

# Interview: Michel Spagnol - Chairman & CEO, Novasep, France

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12.01.2016

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*Novasep is the largest contract manufacturer for the pharmaceuticals and fine chemicals industries in France. Michel Spagnol, the company's chairman and CEO, highlights recent reorganization and "back to basics" strategy based on organic growth improving the product mix and underscoring new investments.*

## **What is your perspective regarding the state of France's manufacturing capacity today?**

The specialized industrial capacity in France and Europe will remain solid, but this requires staying ahead of the curve. CMO companies need to constantly adapt their facilities to the market demand. In this context, flexibility is driving the CMO business; factories built 20 years ago are no longer relevant to serve the pharmaceutical industry today. The production of small molecules and APIs requiring very large capacities the pharmaceutical companies used to need are no longer making sense. Today, production must be tailored to market demand.

In addition to French sites, Novasep has facilities in Germany, Belgium, the United States and China. But beside this global presence, we consider ourselves a French company as we have invested more than €100 million in France over the last five years. More than 60 percent of our employees are in France while 90 percent of our sales are made abroad, in Europe, North America and Asia. These international customers ask for the highest industry standards and this is what

they can find when they come to us. Just like most companies in France, we aim to keep our level of expertise high. It requires that we constantly adapt, either by divesting some sites or investing in new production tools.

### **What did you feel you could bring from your previous experiences to Novasep?**

I was born in France, and I understand the country well; but I spent most of my professional life abroad, in the US, UK and India. From these times, I acquired a strong experience on how business is done elsewhere, that I could bring to a French company. I joined Novasep in June 2013, and my mandate was to spend one year diagnosing the company to define a strategic plan for development. But we actually only spent a couple of months on this phase as major strategic improvements could be identified immediately.

### **What were the biggest changes that needed to be made?**

Novasep undertook a major financial restructuring in 2012. Before joining Novasep, I was at an Indian competitor; I thought I would find this business in turmoil. For companies like Novasep, which are fundamentally technology-focused, losing the knowledge base is the worst-case scenario. In fact this was not the case. We could rebuild a strategy around the technology knowledge of our experts that is a very strong asset of the company.

Before I joined, Novasep grew through acquisitions, and during this phase there was little integration of the new sites. Before implementing our new strategy, I spent about two months with employees in all of our plants; I was surprised to find that people did not identify themselves with Novasep, but rather to their previous companies. To me, a fundamental step was to create the Novasep spirit for truly building up the group. So we went "back to basics" to develop a strategy based on our identity. Our values were identified very quickly by Novasep collectivity. We are "Customer focused" thanks to our Commitment, Innovation, Integrity and Teamwork.

### **How did this affect the Novasep brand?**

Novasep was well-known in the industry for its expertise in purification. Our previous motto suggested that our customers should have come to us when they had a problem with product purity. This is very restrictive from a market standpoint. We therefore daringly repositioned Novasep towards being a service organization. We are still doing purification, but fundamentally we are a CMO that differentiates itself not only through specialized technology but also the quality of its services. To implement these changes, we embarked on changing management, organization, and sales processes to rejuvenate the way we want to promote the company.

Novasep had gone for almost fifteen years growing primarily through acquisitions. It was time for the company to pause and this is what our “back to basics” strategy aims towards. We simplified our perimeter; for example we sold our Pharmachem site in the Bahamas in September 2014. We then focused on organic growth by redeploying capital rather than acquiring new assets. Such strategies cannot be done forever, but we had to slow down the acquisition rate and make organic growth. Two years later, we have been very successful and are now a fast-growing player.

**What are the pillars of this organic growth that will drive future growth?**

Execution, execution, execution! I have worked in strategy for much of my career; having a strategy is great, but delivering on the promises of that strategy is crucial. Novasep is now a very strong company; the new management I hired had a good track record in delivering. We implement and pilot our strategic plan using our excellence program that is reviewed on a monthly basis. To embark on something like this requires that management has to frequently take swift decisions, but this has brought a renewed sense of dynamism to Novasep!

