Thomas Eldered – CEO, Recipharm



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18.10.2019

Tags: Sweden, CDMO, CMO, Recipharm, Manufacturing

Thomas Eldered, CEO of Sweden's largest CDMO Recipharm, founded the company together with his business partner in 1995. Since becoming a public company in 2014, he highlights how this changed the business model and created a pure CDMO whilst increasingly expanding its global footprint both organically and through acquisitions in key strategic markets including Europe and India.

Recipharm is showing significant growth after strongly expanding its global footprint. How would you describe Recipharm and its place in the world today?

Recipharm was founded in by myself and my business partner Lars Backsell 1995, and for 19 years remained a private company. While we are a CDMO today, this was not the case in the beginning, as the contract manufacturing industry only evolved in the late 90s. It may be bold, but I think the success of Recipharm, in the beginning, may have contributed to the industry trend that we see of CDMO's today, at least on a local level. We were operating solely in Sweden only until 2007, where we started manufacturing for Pharmacia and later on for other companies too. Until the same year, we also had our own product portfolio, which we subsequently divested to focus becoming a CDMO business in its entirety.

Overall, this was a very transformational, having this new business focus whilst also acquiring new sites in France and the UK, as we realized that we needed to broaden our footprint if we had any

chance of becoming a larger player in this industry. Continuing on this path, we decided to become a public company through an IPO in 2014, which was quite unusual, as it was only a short time after the financial crisis. In fact, we were one of the first companies in Sweden to do this so soon after the crisis.

Why did you decide to become a public company?

The usual reasons for private equity owners going public are to have an exit route and sell their shares, but for us, the IPO was more a way to secure funding to speed up our growth and expansion. Since 2014, we grew our sales by an average of more than 30 percent annually, both organically and inorganically.

Today we have a strong presence in almost every country in Western Europe and a significant footprint in India, where we made two acquisitions, while we also acquired a laboratory in Israel and development operations in the US. When we went public, we had doubts about how our clients would react when our financial performance was made available, but it turned out that customers actually appreciated the transparency that comes with Recipharm being a public company.

Our clients want us to be successful, as this means that we are here for the long-term, ensuring continuity to their supply. Therefore, going public did not only help us when it came to financing but also in a commercial sense. Today, we are in a pretty good position, having gained a great reputation over the last twenty years, which is reflected in our loyal customer base.

With the acquisition of former Roche and Sanofi facilities in Spain and the UK as well as plants in India, Recipharm has experienced rapid inorganic growth. Is 2019 the year of integration for Recipharm?

We have undergone a lot of integration in 2018 actually, with some of these efforts also continuing into 2019. The last acquisition we completed last year was a Sanofi plant in the UK, but most of the integration processes from earlier acquisitions have already finished. We are now looking at how to use these new capacities and capabilities in the best way possible, putting the pieces together to get the maximum benefit. Nevertheless, we will continue to look for potential targets to acquire in the future, while also remaining focused on our organic growth.

What do you see as the most important factors when it comes to successfully integrating newly acquired plants and business segments?

It is definitely a challenge, but we are guided by our values when acquiring competitors or integrating parts of big pharma operations. Obviously, there are cultural aspects that play a huge part when integrating companies, so we have an emphasis on two values, which are quite unique in my opinion.

The first one is tenacity, as we know that some things take time and having a long-term view in business is very important. The second element, which is even more important when it comes to integrating companies is entrepreneurship. Recipharm was founded by two entrepreneurs; both my business partner and I did not have any experience in running a company. I firmly believe that most people are ready to take on a challenge, so we want this spirit in our group. Having site managers running the business like it would be their own is a key success factor in my view. All of our sub-companies have their own P&L sheet and significant local decision-making powers. Site managers for big pharma companies usually do not have to worry about finances, but more about the quality and the supply of the product. While this is the case at Recipharm, we also ask our affiliates to manage their own balance sheet and in most cases, the site managers of acquired facilities have made a successful transition to be a general manager, responsible for all operating matters. Our goal is to be perceived as one Recipharm by the customer, with the same attitude and quality globally, particularly because we work with many clients on at this global level.

