

BagÃ³ Group â?? Juan Pablo BagÃ³, General Director, Pharma Argentina



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2014 marks the 80th anniversary of Laboratorios BagÃ³, a company founded by your grandfather and developed by your father and uncle. The company is a market leader in Argentina but also in Latin America, and its products are present in 47 countries. How did Laboratorios BagÃ³ perform in 2013 and what is the outlook for 2014?

The general director of pharma in Argentina for the BagÃ³ group explains why his group has planned that 75 percent of turnover will come from international markets in the coming years.

Laboratorios BagÃ³ was born in Argentina and it has grown along with the country. Since its foundation in 1934, it has been permanently committed to its vision: to build a state-of-the art pharmaceutical company and to achieve excellence in healthcare. In Argentina we have three companies, BagÃ³, Montpellier and Bioprofarma. Laboratorios BagÃ³ is ranked second in the market while Montpellier is holding position number six. On top of that, BagÃ³ group also partly owns Nutricia BagÃ³, Diprofarma â?? our own logistics company â?? and several other non-pharma companies.

2013 has been an outstanding year for BagÃ³ in all 47 countries, spanning America, Africa, Asia and Europe, where we develop and sell pharmaceutical products. Argentina's performance, however, has been affected by the country's current economic distress. Although our company's dependence on Argentinean revenue has been, and still is, decreasing, it account for about 45 percent of our turnover today. Therefore, we are putting in place some initiatives to try to minimize future macro economic impacts.

For several years, the price of pharmaceutical products in Argentina has been lagging behind the increase of prices of everything else (raw materials, salaries, etc). With inflation rate in Argentina of around 25 to 27 percent per year, prices of medicines have only increased by an average 14 percent per year.

On the other hand, in Latin America and in the rest of the world where we are exporting today, the outlook for 2014 looks very bright, specifically in terms of growth and profitability.

What according to you are the pillars on which the company can rely to develop its future successes?

Laboratorios Bag³ Argentina has to be able to leverage the potential of its marketing capabilities in order to be able to reach physicians by offering the best possible market proposition. That means investment in sales representatives, investment in medical education, and having the best products.

Our competitive advantage is that every physician in Argentina knows that once Bag³ launches a product, the product is relevant, has good quality and is priced reasonably. This helps when it comes to building up sales rapidly.

The bulk of international revenues come from Latin America where you also have several production facilities. Should we expect to see more international development in the coming years, and what would be your target markets?

Bag³'s intention and prediction is still to work and to operate thinking that our future growth should come from the Latin American markets. There are three countries in which we have the potential to grow even better than in other areas, which have been consistently high: first comes Brazil, where our performance has been incredible in terms of profitability, but there is still huge room for improvement; second is Colombia, which is the same as Brazil; and third is Venezuela, a market which we are not present today. Venezuela is the only market in Latin America where we don't sell any kind of products. Here, although we are not planning to enter in the short-term, at some point in the future, in our strategic plan, Venezuela is a country to cover.

Last but not least, briefly speaking about our manufacturing plants, we have in Mexico, Chile and Argentina our main manufacturing facilities which are mainly the source of production for most of the markets on which we are present.

What are the trends that will shape the local pharmaceutical market in the coming years and how is Laboratorios Bag³ preparing for this?

In the next six to ten years, the environment of the Argentinian pharmaceutical industry, isolating all the macroeconomic issues, will very closely follow the pharma evolution happening today in developed countries. What we expect to see is a decrease in the importance of the massive prescription market, mainly due to the fact that the source of new innovative products is drying up in big traditional markets. New products aren't coming up except in particular areas like neurology, some products for Alzheimer's and diabetes. What we are seeing today is that in many important categories like hypertension or pain, no innovation will come. In a way, there is very little push to add value. It is quite simple and logical: when companies cannot innovate more, the competitive variable becomes price.

The growth of the industry will therefore come from other market segments. One of them is the OTC segment. Compared to other Latin American markets, Argentina has a very small share of OTC products. This will increase on an annual basis. The current market situation is not due to regulation, only that very few companies are currently focused on the OTC market. Laboratorios Bag³ already has an OTC line, and today we are investing more than ever in this type of products. Considering the price situation in Argentina today, investing in OTC products may not look like the best strategy but again, crises in Argentina are always transitory and in the near future OTC will be definitely one of our leading lines in the Argentinian pharma market.

The second and most important growth area will be speciality products: products aimed at targeting unmet medical needs substantially suffered by small populations. This is the market segment that has been growing the most and it will keep on growing in the future, driven by innovation. Obviously,

this will pose a challenge to the payers as these are expensive products. Laboratorios Bagá³, thanks to its strong financial skill, has been able to focus on speciality products during the last six to seven years. Our group considers this segment as a crucial avenue of growth.

