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Thierry Mauvernay, president and delegate of the board of Debiopharm, discusses the Swiss Group's development over its 38 years of history, its unique business strategy, and how new trends such as personalized medicine and digitalization are being embraced moving forward.

Please start by introducing Debiopharm Group and explain how the company and its business model have changed in the last decade as a result of developments in the pharmaceutical industry.

38 years ago, my father created the company based on the "NRDO" model: No Research, Development Only. Not including sales in the model was a good strategic decision because it has allowed us to be very flexible, to focus on only one part of the value chain, and to stay open to the world for the research. We like to say: the globe is our research lab. This was a good way to start the company because at that time big pharmaceutical firms were committing a lot of their resources to research. In fact, more than 60 to 80 percent of their revenues went towards their own research. However, at present, that figure has dropped to become 20 to 30 percent. Now we have to adapt our model because of this new paradigm. However, we need to keep our specificity and originality. We don't want to copycat the big pharmaceutical companies by, for example, developing large sales capabilities. Our goal is not to become much bigger, but smarter and more

intelligent. We have to be even more focused and agile.

Compared to 20 years ago, the infrastructure available to biotechnology outfits has improved dramatically. How do you continue to add increased value in this changing environment?

Our success has two main sources: the optimal selection, and the right development, of the best molecules. Ours is one of the riskiest professions. We have to cope with a highly uncertain future and with long development times. Now, on average a molecule will reach the market in 10 to 12 years after discovery in research. The market in 2030 will obviously be very different than today. What will the competition be then? The evolution of the legal environment? The exchange rates? The reimbursement rates fixed by the authorities? We don’t know, and this is a high risk for us. The only certain thing is that the price of the drugs will be reduced in the future. In the coming years, government pressures to reduce healthcare costs will not stop but will increase for various reasons. Two of them are the poor economics of the health care system and the public perception of some product prices which seem far too expensive. On the other hand, for various antibiotics, in my view, the prices are too low and not very attractive for industry. Currently, it’s difficult to cover the costs of developing new antibiotic compounds. A recent study conducted by KPMG showed that on average antibiotics have added some 10 to 15 years in human life expectancy, compared to an addition of five years for oncology products, if all the cancers are cared for and cured. The question of what exactly constitutes a fair price is always open to debate.

Your company’s success appears to be predominantly due to its screening and initial selection of which molecules to support. We understand you evaluate approximately 700 opportunities before deciding to take on maybe 7 or 8 of them. Could you describe your criteria for a winning candidate?

We investigate on average between 600-800 opportunities each year. We only pursue one or two deals per year, focusing on two areas – oncology and infectious diseases. We want to be sure we master the skills needed to add value to the product and to bring it to the patient. We started working in oncology a long time ago. Four years ago, we strategically signed an agreement with an Indian partner to develop a new class of antibiotics and we made the acquisition of the clinical assets and platform from the Canadian company Affinium. We are convinced that it is critical to developing targeted antibiotics to preserve indigenous gut microbiota and overcome resistance to

broad-spectrum antibiotics. In this area, changing the business model is, therefore, a necessity. The physicians will only use these new targeted compounds for very specific and more difficult cases in order not to create more antibiotic resistance.

This is why I feel that in the future antibiotic price policy could mirror that of the insurance industry. For instance, for a hospital with 100 beds, you could end up paying a fee each year for the right to use a targeted antibiotic. With 200 beds the amount would be doubled regardless of whether they are filled or not. This model is currently used everywhere, for example by insurance companies or even in the defence industry. When nations buy weapons for the armed forces it is the same scenario, as they pay for the equipment but fortunately often do not use it. Paying for each use of antibiotics is not suitable for the future of our industry. Therefore, that price structure needs to change to promote the development of new antibiotic classes.

How do you know precisely when to cut your losses?

On average one in eight therapeutic development attempts proves successful. Given the expense of development, the earlier you can cut a research program, the more you save needless costs. The calculation of whether you are adding value needs to be made as early as possible. This is difficult to do though because you have teams with strong commitment. To develop a drug, you need passion and sometimes you become less objective. In addition, the results are rarely all black or all white, so it’s easy to continue, but you have to know when to stop. Sometimes, we actually have champagne after deciding to stop pursuing a potential product, simply because it was the right decision. To know when to stop at the right moment is not a failure, it’s the opposite. That’s why we celebrate these decisions.

Diagnostics affect 70-80 percent of decisions in healthcare. What can you tell us about your developments in this field?

We need to invest not only in new compounds but also in how we diagnose and monitor patients. After diseases have been identified, monitoring is a crucial stage that cannot be neglected as people react differently to a drug. Ten years ago, we created a specific investment fund and we invested in diagnostics companies like Biocartis in order to acquire know-how and new skills, which proved a fruitful decision. We now have a personalized medicine department in our own company. Last year, we acquired the majority of a Canadian company GenePOC which recently received the

authorization for commercialization in Europe and in the United States for their diagnostic tool and two tests. Our goal is to bring two new tests per year to the market. We are open to any partnership to permit broader and faster development for GenePOC.

