

Interview: Haluk Sancak, Ümit Ceylan & Köksal Ülgen - Chairman, Vice-Chairman, & General Manager, Pharmactive - Turkey



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The leadership of Turkey's newest major pharmaceutical player, Pharmactive, discuss the firm's two pronged growth strategy, detailing their own sales objectives and prospects, as well as the opportunities that they can bring to multinational pharmaceutical companies as a flexible, top-quality pharmaceutical company.

Pharmactive has entered the Turkish market with a substantial USD 200 million investment; what was the vision and motivation behind this large initial investment?

Haluk Sancak -
President

Taking into Turkey's demographic trends and healthcare reforms, we are confident that there will be strong growth in the domestic pharma industry. Furthermore, given Turkey's geographical position and the political developments in the surrounding region, we sincerely believe that Turkey is a key industrial hub for the pharmaceutical industry that will only continue to grow. The local market is growing steadily in volume as patients are becoming more health conscious, and thus are seeking medical attention or OTC products more readily. Another issue is that we are seeing a trend towards generics in the Turkish market; physicians are prescribing generics more frequently,

and have a good opinion about the quality of locally produced products. This is why the Turkish local industry is getting stronger, and the market is becoming more genericized with international as well as local companies getting into generics. Our investment was motivated by these market trends, and our conviction that they will be sustained in the medium to long term.

How have you incorporated the lessons that the rest of the industry learned as the market has evolved over the last six years into Pharmactive's structure and commercial strategy?



Ümit Ceylan –
Vice President

The whole industry has known that pharmaceutical prices would be decreasing since 2004. Developing this company, our first concern was minimizing production costs to have a competitive edge, that's why we have built up such a large facility; it is a burden now but in time it will be an advantage for us, as we will benefit from significant economies of scale. The second issue is sales and marketing expenses, which most of the industry had to reconsider as prices fell. We have established all our strategies all our team structure to avoid this scenario from the beginning by being very cautious about the organization matrix at all departments, and sales and marketing expenses that we monitor closely and are confident we can control.

You started with some very ambitious goals, including reaching the top five in generics sales for Turkey. Now in your third year on the market, how much progress have you made towards these goals?



Köksal Ülgen

– General
Manager

We are very young company, but one with a very strong R&D group and high quality facilities. This has allowed us to develop a strong portfolio of products over the last two years, and will continue to push our business forward as an engine of growth and as a service center for third parties interested in outsourcing production or product development to us. Our R&D facility has been recognized as an R&D Center by the Turkish government, certifying the quality, capability and capacity of the facility. Our second major goal is creating 25% of our sales from international markets. In line with this goal, our production facilities recently received EU GMP certification from the Germany Ministry of Health, BfArM. This certification came earlier than expected, and is a huge achievement for us given how new our company is; no company can expect to receive this sort of recognition only two years after beginning operations. With BfArM approval, now we have a lot of opportunities for CMO, co-development, development and sales and marketing partnerships in EU countries and in other countries where EU GMP approval is well accepted. We will be launching our first generic products in EU by 2017. we are currently working on strategies to enter the USA pharmaceutical market and evaluating different kinds of market entry strategies. Our ultimate goal is getting the FDA approval and starting our own products with our label with our team in the USA pharmaceutical market within three years time.

In the local market we have the expectation of reaching the top five in terms of generic manufacturers, and this is a goal that we should be able to easily achieve, equivalent to roughly USD 200 million in sales per year. We currently have a production capacity of 330 million units per year, of which we are utilizing approximately 15 percent of this capacity at present and hope to increase this 18 to 20 percent by the end of the year if things go well. Our five-year plan aims to generate 40 percent of our total turnover from contract manufacturing, and by the end of this year that number will be between 10 and 12 percent.

Our plan, which is ambitious by some measures, is to start with EU and USA, the two toughest markets. We have decided to target these markets because there is a much greater reward to doing so, despite the higher required investment and associated risks. We also have different market entry strategies for different regions and countries, such as Gulf Region, CIS region and MENA region.

With regard to your own product portfolio, which spans a broad range of therapeutic areas, in which market have you built the strongest foothold so far?

Thus far, dermatology appears to be the area with the most potential for our business, however we don't rule out any category because given the changes in the healthcare system that have increased patient access so much over the last ten years, we are confident that pharmaceutical consumption will increase in every area. So we don't rule anything out, and monitor each segment closely.

What is Pharmactive's unique value proposition?

First of all, we have a lot of excess capacity and can produce a lot of volume for our clients; this is a major advantage as many of the other top-quality contract manufacturers are operating at or near capacity. Also, as a company that develops, manufactures, and sells our own products, we put our own reputation and brand behind our manufacturing quality, which is a stronger guarantee than pure CMOs can give.



Perhaps most importantly, we are a very new company with a lot of excess capacity and room to expand. Since our operations are still expanding and being developed, the course of this development can be influenced or molded by a third party, and this is something that we invite. We are happy to accept the guidance, advice, and support of global pharmaceutical players who would like us to develop specific capabilities and technologies so we can produce their products for them, as we are seeking to establish long-term relationships with them; we are even open to allowing them to design aspects of our facilities that have yet to be established. In this regard, Pharmactive is a production platform for the global pharmaceutical business that can be adapted to fit their specific needs.

According to our five-year plan, we are concentrating mostly on conventional products; we still have 85 percent of unutilized capacity. However, over the next five years we may encounter opportunities to move in other directions, perhaps inhalers, hormones, or sterile manufacturing; we are flexible and will take the opportunities that present themselves along the road. For now, we prefer to remain flexible. Biosimilars are the least likely direction for us to move in the near future.

In addition to those, we have a very strong sales and marketing team. It is one of the largest teams in the Turkish pharmaceutical market with strong marketing and sales capabilities. This enables us to promote other companies' products that need a strong sales and marketing team behind them that has in-depth expertise and can achieve good coverage of physicians.

What drives you personally Haluk, and what initiated this journey? Who is Haluk Sancak?

25 years ago we entered into the pharmaceutical distribution business as a family, and started the Hedef group. This venture gave us a big vision and lots of experience in the sector, and now after 25 years we have decided to get into the other side of the pharma business and become manufacturers ourselves. The family itself is the driver of this vision, but my older brother Abdülrezzak Sancak and myself are the more direct pioneers and founders of this business. Since we have this vision, we have started to work with people and managers who suit our vision, and we started with them.



What would you like Pharmactive to achieve in the next five years, Koksai?

By then we will be in the top five generics manufactures in Turkey, and in fact this will hopefully happen before 2020. By then we will be the largest CMO in Turkey in terms of output and the

number of client companies. By then we will be able to create 25 to 30 percent of our sales from exports with the potential to grow further, and we will be the only Turkish pharmaceutical company which will have a solid presence on the US pharmaceutical market with its own team. Furthermore, we will have to hire significantly more employees, as we have only 800 at present, and by 2020 we will need at least 2000.

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