Interview: Pierre Banzet – President, Group Synerlab, France



03.11.2015

Tags: pharma, pharmaceutical, France, Pierre Banzet, Group Synerlab, Synerlab, manufacturing, preservative-free eye drops, generics, executive insight, executive interviews, CEO interviews,

Pierre Banzet, President of Group Synerlab, one of the top ten French CMOs, discusses his group's ambitious European expansion strategy, driven by their specialties in multi-dose, preservative-free eye drops, generics, medical devices and hospital markets, and uniqueness in terms of its culture of customer service. He also discusses his perspective on French competitiveness in terms of manufacturing and generics development.

In 2013, 21 Partners, a leading European private equity firm acquired Synerlab from Ardian, a French independent private investment company. How has the acquisition affected Synerlab's operational capacities and strategic outlook?

21 Partners took a majority share in December 2013 but Ardian has reinvested in Synerlab and both will work in conjunction to support us in our pan-European development. We have an ambitious growth strategy and the 2013 development was very much in line with this. The paramount objective for us is to become a fully-fledged European CMO. We have five plants in France and the immediate goal is to have a plant outside of France. This is already under negotiation and we will be announcing an acquisition of a company in Europe by the end of this year.

We intend to focus first on Western European countries like Spain, Switzerland, Germany and perhaps Portugal, both because of their geographical proximity to France and their significant market sizes. We are also open to opportunities in Eastern Europe, but for the moment, our immediate priorities reside in Western Europe. More concretely, we would like to double our turnover in five years, from EUR 110 million (USD 120 million) to around EUR 250 million (USD 272 million). With regard to our long-term ambitions, we would eventually be targeting the USA. Given that it is the biggest pharmaceutical market in the world, we will ultimately want to be present in that market as well.

Can you elaborate on your pan-European development strategy?

From a strategic perspective, a double-pronged approach is required. We will need a balanced focus on both organic and external growth in order to achieve the desired doubling of our turnover. Our organic growth strategy first began a few years ago with the 2010 acquisition of Pharmaster, which produces multi-dose preservative-free eye drops. This product represents a significant innovation, as before, only single doses were available, and this results in significant cost savings. Subsequently, in 2012, we acquired IDD-Tech in Orléans, now called Synerlab Développement, which used to be a Novartis development center. This has improved our capacity and we are now able to provide early-stage support for our clients, both in terms of analytical and galenical development. The synergy between this site and our manufacturing operations allows us to provide more comprehensive support to our customers through the various stages of development and manufacture.

What part of your future turnover would you want to be international?

This is a natural mechanical aspect to our pan-European strategy: a plant in a different country will typically produce more for the domestic market, so with our planned emergence in new overseas market, we expect to see an increase in our international exports. As it stands, Pharmaster is our most international facility, with 70% of production exported. This is partially due to its presence in a niche market, which increases the proportion of overseas clients. An overseas presence will increase our exposure to new markets and clients, which will aid in our risk diversification.

As a purely French CMO, it is difficult to enter new markets in other countries, especially in more common forms like tablets. We face fierce local competition and we lack the local advantage, for instance, in terms of language, knowledge, exposure. While foreign pharma companies may be interested in our services, it is hard for us to differentiate ourselves from the multitude of existing foreign CMOs that are already present in and familiar with the local industry.

What are the main growth drivers at the moment?

Our multi-dose preservative-free eye drops and nasal sprays, as described, represent a core pillar of our development. But at the moment, we derive our growth mainly through our medical devices operations. This is because the development and manufacture of medical devices are simpler than pharmaceutics, partially due to the less difficult regulatory environment. The future and solid growth will come, on the other hand, from medicine.

We have also identified other areas of focus. We have a strong focus on generics in Laboratoires BTT, where the output is 80 percent generics. We have worked with all the major French generic players since their very inception, with the result being that we have cultivated extremely strong relationships with them. Given the potential in the generics market, particularly in France where the penetration is still relatively low, this will continue to generate growth for our group.