What is your approach when looking for companies in the CDMO field when it comes to acquisitions?

While culture certainly plays a big role, the primary focus is on whether the target company fits our business or not. We mainly look to see if an acquisition would add a new technical capability that we can offer to our customers, if it allows us to access a new market geographically or a new potential customer. After closing a deal, it is very much about having the right management in place to carefully review the previous and current direction of the affiliate.

While extending your global footprint, you are also competing with companies in the CDMO space which are significantly larger than Recipharm. What is your value proposition to companies looking for a partner in development or manufacturing?

There are certainly good competitors out there, but Recipharm has a very successful track record, showing crucial credibility that we are a long-term partner. This is also due to the fact that we are a public company, thus publishing financial statements, while many of our competitors are privately-held. We are also working hard in reducing complexity for our customers, especially MNCs that have had many acquisitions in the past. In some cases, we even manage the inventory and not only wait for orders. Our Indian presence is also a differentiating factor of Recipharm's competitiveness, as we mainly use it for development capacities, which has a lot of potential in India. Additionally, we have a strong network and presence in Sweden, with a long history and five manufacturing sites which allows us to invest in smaller companies in the country and contribute to the local growth of the healthcare and life sciences ecosystem in Sweden.

How critical is it for Recipharm to still be based here in its country of origin?

We have a great base in Sweden, and while it may not be crucial to have our headquarters here, we enjoy the environment, as it is a great place to be. We are pleased to work with many companies from Sweden, also helping them when it comes to pharmaceutical development. A large share of our development business is based on partnering with Swedish companies, which proves that we have a great relationship with the Swedish environment.

There are new technologies in the era of precision medicines upcoming and companies like Lonza and Samsung Biologics are both not only doing biologics but also investing on cell & gene manufacturing capacities – what is Recipharm approach in this segment?

Recipharm has decided to stay away from manufacturing biological compounds, for now. We remain focused on the fill and finish part, which is our core business. Most of our products are for injections and this market is still an interesting growth driver for us. It is still a highly specialized activity to make these compounds and we have decided to stay in this niche, as we have significant experience here. The recent acquisition of the Sanofi site in the UK fits also well into our strategy of targeting other niches, in this case, respiratory products.

When we met with Lonza CEO Mark Funk, he explained that working with big pharma customers, that have in-house capabilities, is much more of a real partnership rather than a traditional outsourcing service provision. Nearly half of Recipharm's clients are

big pharma companies, so is this a model with potential for Recipharm as well?

“Partnership” is an interesting term, as to me this implies transparency and sharing information, which is of course very demanding. While we have many big pharma customers, we only have a very limited number with a very deep relation, which consists of very open discussions about future strategies together. Many companies mix up long-term relations with true partnerships. Strategic partnerships are an interesting opportunity, but it is very demanding as you have to spend top management resources on them. Many big pharma companies are aiming to reduce their number of suppliers, so if they can work with fewer and bigger companies it is far more beneficial for them. I guess that consolidation in the manufacturing sector will continue in our industry for many more years.

Recipharm has been growing rapidly since becoming a public company in 2014, experiencing many commercial and financial successes, nevertheless, this consistent growth is not yet reflected in the stock price, which has been fluctuating heavily. What would you like to say to investors, why should they place their trust in Recipharm?

We have spent the last five years after the IPO building a global platform, getting a broad range of technologies and extending our customer base. These elements are a fantastic base for further growth in the future and we will particularly broaden our footprint in India and US. All of the crucial metrics such as profitability, return on operating capital, earnings per share and cash flow improved consistently over the last few quarters. I am confident that our strong performance will continue – we are in a great position within the CDMO industry.

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