage compared to countries such as Brazil. How would you assess drug access here in Mexico and what would you recommend improving?

I do not see COFEPRIS as a synonymous of access, but rather as an entry point. Our company defines access as present only when more than 80 percent of the population can actually get the demanded products, be it in the private market, which in Mexico accounts for a bare 12 percent but generates more than 80 percent of the pharmaceutical sales, or in the public sector, which moves over 60 percent of the units. We believe COFEPRIS has modernized enough to have an impact and get the wheel moving, but deregulation and simplification still need to be perfected. Today’s reality is that even once you have your products approved, you still need to fight to retain it. Speaking of cancer, for example, 90 percent of the patients are in the social security scheme. Given the problems with access, this is a tremendous burden as well as a huge cost for the country. We need to have more price negotiation schemes and this is something that BI has been

doing for many years. There are many innovative BI drugs that can be cost saving for institutions and/or cost neutral for the society so to enhance patients' lives.

Over the past couple of years, there have been some drastic changes in retail, with an increased consolidation of large pharmacy chains. Recent news also portrayed the incursion of the retailer FEMSA in the segment, with the acquisition of the YZA, FM Moderna and Farmacon. How did this impact your business and how do you think the Mexican pharmacy retail sector is going to evolve in the future?

Today everybody is talking about the problems of wholesaler Casa Saba and international enterprises such as Alliance Boots, Wal-Mart and FEMSA eying the Mexican drugstore market. Mexico is very strong when it comes to distribution and it has been for the past twenty years. However, I must admit, I hope to see an increasing number of players entering the scene because this will allow patients to access our medicines everywhere.

Distribution is not BI's core business, but it is core to our business. What I mean is we are not in the business of distributing products, but it is always important for us to find ways of accelerating it. I see distribution as a means for our products to get to our customers and we are very fair in terms of providing sufficient and flexible margins to our supply chain colleagues. BI has a very good reputation with distribution chains such as Nadro and Casa Saba, as we are very honest and transparent and never act purely because we are forced by distribution. And if BI is ever going to change its distribution strategy, I would be very upfront about it and call them to explain immediately.

I think that given the trend, pharmacies could play a much more important role to facilitate the distribution and storage of drugs even for the government, thus driving down expenditure. Pharmacies do a great job with very little or almost no help from the government. For example, it would be great to have the technology at the point-of-sale to differentiate social security patients from private ones, which would enable pharmacists to quickly differentiate patients and consequently the price they should charge for a drug.

In May 2014 you announced the plan to invest nearly USD 26 million to increase the production capacities of your manufacturing plants in Guadalajara and Xochimilco. How are you going to invest this money and how will it impact the footprint of BI in Mexico?

BI is ranked 17th in the world and 6th in Mexico. Mexico is amongst the top ten markets so, differently from other countries, we are very relevant to the corporation and are given the power to speak up. Our voice gives us voting opportunity not only for Mexico, but for emerging markets as a

whole. Since 1995 Mexico has been appointed a strategic production site by the corporate, which made us the only pharmaceutical company in Mexico that is FDA approved to manufacture for the US market. This is very important because the level of quality found here is of extreme standards. Moreover, Mexico manufactures animal health products for the whole world and we are a center of excellence for clinical trials. In fact, we do R&D starting from the chemical molecule all the way to production. We are also handling Central America from Mexico and have a hub for warehousing and distributing. We are also planning to convert Mexico in a hub for the manufacturing of diabetes products to then distribute them to the whole world.

Last time we met you the company was number seven in Mexican market and now you are number six. How far are you from reaching number five and how are you going to reach this objective?

The gap between the 6^{th} and the 5^{th} position is very big so it will be tough for us to reach that. However, we hold the 10^{th} position for prescription medicines in the market and we are only some digits away from becoming number nine. This is great considering that in 2012 we were at the 13^{th} place. The difference between position nine and eight is very small, so I predict that BI Mexico will become number eight in the next two years as, considering the pipeline, we are full of opportunities. We have launched three molecules for diabetes in less than three years and the fourth one is soon approaching. We are going to be strong in oncology and will soon launch two more products in that area too. We are also thinking of launching products for CNS (central nervous system) diseases such as Parkinson and schizophrenia.

BI started back in 1885, is a privately owned company and will continue to remain independent in the future. Our focus will go into optimizing the way we work, as this is a constant in our value and we truly believe that passion should be our drive. The population of Mexico is very young so the success of certain products has been slow. All that needs to be done is wait for the market to expand. Pharmaceutical companies are numerous and some may be better known or easier to pronounce but we are turning 130 years and I am certain we will overcome the tough 2015 ahead of us.

What advise would you give to foreign companies eying Mexico?

Mexico is a country with a lot of youth and technology. English as a subject is being enhanced within the education system and universities are pointing towards the right direction. There are great opportunities in talent management too, as skilled people are increasingly engaged with the pharmaceutical industry. It would be crazy for companies not to invest in Mexico. My personal view

is that there will be a second wave of growth that will follow that of the 1980s. The political and social situation may not be stabilized but, economically, Mexico is very stable and attractive.

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