How do you see the future of personalized medicine in an environment of rising costs and shrinking budgets?

Personalized medicine allows the patient to recover faster and to reduce the costs of healthcare. We need to make a big change in our mindset. We need to constantly remember that the question for the patient is not what treatment to choose but how to return to good health as fast and as safely as possible. In some countries, there are good ideas for the future of healthcare. For example, Australia reduced giving some antibiotics to animals and the government paid to compensate the pharmaceutical firms for the loss of earnings. In Japan, the industry is subject to containment using a decreasing set price linked to the evolution of the number of patients treated. This is also a good system in my view because all prices will decrease for the patients but in a structured way. Therefore, both the movement of goods and the price cycle should change. One of the main evolutions is to fix the reimbursement of a drug according to the real efficacy of the treatment. Certainly, other industries have seen their economic realities change. For example, mobile phones used to be very expensive but now the handset is given for free as a part of landline deals.

On the topic of smart data, what is your rationale and overall vision for having invested in this field through the Debiopharm Innovation Fund?

In our business, we obviously collect data to either support or disprove the findings of our own studies. Why will smart data become central to the healthcare industry? Each of us is a database. We begin now to have the capacity to capture and to analyze it. New hypotheses will emerge from all this data put together and it will generate new ways to develop drugs. The industry needs strong data management to progress. With Debiopharm Innovation Fund, we now invest in smart data companies to acquire know-how. Our first deal was signed this year with BC Platforms, a genomic and clinical data discovery company, based in Basel and in Helsinki, who can interrogate a pool of up to two million patient’s samples and with plans to reach up to five million patients.

Given the majority of Big Data companies have a different approach to that of Debiopharm, how do you attempt to collaborate with partners? What are your methods?

We want to invest in companies that change the way we treat patients and change the way we develop drugs. Right now we look for companies developing solutions in precision medicine – digital therapeutics, digital markers, clinical decision support systems, patient monitoring tools and smart drug discovery and development tools – areas where utilization of big data and AI can create tremendous improvements for patient care. We want to follow the patient's journey as they hopefully make a full recovery from the illness they are suffering from. The goal of our 150 million Swiss francs fund is to build a portfolio of smart data companies and build the future together. We are a strategic investor which means we are more patient with time to exit than typical VCs. We are more interested in being a real partner, helping with our expertise, building the future and bringing the product to the market. Debiopharm develops for patients. We don't look for a quick way out.

Where does the power lie in the pharmaceutical industry; with those who interpret the information or those in possession of the molecule?

The collection of data on a large scale should cause a shift towards the interpreters but they lack the experience to use the information they collate. However, on the other hand, those with patient experience are not accustomed to working with data on this scale. In the future, you will probably see these two sections become increasingly powerful but in their own separate ways or through collaborations. A Google Pharma or a Samsung Pharma could emerge in the same way that Roche manages therapeutics, diagnostics and smart data. These new players have other skills and uncommonly huge financial resources. They are used to manage projects very rapidly and to deal with development timelines much shorter than the pharmaceutical companies. They are still missing the intimate knowledge of the patient, but they will get it very quickly through their big data collection.

Does operating in Switzerland serve as an asset for your operations?

Well, I must admit working in Switzerland is very beneficial due to its openness. The multicultural setup here really allows ideas to be transformed into successful business developments. It is an exceptional country where 30 percent of the people living here are foreigners. This diversity has

bred a very positive business mind-set here. Equally, the quality of life and the location are attractive to potential recruits. Switzerland also has a great education system which can only be to our advantage. Previously, businesses benefitted from low taxation but that advantage will soon cease to exist, and in parallel public help for development in other countries is significantly superior. This strong competition could make become Switzerland less competitive if the Swiss government doesn't react quickly.

As a family-owned outfit, how do you foresee Debiopharm's future including its challenges?

We have a written family constitution that insists we remain a pharmaceutical business. Pharmaceuticals will always be our core business regardless of the risks. We want to stay a private company and we don't have access to the financial market. However, to support our pharmaceutical operations, we invest in non-related assets with the goal of creating revenues not correlated to our pharmaceutical interests. For example, we have a very successful real estate business. This also helps us to remain a completely private business that does not require loans from banks. We are preparing for the third generation and my son is already working in the company.

What is your final message for our international audience?

The most important aspect of this business is to stay very flexible which thankfully is one of Debiopharm's advantages. In fact, it is not easy for large pharmaceutical companies to be so flexible. Essentially, we need to maintain a start-up spirit in the company and to keep an open mind to new ideas coming from outside, without being a start-up. We need to adapt to a fast-moving market. For instance, in the last half-year, we signed three different types of deals: an acquisition, a license, and an option agreement is on the way.

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