

Interview: Fernando Itzaina - President and CEO, FQM Group, Brazil



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Fernando Itzaina, president and CEO of FQM Group, originally Farmoquímica, provides inspiring insights into the threefold development vision favored by this rapidly growing pharmaceutical company, his commitment to continue exploring both organic and inorganic growth options in order to better service Brazilian patients and physicians, as well as FQM's enduring approach to bring international innovation and added-value to the Brazilian ecosystem.

FQM Group (FQM) is a company part of the Argentina-based Roemmers Group, which gathers together multiple pharmaceutical and healthcare companies across Latin America and for which you have been working for over 25 years. When did the Group enter Brazil?

In 2002, the Roemmers Group acquired Farmoquimica, a Rio-headquartered pharmaceutical company that boasted more than 70 years of presence in the Brazilian market. Brazil was one of the last countries in the region where the Roemmers Group was not yet present, while the country has historically emerged as a complex market to enter for multinational companies.

Could you elaborate on the specificities that make Brazil a difficult market to enter?

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Given the sheer size of the country and the high level of competition that characterizes Brazil's pharmaceutical market, new entrants' initial investments must be significant, which stands as first barrier to entry. In the meantime, Brazil is a federal republic comprising 26 states plus the district capital. Therefore, Brazil cannot be approached as "one country", as there are strong cultural, social, demographic, and climatic differences between all these states. This diversity has an impact on the pharmaceutical market, as epidemiological and demographic profiles as well as healthcare needs vary significantly from one state to another, which in turn requires pharmaceutical companies to adapt their strategies on a state or regional basis. To make the most of the market's huge potential, companies and their management teams must also cover strategic hubs scattered across this huge country, including the political capital Brasilia, the country's economic center Sao Paulo and other large cities such as Rio de Janeiro, Salvador, Fortaleza, Belo Horizonte, and so on... In this regard, Brazil is far less centralized than most other Latin American countries such as Mexico, which is Latin America's second largest pharmaceutical market, where a large share of the political and economic activities is concentrated in the country's capital Mexico City.

Additionally, over the past two decades, Brazil's fast growing pharmaceutical market and the particularly strong Brazilian real rendered almost impossible for smaller, foreign companies to acquire thriving local businesses as part of a market entry strategy. Although the Brazilian pharmaceutical market has slightly weathered the recent crisis, we however see that the currency situation has significantly evolved since 2013 *[as the exchange rate moved from around 1 USD for 1.7 BRL in January 2012 to 1 USD for 3.2 BRL in December 2017 - Ed]*

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Furthermore, we see that complexity to enter the Brazilian market somehow echoes the isolationism that has historically characterized Brazilian pharmaceutical companies. As a matter of fact, Brazilian executives have been essentially focused on servicing their fast growing domestic market over the past decades, whereas an increasing number of Latin American companies initiated their expansion across the continent. However, this trend has slightly evolved too, and a few Brazilian companies have been actively looking at internationalizing their activities over the past years. In the meantime, Brazil's regulatory agency ANVISA officially became in November 2016 a member of the International Council for Harmonization (ICH), alongside the US FDA and the EU EMA, which truly showcases how internationalization has gained in importance among the Brazilian pharmaceutical landscape - at all levels.

You have been president and CEO of FQM since 2014, how would you describe the vision that you and your management teams strive to bolster within the company in order to

further differentiating FQM from the fierce competition that characterizes the Brazilian market?

As a pharmaceutical company, I believe that values framing the way we operate within the market are absolutely paramount and truly make a difference. At FQM Group, we are driven by a strong social purpose towards Brazilian patients and physicians, which translates into an enduring commitment to bring added value and innovation to Brazil. In this regard, a first aspect relates to FQM's efforts to develop educational activities aiming to spread the latest scientific developments across the medical community of the country. In the meantime, we adapt this philosophy to the way we manage our portfolio: for example, we continue supplying the Brazilian market with medicines that – from an economical business standpoint – are not particularly interesting but still hold a great importance in the daily lives of patients. This example perfectly illustrates how FQM strives to bring value to the entire ecosystem. A third pillar of our company's utmost commitment to Brazil revolves around scientific endeavors, as we support an outstanding number of Brazilian publications, with a special focus on those tackling scientific and medical needs that are particularly relevant in Brazil or even specific to the country.

FQM's commitment to enriching the Brazilian ecosystem with international innovation also frames our business strategy. In this context, one of our development pillars is to identify highly valuable medicines owned by international companies and make these life-changing products available to Brazilian patients through in-licensing partnerships. As mentioned earlier, Brazil is a very complex and costly market to enter for many international companies, and FQM's mission is to ensure that all these companies' products do not remain inaccessible to Brazilian patients because of Brazil's market barriers.

On top of this partnership-based approach, FQM recently decided to go one step further with the set up of our own *innovation center*. The latter is mainly aimed to adapt foreign products to the specificities of Brazilian regulations: although ANVISA's requirements are more and more aligned with those of its most prestigious counterparts, regulatory differences still exist and require investments from our side to ensure foreign products can be swiftly available to Brazilian patients. For example, some products registered in Europe as medical devices fall within a totally different framework in Brazil. In the meantime, some of our partners' products do not display locally produced clinical data for their registration, and our innovation center also handles these situations.

There are plenty of international companies looking for the right partner to commercialize their products in Brazil, which already stands as the world's sixth largest

pharmaceutical market. What makes FQM the best partner for these companies?