**Novasep offers a variety of services in contract manufacturing and process development in many niches. What are your most exciting projects in biopharma and pharma?**

The trend in new classes of pharmaceutical products means that Novasep is moving towards innovative highly specialized technologies – where margins are very good, by the way.

In this context, our biopharmaceuticals division is our fastest-growing area, where we are deploying a lot of capital. This strong demand comes from very innovative areas such as the viral vectors and new generation vaccines for gene therapy. These markets are really booming at the moment; we have two sites in Belgium addressing them, and we have increased our activity there by 100 percent over the last 14 months. We will have to redeploy capital assets to address the current and future level of demand of this market, but we have already a great base. Novasep is among the top leaders in that particular field; we have 15 years of experience in the production of viral vectors with a wide track record.

We are also developing our offering in antibody drug conjugate production. We were already manufacturing high potent payloads with a leadership position in Le Mans alongside the production of antibodies in our Belgium site. We recently announced an investment in our Le Mans site, for building a facility dedicated to the conjugation step. Production will probably start in the first quarter of 2017.

We will also continue of course the historical business of Novasep, which involves equipment business for purification. We see that this segment is continuing to grow, driven by businesses like insulin. This product is growing due to an unfortunate macro trend of increase of obesity and diabetes across the world, and particularly in Asia. For example, the Chinese authorities issued a note in 2014 calling for two insulin plants in every province, which provides many business opportunities. That activity of equipment continues to drive growth and innovation for us.

We have also announced an investment of €35 million in the south of France to make ultra-purified omega-3 for pharmaceutical application. We will see more of those applications in the future.

**From your perspective, what do you have to keep in mind for these kinds of investments?**

It is mainly market-driven. For a company of our size, Novasep has a large marketing department. It is fed with much activity for identifying where the market is growing and how our customers' needs evolve. This work supports our decisions to invest in new services and technologies.

**What makes Novasep the CMO partner of choice for the industry?**

We differentiate ourselves through the quality of our services and our specialized technology toolbox. This technical differentiation is obvious in technologies for synthesis such as hazardous chemistry, ozonolysis and cryogenic reactions, but also chromatography equipment, highly potent API production and viral vector activity. We are also recognized by the way Novasep is doing business. We can adapt to our customers' needs whether they need services or equipment for their own facilities. We can go further in some cases offering to build dedicated facilities that we operate for them. Unless you do business with us, it is difficult to grasp, but our customer satisfaction and repeat business is a solid indicator of our group's performance.

**What aspects of managing Novasep do you find to be most challenging?**

It is all about being on track with our business plan. In this business, I cannot control everything. Many of my board members ask me how I choose the best projects. If I knew, I would be in a very different business! Given the importance of regulators, it is all about de-risking the business as much as possible.

Novasep is a company that can offer services from contract research to preclinical and all the way to commercial. But from a strategic standpoint, we want to focus on late-phase projects, simply because these kinds of projects can absorb a large part of the fixed costs. They also require larger volumes to be produced and enable us to control our cycles of production more efficiently.

However, they present more risks that are balanced by higher margins. To conduct these kinds of projects we constantly need to improve ourselves and invest in our facilities. But while we have decided to focus on late-stage projects, we keep contracting early stage projects in specific areas such as ADC or viral vectors.

### **What are your expectations for Novasep by 2020?**

The aim is to be the world leader in all our markets!

Cycles in our industry are very long; when we make a large investment, it tends to be equity cases that generate significant profit five years down the line.

The success of such investment is the result of three parameters: identify the right area or technology, develop the expertise at the highest level and also be lucky!

Given the dynamics we see on our markets and the expertise we have internally, we are very realistic and optimistic at the same time.

For me, bigger is not necessarily better; I do not measure the size of the company by its turnover but rather its profitability. This is why I believe Novasep has the possibility to be one of the largest if not the largest CMO in the world. We would have to triple our profit to achieve that, it is very much ambitious but not impossible. We must deploy our capital in the right area and, with a bit of luck and hard work, get the result of our efforts!

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