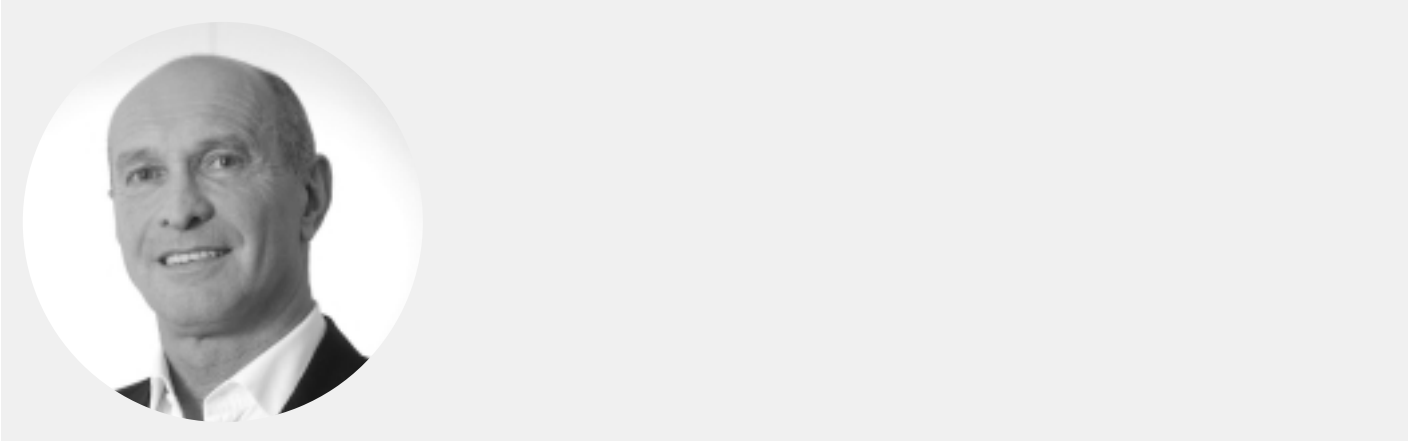
Interview: Bernard Fraisse – President, Fareva, France



28.04.2016

Tags: Pharma, Pharmaceuticals, France, Fareva, CMO, International Expansion, Growth, Strategy, French, Manufacturing, Contract Manufacturing, Quality, Interview, Insight, Executive, Exclusive, Free

Bernard Fraisse of Fareva, France's leading CMO, discusses growth, international expansion, loyalty to France, dedication to clients, and commitment to providing high quality products.

Many have predicted that pharma manufacturing in France will soon die out, but instead we have seen a shift from manufacturing of large pharmaceutical groups to CMOs, with a large part of that being taken over by Fareva. Did you foresee this type of evolution for Fareva when you started working in the pharmaceuticals field and have you seen this trend accelerate in recent years?

When we started pharmaceutical manufacturing in 2002, we foresaw the same evolution that we had already witnessed with cosmetics manufacturing years earlier, back in 1995. There was most definitely a large shift within pharmaceutical companies to outsource their manufacturing from internal to external sources. We realized that large pharmaceutical groups were seeking to restructure their production units in a more cost efficient manner. The capacity for production of these large pharmaceutical companies was only about 40 to 50 percent. This economic challenge led them to shift their production to Contract Manufacturing Organizations such as Fareva, which had the capacity and resources to ensure better profitability. The volumes we received from these different client bases allowed us to fill our production sites to full capacity, which in turn created more competitive pricing. CMOs were then able to reduce costs, ensure long-term employment and

the development of manufacturing sites.

Fareva is much more than a pure industrial partner; we are a service company. This explains our dedication to our clients considering our capacity to maintain good relationships with them and gain their trust. Pfizer, for example trusted our knowledge and resources on the Val-de- Reuil and Angers sites in 2005.

Fareva has a long history in subcontracting. I founded the company in 1990, starting in the industrial and household fields, before moving to cosmetics in 1995 and then to pharmaceuticals in 2002. Our growth had always only been organic before we acquired our first pharmaceutical site in Annonay in 2002. We have therefore been able to prove our capacity in new markets, with new clients and even in a new sector.

Why did Fareva shift from cosmetics to pharmaceuticals?

We moved to the pharmaceutical industry because it was the natural next development after our move from the cosmetics industry. Today our cosmetic and pharmaceutical activity each represent 45% of our business.

When we started our cosmetics line twenty years ago, we had a clear strategy to develop all possible technologies present in the cosmetic industry such as make-up, shampoo, body wash, aerosols, and capillary products. Large companies working with CMOs were looking to reduce the number of their suppliers. Our vision from the beginning was to be present in all of those very specialized activities and technologies that enabled us to be the ideal partner for large groups. We then followed the same strategy when we started in the pharmaceutical industry, developing all of the galienic forms to automatically become one of the major CMOs to be consulted by large groups. In 2005, the acquisition of the Pfizer site of Val-de-Reuil and Angers allowed us to cover all of the galienic forms in both pharmaceuticals and cosmetics.

Following this strategy, we then asked ourselves what else we could provide for our clients. We believe it is essential to be as close as possible to our clients and support them in their development. This led us to follow them in different countries and establish ourselves abroad; becoming privileged partners.

How would you qualify Fareva’s performance in 2015 and what have been some of the biggest challenges you have had to face these last years?

I would say that our biggest challenges since 2013 have been to renew our contracts and align ourselves with market price. Even though demand for subcontracting has increased significantly

over the last 5 to 10 years, CMOs' capacities have increased even more, causing prices to drop significantly. We have had to make sacrifices to renew those contracts, and this has resulted in profit reductions for the last 3 years. That being said, we are expecting to reach EUR 1.3 billion (USD 1.48 billion) revenues overall this year, and our company has grown significantly over the last decades from a mere EUR 5 million (USD 5.7 million) in 1990 to what we are today.