One of the fundamental characteristics of the Roemmers Group lies in the remarkable level of autonomy provided to all companies it comprises, including FQM. This aspect clearly stands as a great differentiator vis-à-vis multinational companies, as the latter usually comply with global pipeline and portfolio strategies that are barely adaptable to the specific needs and opportunities of a single market. However, Latin America's huge discrepancies in terms of healthcare needs and access render impossible to replicate a same strategy across the entire continent; and - as mentioned earlier - the same analysis actually applies to Brazil and its multifaceted healthcare reality.

As a result, FQM is truly able to elaborate its portfolio strategy from the specific healthcare needs we identify in a given market - and not the way around. As a matter of fact, we consider ourselves as a local company, while Roemmers can be seen as a group gathering together domestic oriented companies from various countries.

This focus on market targeting actually trickles down to the structure of FQM itself, as our company actually comprises three clearly differentiated Divisions: our prescription-centered brand FQM Farma, the OTC-focused and well-being oriented division FQM DIVCOM, and - finally - our dermato-cosmetic branch FQM Melora, which emerges as an hybrid between a prescription and an OTC businesses.

This three-fold structure has gained traction under your leadership, as FQM acquired DIVCOM's pharmaceutical division in May 2017 as well as Melora in January 2016. What is the importance of acquisitions in FQM's growth strategy?

Inorganic growth - whether it relates to licensing partnerships or acquisitions - is at the core of Farmoquímica's development strategy. In a huge, fast growing market like Brazil *[according to I.Q.VIA projections, Brazil's retail market is expected to grow 7-8 percent in 2017 and 2018, while the non-retail market would increase by 4 percent in 2017 and by 5-6 percent in 2018 - Ed]*, increasing a company's revenues from USD 10 to 20 million is no easy task but it is far from being impossible - even if it represents a 100 percent increase of the company's revenues. However, this objective becomes even tougher when these revenues reach a higher level - let's say over USD300 million. Given the respectable size that FQM had gained as well as the high level of competition driving the Brazilian market, we have no choice but to consider all development options possible to propel our company's growth - including acquisitions.

Over the past four years, we have also been strongly committed to improving the productivity of the company. This point is absolutely crucial as the Roemmers Group – being a privately owned company – relies on profits to nurture its reinvestment for product development and inorganic development strategy. We moreover follow a country specific reinvestment model and profits generated in Brazil are reinvested in the country, which truly illustrates – again – our utmost commitment to the Brazilian ecosystem.

Looking at I.Q.VIA data, FQM's revenues grew by 144 percent between 2014 and 2017, with 70 percent coming from organic growth and 64 percent from inorganic developments (including the acquisitions of DIVCOM and Melora).

Some Brazilian companies went through a frenzy of acquisitions between 2008-2013 in order to gain a leading position in the Brazilian market. Would FQM follow a similar approach moving forward?

Not really. First of all, some of the companies you are referring to were publicly listed, so they could access external resources required to enable an acquisition and divestment strategy that is difficult to replicate for a privately-owned business.

More fundamentally, FQM's inorganic growth approach is strictly aligned with the focus and targeted strategy that also distinguishes our partnership approach and FQM's organic growth vision. We are only looking at acquisition opportunities that would perfectly complement our current strengths and generate strong synergies with our current business and organizational structure.

As a matter of fact, we did not pursue any strategic M&A moves for ten years before the two acquisitions conducted in 2017. Moving forward, we will continue considering any opportunities that would perfectly fit within our strategy and bring added value to Brazilian patients and physicians. In the meantime, we will tirelessly work to ensure we hold the resources required to swiftly invest whenever these opportunities would arise.

What are some of the objectives you want to achieve within the next five years?

When our management team and I assumed in beginning 2014, one of our objectives was to move the company's market ranking from the 20th to the 15th position. We are extremely close to fulfilling this objective, as FQM now stands as the 16th largest company in the Brazilian market thanks to the aforementioned growth rates displayed over the past four years (from 2014 to 2017). Nevertheless, there is still a significant gap of revenues between FQM and the companies ahead of

us, so we will have to redouble our efforts to eventually reach the position targeted.

Beyond these numbers, our fundamental objective is to exceed the expectations of the ecosystem's stakeholders and ensure we can provide our partners with the utmost quality of service. In addition to its sheer size, Brazil is market that still displays huge social needs and over 150 million people exclusively rely on our country's public system, whereas the latter still holds significant rooms for improvements. However, this responsibility should not only weigh on the government's shoulders. In this regard, the entire pharmaceutical industry – and not only FQM – has a huge role to play in positively shifting the healthcare paradigm in Brazil.

FQM has experienced eye-catching changes over the past years. How do you want the company to be perceived in Brazil and internationally?

We are a focus company exclusively dedicated to the Brazilian market and committed to bringing the world's best products to patients and physicians in the country.

While we conducted significant investments in 2017 to better service the Brazilian ecosystem, our first and foremost priority has been to maintain a clear strategic focus, which led us to create three different divisions rather than gathering these different entities together. Today, each of these three divisions' management team is able to pursue the best opportunities they identify in a very independent and specialized manner.

Specialization stands as a massive trend across the global pharmaceutical industry – but it comes at a very high cost in a huge and complex market like Brazil. Given that the country holds over 70,000 pharmacies and 400,000 physicians, being a focus company requires a huge commitment from our side. Nevertheless, by fully embracing this focus approach, we are able to bring more value to these crucial stakeholders – especially in terms of medical and scientific education – and therefore contribute to enhancing the country's healthcare ecosystem.

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