In addition, we have directed our operations to specialize in a few niche areas, like the production of small and medium-sized batches and production for hospitals. Relating to the latter, the flexibility and competitiveness that we have cultivated have proven very attractive to hospital markets, which in turn allows us to remain a trusted partner for them.

Another very interesting trend relates to the partnerships between Big Pharma, biotech start-ups and CMOs. More and more, Big Pharma companies acquire biotech start-ups and their products instead of relying solely on their own R&D department. Then, they subcontract production to CMOs and other service providers. It is very possible that Big Pharma in the future will have very lean manufacturing divisions, if at all, and they will instead focus solely on marketing and obtaining regulatory approval.

There has been increased debate surrounding France’s loss of competitiveness in this industry, and there are many examples of Big Pharma shifting production to emerging markets, both in Eastern Europe and globally. How attractive is France for the industry and what are the strengths and weaknesses?

The weakening of the pharmaceutical industry, especially in terms of manufacturing, is not a French issue but a global one. Very broadly speaking, there are simply too many factories and a gross overcapacity, which is certainly problematic. The regulatory environment in France is difficult as well, particularly for smaller companies like Synerlab. As a concrete example, take the situation with generics in France. Companies cannot start production of a generic before the patent of the branded drug falls. This is a huge problem, because ideally, we want to have the product available as soon as the patent falls, and in France, it takes three to five years, which is an extremely costly

lag. As a result, a lot of new generics are manufactured abroad. Another issue is that the French government's list of drugs for which generics can be substituted is insufficiently comprehensive, at only 30 percent of the overall drug market. In France, paracetamol is not on this list, so pharmacists cannot provide generic paracetamol when patients present their prescriptions, which is unbelievable!

However, France still retains some very important strengths, of which the most critical is the high level of technical knowledge of the pharmaceutical workforce. This is very much appreciated by the pharmaceutical industry and it should not be underestimated. Furthermore, there is an increasing trend of 'regionalization' within the pharmaceutical industry, where companies decide to produce in Europe for European markets, Asia for Asian markets, and so on, for a variety of reasons like the reliability of supply chains. The main driver that pushed production to emerging markets is wage levels, and those are in the process of increasing. If the only factor was price, companies would face a neverending race to the bottom. Now they are in China and India, but soon they will need to move to Malaysia, Indonesia, and so on. This is not sustainable.

How does Synerlab differentiate itself from other CMOs?

Fundamentally, Synerlab has a very interesting DNA, which represents our core asset. Each of our constituent companies started out as CMOs, with the recent exception of Synerlab Développement, which as mentioned was originally a substidiary of Novartis. At the heart of Synerlab Group lies a real culture of customer service, which I think differentiates us from the CMOs that have developed from acquisition of Big Pharma plants, who then have to accommodate, adapt to and change the Big Pharma culture.

We are also actively improving the Group to boost our competitiveness. We are focused on increasing the services we can provide to our clients. To this end, we are looking at in-house R&D opportunities as well as partnerships with medtech companies. We would also like to be able to provide more regulatory services. Finally, we would like to develop our own portfolio as well, which we could then leverage on in negotiations with pharma companies. For instance, OTC companies often need drug portfolios they can commercialize, and we can then use our portfolio to tie in manufacturing partnerships. More diversification in terms of our portfolio and capabilities would augment our attractiveness as a partner for Big Pharma. At the moment, a project that is important to us may be just a single component of a huge project within a Big Pharma's portfolio, which leads to an imbalance within the partnership if we provide only the manufacturing.

What inspires you to go to work every day?

First and foremost, contract manufacturing is in my blood! My father was one of the founders of Laboratoires BTT, which is one of Group Synerlab's subsidiaries. This group is very close to my heart. I also feel very acutely the responsibility I have towards my employees. I need to develop Group Synerlab for the sake of the 750 people I employ, who depend on the company for their livelihoods. Finally, we are in the process of building a global group, and for it to be sustainable, it needs to have a strong foundation. It is a huge challenge to structure a group properly from the bottom-up, but it is something I relish enormously.

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