We succeeded in doing so because of our autonomy. Fareva is a 100% privately owned company; we do not depend on investment funds and do not have to distribute dividends, giving us complete flexibility and an ability to instill a long-term vision. Our financial independence and capacity to keep up with market prices has allowed us to successfully renew all of our contracts, thereby investing in our sites, and growing the company organically

What are your main priorities for the next five years? Will the focus be more in France or abroad? And will you develop new technologies and capabilities?

Our priority for those coming years is to increase a lot more our capabilities and extend our technologies of galienic form. For example, in Germany we are currently increasing our R&D capabilities by investing EUR 10 million (USD 11.41 million) on our API (Active Pharmaceutical Ingredients) manufacturing site and cytotoxic dry form. We are also investing EUR 17 million (USD 19.4 million) on our site at Val de Reuil to increase our capabilities of lyophilization, also known as Freeze-drying. Additionally, we are finalizing a EUR 28 million (USD 32 million) investment in Annonay, on our Excelvision site focused on ophthalmology. We are also looking to invest EUR 28 million (USD 32 million) in our newly (September 2015) acquired St-Germain-Laprade API site, former Merck Sharp & Dohme (MSD) plant.

Internationally, we are building a new cosmetics plant in Mexico, investing between EUR 8 to 10 million (USD 9.1 to 11.4 million). We are finalizing an investment of EUR 40 million (USD 45.6 million) on our OTC plant in Richmond, Virginia, bought from Pfizer in 2011 that will allow the deployment of cosmetics production capacity, essentially new aerosol and spray lines. Additionally, Fareva will also be investing in aerosol technology in Russia.

In a global context, what are, in your opinion, the advantages and limits of France for manufacturing pharmaceutical and cosmetic products?

France has always maintained steady investment for its plants, thereby guaranteeing excellence in manufacturing pharmaceutical and cosmetic products. From what I have seen, this has not been the case in the UK or the US for example, simply due to ownership structures. Priorities when owned by investment funds focused on EBITDA differ greatly from independent owned and run

companies. When we acquired plants in the USA, we had to invest a lot and I would say that in this precise case, it costs just as much to create a new plant as it does to acquire one!

Although this is not well-known, in France, we have better productivity than the US. All the constraints and inflexible labor laws we have to deal with, such as the 35 hour work week, force us to be more productive. Having a high productivity level does not mean we have cheaper products in France. On the contrary, we are focusing on high added value product made in a completely sterile environment. Sterile plants are actually where we have invested the most money in recently; the afore-mentioned EUR 28 million (USD 32 million) in Annonay and the EUR 17 million (USD 19.4 million) in Val de Reuil. Additionally, we have been transforming most of our plants so that they reach FDA standards, in order for Fareva to be able to compete with American companies. The truth is, there are not a lot of sterile plants in the US and when there are, the prices are very high. Hence, there is room for us to play a greater role and provide more competitive pricing.

The main advantage of France comes from the fact that we have excellent quality. We have seen quality problems in India and China which has boosted the number of firms coming back to countries such as France or Germany for the manufacturing of complex products in small quantities.

Could you give us an overview of the group's global presence and your priority markets for development looking to the future?

The biggest challenge when a French company decides to extend its presence abroad is the entrance fee. It is extremely costly to go international and to face all of the unexpected issues. Being well advised is an important aspect to consider before moving internationally. I have a team of brilliant executives that are fighting for the success of Fareva. The acquisition of our plants in different countries has allowed me to work with executives from major international firms that have been a great support system.

The United States is the next location where Fareva is looking to invest further. Fareva is trying to differentiate itself from different CMOs. We offer better technology, size and higher quality. Maintaining our culture of reactivity and service gives us a great competitive advantage. In the US, a lot of companies do not invest in their own plants, ultimately hurting their quality and productivity in the long term.

Fareva boasts of itself as a company with "all technologies, all dosage forms." Nevertheless, upcoming treatment will have a very different cycle of production, with

the integration of the treatment cycle, research, diagnostic, development, and production. How is Fareva getting ready for this?

We are currently specifically focused on developing our R&D and marketing fields. We have 12 R&D sites around the world. We have many facilities in Italy for our cosmetics lines and at the same time we are trying to implement our cosmetic facilities in the US and Brazil. We work on developing partnerships with our smaller clients in order to help deliver products that can be sold to smaller companies that do not have any facilities or means to produce these types of items.

We currently have two corporate R&D facilities, one in Sevigny and the other one in Tournon. From there we have satellite R&D sites in Russia, Mexico, Brazil and the US. We use our own core formulas and adapt them to local market needs. Brazil is for instance very rich in natural active ingredients that you can encounter in our products adapted for local demand. Our clients expect us to work closely with them. For example, the US division is expecting us to present new forms of syrups for their OTC products. Overall, we strive to become partners of choice to our clients and build long-term relationships.

What final few words would you like to send to our audience?

Fareva's strategy is based on the idea of service/customer relationship. We are not a typical industrial company. We are constantly asking ourselves what we can do to satisfy our clients while increasing our productivity. Our goal is to improve the service that we provide for our clients. To do this we follow our clients all over the world. This is how Fareva is different from many other CMOs as we are present in countries that matter to our clients. The future of Fareva is in our international development and partnership with clients while preserving the human values that make us strong.

Fareva means "*Faire Rêver*" (Make you dream) in Ardechois, the local dialect of the south east of France, the region where I come from and where Fareva is based. This truly reflects our corporate culture and philosophy; we have passion for actions.

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