Marc Funk – COO, Lonza Pharma & Biotech



We aspire to move the company and the relationship with our customers from being a functional service provider to the strategic partner of choice in supplying the most innovative medicines of the 2020s

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Marc Funk, COO of Swiss-headquartered product development service specialist, Lonza, discusses the company's remarkable recent fortunes, how it is implementing innovative efficiency improvements, and answers the question, "why Switzerland?"

These are very exciting times for Lonza, with the company entering a growth phase as it attempts to extend out along the healthcare continuum and anticipate emerging megatrends. How would you describe Lonza and its place in the world today?

We mustn't fall into the trap of overlooking Lonza's remarkable heritage and established track record, which dates back over a century – in fact this year is our 120th anniversary! It's the achievements attained over this period of time that have made the company what it is today. These cumulative experiences are an important part of our corporate identity and influence the way in which we go about our work.

The task at hand, right now, is to capture these qualities and to project them into the current context of a rapidly evolving drug development environment. In recent years, we have been witnessing changes in our customer's needs and the manner in which we are being called upon to supply both classical and disruptive medicines. In response, we've been striving to get closer to our clients by meeting their needs, right along the biotech and pharma spectrum. With Lonza's

support, they in turn can get closer to their patients.

If there is a single secret ingredient to Lonza's sustained leadership in the contract-manufacturing segment, it's that we have never been content to rest on our laurels, and have always demonstrated great willingness to move with the times. Our recent acquisitions are very much a strategy to keep in step with the industry-wide changes that we currently perceive, and to anticipate future ones. We're looking to extend out along the healthcare continuum and, as such, we believe we will be well aligned with emerging megatrends.

What do you regard as the main trends underway right now?

Clearly there is an overall tendency to outsource manufacturing functions in both the pharmaceuticals and biotech industries. Another trend we have notices is that the nature of our interactions with our clients is undergoing profound change and we now find ourselves serving different types of actors with very distinct needs and requirements. For example, Lonza has many big pharma customers on its books that already possess in-house capabilities. The nature of our relationship with them is very much one of true partnership. They require a partner to manage their overall manufacturing strategy and we view ourselves, in some respects, as an extension of their assets. The style of relationship we have with them is much more entwined than that of a traditional outsourcing service provider.

When it comes to servicing biotechs, the nature of the relationship is rather different. Generally, they do not possess in-house capabilities or any kind of know-how about the manufacturing process. In many cases, they are seeking not just the use of our facilities, but also the expertise on identifying optimum manufacturing and development solutions for molecules where the destiny of the end product is often still fraught with uncertainty. In this case we are a one-stop-shop CDMO and partner of choice that can fulfil their full range of needs, whilst helping them buffer volatility.

This is, no doubt, why you have been taking steps to upgrade and extend your capabilities?

Increasing our capabilities is indeed one of our core priorities at present, but we have to be mindful that increased capability does not necessarily always equate to increased assets. Improving the way in which we serve the biopharma industry in manufacturing of medicines is more about being mindful of the uncertainty surrounding future needs. It is about fashioning flexible business models

that differ from what used to be the norm previously.

If we look back, the mainstay of our work in the past used to be about supplying manufacturing batches and conducting development work across modalities for both small molecules and biologics. We, of course, continue to perform all of these functions, but that offering alone is not sufficient for the present context. The number and type of actors populating the biopharma landscape today is very different from in the past. The category of therapies being developed is also very different and nowadays comprises many sensitive matters when handling biologics and thus a great deal more risk and uncertainty. On top of that, regulatory frameworks are also becoming decidedly more stringent.

The implications of all of this are the increased demand for bespoke, custom-made solutions rather than one-size-fits all, cookie-cutter services. Moreover, our clients also require more flexibility in terms of how to address future volumes and commitment to reserving manufacturing capacity in the light of the uncertainty and unknowns inherent in the clinical trials process. There is also a real desire on the part of our clients to reduce the costs and increase the efficiency of the manufacturing part of the value chain. Right now, we're experimenting with ways to add value and respond to all of these aspects and our recently concluded joint venture with Sanofi is perhaps emblematic of the new steps that we're taking.

Tell us more about the Lonza-Sanofi joint venture for a combined facility in Visp and how this represents a new style of interaction that utilizes Lonza's Ibex™ manufacturing concept?

Ibex™ Solutions is basically an innovative biological development and manufacturing concept. It couples flexibility in facility-build-out with fully tailored business models and also leverages Lonza's expertise and service network in Visp.

On this campus, we will also establish a large biologics manufacturing facility through a joint venture between us and Sanofi. The initial investment is around CHF 290 million (EUR 270 million) shared equally between both parties. Essentially, the strategic partnership places Lonza's expertise in large-scale mammalian cell culture facilities alongside Sanofi's strength in developing and launching biologics-based treatments to address patient needs.

The Sanofi JV facility is pioneering within the CMO industry segment. By joining forces with our partner Sanofi, we can reduce our individual requirement to build assets whilst remaining

responsive to future needs and uncertainty in a more efficient and effective manner. When you have a joint plant that can cater to both Sanofi's and Lonza's manufacturing capacities you end up with a very different type of facility than if we had both gone ahead and built our own separate factories. Ultimately, we can better plan capacity usage and anticipate production cycles as well as ensure better usage of the entire possible output.