In both 2013 and 2014 Laboratorios Bagá³ signed important agreements with Merck Sharp and Dohme (MSD). Could you explain the importance of these agreements for the group?

In March 2013, Bagá³ took on the promotion and distribution of a portion of MSD's primary care product portfolio, mainly aimed at GPs, and including products such as Celestone, Clarityne, Clarifriol, Cronolevel, Diprogenta, Diprosalic and Quadriderm, among others. . The agreement also included the sale and transfer of the brands Tryptanol (antidepressant) and Furadantina (bactericidal) to Laboratorios Bagá³, which until that point had been marketed by MSD Argentina.

The reason behind the operation was the reciprocal need of both parties. From Bagá³'s side we have always been a company seeking to increase our portfolio with new products. We are always looking to acquire mature products that fit with our extensive portfolio. Regarding MSD's mature products line, we are experts in giving a second life to products that are not growing as expected. On top of that, our strong collaboration with MSD reflects a mutual sense of trust and recognition.

Today, Laboratorios Bagá³ has one of the largest in-licensed product portfolios in the Latin American market. In all the cases, our relationship with our licensors is excellent and it shows in the long term duration of the agreements. AstraZeneca is our leading multinational partner today.

In a world where approximately 30 percent of drugs are now distributed through such agreements, what makes Bagá³ a partner of choice?

Laboratorios Bagá³ has a different philosophy when it comes to relationships with multinational companies. Generally speaking, Argentina has been quite reactant when it comes to patent protection. But we consider that when a company invests in developing and launching an innovative product, it should have some kind of protection. Laboratorios Bagá³ doesn't launch copied products even if there is no patent in Argentina. Such commitment in the Latin American environment distinguished our company's strategy, allowed us to be the partner of choice for several originators and helped us project an image of reliability.

How do you assess the state of R&D in Argentina, and do you see a risk that in few years the pharma sector in Argentina will become obsolete due to this lack of investment, vision and collaborative effort?

No Argentinean company is investing in new chemical entities, basically due to the very high costs involved: we cannot afford to create our own blockbuster drug just yet. However, although local companies cannot invest in developing new drugs, this does not mean Argentina is not a good place to do it: on the contrary! For instance, Laboratorios Bagá³ is investing in the development of new formulations or the improvement of existing formulations. We invest in incremental innovation.

At a very early stage Bagá³ created an R&D institute. Through the years the company has always been very dynamic in R&D investment, especially targeting patent for existing molecules of active principals. What share of the revenues is today invested in R&D?

Five percent of our revenues are been invested in R&D. As I said, mainly concentrated in developing new patents based on known active ingredients.

Our strong commitment to our own research and development is evidenced by our 85 patents in over 15 countries. The unshakable self-improvement and work spirit of our research teams

highly qualified professionals with a multidisciplinary background â?? assure both doctors and patients, new therapeutic responses aimed at enhancing the quality of life, health and welfare of people.

For instance, within the scientific sphere, Laboratorios BagÃ³ discovered the original molecule of Talniflumate, a strong non-steroidal anti-inflammatory drug with excellent gastric tolerance, currently exported to Southeast Asia.

How are you preparing for the upcoming competition of biosimilars?

We understand that in few years we will see many biosimilars products entering Latin American markets, as regulations are too strict for these companies to compete in markets like the US. We feel that there are already many players out there working on these products, so we would rather partner with biosimilar experts than develop the capabilities in-house.

How do you see the role and future of mid-size companies in a pharma industry increasingly dominated by giants competing through M&A and relying on late-stage takeover of biotech and basic research? What does it mean for the future of the business model of Laboratorios BagÃ³?

It has happened in the past, and will probably happen in the near future, that some pharma giant knocks our door, which is not a bad sign as it means we are doing things well. At some point, our stakeholders might like to sell, so we will always have the doors open to listen. Having said that, I personally think that our group of companies will increase in value in the future. Although growth is flat in our home market, we are investing heavily elsewhere in Latin America in order to be able to grow further.

Obviously there will be some local companies that will be acquired by multinationals in the years to come, given that there are many local players in the Argentinean market, but in the immediate future, I do not think that the market will change too much in terms of ownership.

Being the third generation family manager of the company necessarily comes with special responsibilities. What are the ambitions for Laboratorios BagÃ³ in the next five to ten years?

I would like to see a company with a stronger focus on speciality products and OTC, while maintaining its leading position in the more traditional prescription areas. Back in 1997, we had the ambition of bringing the company to USD one billion in sales. That was accomplished in 2012. Today, we envision a turnover of 75 percent coming from international markets and 25 percent coming from the local market.

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