Where, exactly, are these efficiency gains to be made?

Often, when a large pharma player possesses an important commercial molecule, the tendency is to build a large-scale asset that is then not maximally used because the numbers of units required is not necessarily clear in advance. By making this facility versatile enough to cover the type of loads that we will need to produce alongside those of Sanofi, we can ensure that, at all times, the plant will be operating at maximal capacity irrespective of fluctuations in market demand.

While the partnership effectively gives Sanofi dedicated capacity for its products, it represents a win–win situation for both parties. On the one hand, Sanofi will be able to react quickly to fluctuations in demand in a short timeframe, reinforcing their capability to launch high quality, next-generation biologic medicines and ensure consistent access for patients. On our side, it provides us with the required capacities to respond to growing manufacturing demands for large-scale mammalian cell culture based therapeutic proteins, allowing us to better serve our customers. By adding flexibility like this, this new model will help to optimize biologics production capacity across the whole industry.

The immediate reaction from peers has, thus far, been highly encouraging. Many companies are now exploring the possibility of engaging in similar sorts of partnerships. This, in itself, is a sign that we are advancing along the right path.

Why did you choose Switzerland to place such a big-ticket investment?

Switzerland is an important and relevant country in the world of pharma not just for R&D and marketing, but also manufacturing. It's not known to be the cheapest destination when it comes to the cost of labor, but when you measure it in terms of quality at source, it comes right at the top of the leader board. Switzerland ranks very highly for doing things right first time and for the established trust between customers. So it's clear that manufacturing where these sorts of attributes are highly valued, has a key role to play in the Swiss economy.

This is something that our partners understand well. I believe manufacturers of high grade, complex pharmaceuticals, and in particular biologics, are increasingly drawn to reliable, high performance and efficient environments like Switzerland. You just have to look at the direction of outsourcing trend horizons: how many companies relocated to places with a low cost of labor and have, in time, reverted back to countries that are quality at source friendly? There is a lot of truth to the saying, “What is cheap is always too expensive!” That said, we cannot afford to be complacent. There is an onus on all CMOs to innovate and rethink the manufacturing process so as to reduce costs. Lonza, as a leader in this segment, bears a special commercial responsibility to lead the way in this direction.

The country has seen a lot of positive developments, in the manufacturing segment, over the last four or five years and it is something that is encouraging despite the presence of all kinds of headwinds such as the strong currency. Manufacturing is absolutely core to the next generation in this country and we see it as our duty to be contributing our share to that.

How does the July acquisition of Capsugel enable you to deliver better value to your customers?

Capsugel is known to be a leader in capsule manufacturing, but has also been an important player in the entire overall dosage form solution. Lonza, meanwhile, has demonstrated great abilities in the manufacturing of small molecule APIs. There are thus a lot of synergies to be leveraged from combining the two entities. You can picture our latest acquisitions as the piecing together of a number of different parts of the puzzle so as to be able to offer our existing and future customers services along the entire value chain from gene to patient.

How has the integration process been going?

The beauty with a company like Caspsugel is that their core values are almost identical to ours so the integration process is smooth and seamless. It’s not like acquiring an asset from a large pharma company where the way of doing business and corporate ethos is very different from your own. On the contrary, Capsugel’s clients tended to be just the same as ours so there is a high level of understanding between their staff and ours. These sorts of considerations and the impact an acquisition will have on your own cultural identity are important to figure out. The act of purchasing a new company is always the easiest part of the M&A process. It’s the integration where

complications can sometimes arrive.

Where do you see your main competition coming from? Is it a cause for concern when a company like the 6-year-old entity, Samsung Biologics, surpasses Lonza in market capitalization and mammalian cell manufacturing capacity?

We believe we have a unique offering in the range and scope of service that we are able to provide. Across the different modalities, our competition comes from different directions. Competition from respected parties like Samsung can be beneficial in keeping us on our toes. I would be more worried if we were the only large-scale mammalian cell manufacturing company in the world because that would mean that there was something wrong with the dynamics of the marketplace.

There is room enough in this market for several big players because of the sheer surge in demand for manufacturing outsourcing these days. A decade ago, you would hear pharma companies saying that outsourcing the fabrication of large scale blockbusters was a huge mistake, but that speech doesn't exist anymore. The fact you have strong competitors cropping up alongside you is indicative of the buoyancy of demand and that we are fulfilling a real need. This sort of task should never be the privilege of just one company. You would never expect that to be the case in other industries such as automotive parts outsourcing, so why expect it in our business?

The real challenge arises not from facing down the competition, but in delivering the best possible value for our clients in all instances. We have a responsibility to make sure we address the needs of the customers, bringing them their medicines in as efficient a way as possible. The challenge is in constantly delivering what we say we will, and possibly a little bit more. If we continue to do this, then the legacy of our company can stretch over another 120 years and beyond.

What, then, are your core priorities looking forward?

We aspire to move the company and the relationship with our customers from being 'a' functional service provider to 'the' strategic partner of choice in supplying the most innovative medicines of the 2020s decade. We seek to be truly transformational during these extremely exciting times that we live in today in which medical science is making huge breakthroughs. We strive to bring blue-sky thinking and genuine innovation to our part of manufacturing, which has for so long been neglected, and that's a really beautiful and interesting challenge to be working on.

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