

Darren Kerr CEO, Stratpharma, Switzerland



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Darren Kerr, CEO of Swiss medtech Stratpharma discusses, the company's roots, its broad portfolio in dermatology, plastic surgery and scar management, as well as its growing international footprint.

Stratpharma is a Swiss life sciences company specializing in the development and commercialization of medical devices for dermatology, plastic surgery and scar management. Could you please start by introducing the company?

Stratpharma was founded in 2005 in Basel, Switzerland, and we are specialized in the development and commercialization of medical devices for cosmetic dermatology, plastic surgery, burns, wounds & scar management. Our product range is centered around Film Forming Gels, which are a novel type of "wound dressings" that start as a gel then dry to form silicone gel sheets while on the skin or wound.

Right now, we are moving towards oncology, specifically radiation oncology. You might ask why a specialty dermatology focused company is moving into the oncology field and what are the links? Well let me explain that further. One of our products "StrataXRT" is for the prevention and treatment of radiation dermatitis. We take the management and treatment of radiation dermatitis and do it in a completely different way, by changing the way the symptoms are handled. Eight of the top ten cancer drugs today are biologics or biosimilars. You have TKInhibitors, EGFR and PDGFR inhibitors, for example, each of which targets cell parts and molecules which are also involved in the

functioning of the skin. Patients treated with these new therapies can therefore develop rashes and radio-sensitization. While we have new radiation machines that have skin-sparing technology, these biological targeted therapies are running in the other direction. There is greater efficacy, but you get drug rashes as a side effect. Our products work to significantly reduce these drug rashes in a non-pharmacological way, and they constitute a fantastic medical breakthrough.

Looking back at the history of the company and why I founded it. I had my first exposure to silicones and skin while I was working for Valeant Pharmaceuticals, and then to the dermatology and wound care fields also when working for the Advanced Bio-Technologies group. At that time, the dermatology products that we were delivering active ingredients in topical preparations were either using soft-white paraffin, lipids or emulsions. I felt there was an unmet medical need or improvements that could be done. I hence started working with Dow Corning (which were recently acquired by Dow Chemical Company, now Dow-DuPont), on a joint development back in 2008, as well as with other polymer chemists and we jointly worked to develop new formulas. We combined different medical grade polymers that created film-forming silicones, and that's quite a key difference. You need the gels to change their form while they are in situ. You can have silicones that stay as oils or stay as silicon sheets. Silicone oil can be incorporated into a plaster, or physical wound dressing and longer chain polymers as the basis of a physical plaster. Some of these silicon polymers prevent and treat scars. These products' formats retain their physical characteristics are not very practical. Our products, in contrast are dynamic and dry to form a very thin silicone gel sheet that for instance hold together the injured skin layer of the epidermis in the oncology patient groups I mentioned before.

You currently boast a broad portfolio with products for scarring (Strataderm), stretchmarks (Stratamark) and wound healing (StrataXRT, Stratacel and Stratamed) and have latterly been extending out into the topical dermatology field. Which are your most high-performance products right now in terms of revenue generation?

We today indeed have 5 products on the market, and our product range is very broad, going from nuclear medicine, oncology, neo-natal care, stoma care in hospitals hence very intensive medicine, right through to Stratamark, which is a product for stretchmarks. We target very different market groups, from government and university teaching hospitals with cutting edge science, to the OTC field and direct-to-consumer market. Today it is almost quarters in terms of both sales revenue divided between radiation, oncology, stretchmarks, and wound care. We are however moving more into oncology, which could become a very large portion of our revenues in a fast time frame.

You remain a small to medium-sized player and you are talking about entering the very large area of oncology. How are you as CEO organizing your company to have the right resources and the right financial capabilities to make all this happen?

We have growing pains as you can imagine! We are about 30 employees today in our Swiss office and by the end of next year, we should be around 55, and if we go beyond expectations, we will be 65, not counting Australia and the USA where we have another 100 employees today. We are therefore growing very fast. We changed our model from just using a distributor model, where we offer turnkey solutions to exclusive distributors, to now establishing a direct presence in some countries like Australia and USA. I believe that the best local distributor in a given market will always do better than the global setting up an office. Local beats global notably in the non-regulated, smaller, far-flung markets. Our company started almost in reverse as what others would do, meaning

that we chose to maximize the minor markets first. Our first sales were for example in the Philippines, Taiwan and then, we tackled Australia. We also built a significant presence in the CEE region (Central & Eastern Europe), where today we have market leading positions in Ukraine for example or Uzbekistan and Kazakhstan. Today we are selling in about 50 countries and have license agreements in about 60 countries which now includes China, where we are the number 1 western scar product with Strataderm. We hence started the world in reverse!

It is important to note that our supply chain is truly global. We finish a bulk chemical in the USA which is then shipped to the UK, where it is filled in tubes produced in China; our boxes are made in India; our sample sachets are filled in Israel; they are then trucked to Belgium where they are sterilized, trucked back again to the UK before being delivered globally by air. That is the most efficient supply chain for highest quality in these goods. Our partner for tubes in China is one of the biggest tube manufacturers in the world. Our box manufacturer in India is the largest pharmaceutical box maker in the world. It is a very global supply chain that enables us to be competitive and fast.

We understand you also have a pipeline of eight additional products under development. What are these innovations and what are your expectations for bringing them to market?

If we think we have the carrier to deliver new products in dermatology, then we need to be able to get the active in and out of the gel and that is quite tricky because silicone is non-reactive. There are a couple of different ways and technologies that would allow the release of the active ingredients from silicone gel and then into the skin, and we are currently partnering with several companies that offer that patented technology.

We are niche players in massive markets. Wound care is a USD 28 billion market, of which advanced wound care is half of that. Scar market is valued at USD 3 billion and stretch marks markets at USD 6 billion. We come in with a niche product: film-forming full-contact wound dressing. We are compatible with just about everyone else's wound dressing or surgical procedure. In aesthetic dermatology, we work with everybody's laser, everybody's chemical peel, micro needle or energy device, so you (the doctor) do the damage, we will do the healing. It has opened the door to us not to compete but synergise with very large partners.

Tell us about your international footprint. Today you have two affiliates: one in California and another in Australia.

They are not affiliates. We have two markets where we do the direct marketing, which means that instead of selling to a partner and helping them, where we sell them finished goods, they have access to all of our marketing materials through our portal, finished goods in local packaging, medical support, regulatory support, key opinion leader support, but they are responsible for promotion and ultimately selling. They pay their reps and do the local A&P, whereas in the direct model, we would be responsible for everything. So, it is not an affiliate because we sell to a partner under a title model and our reps are employed not through a Stratpharma subsidiary in Australia but through a partner; even though they are Stratpharma employees, there is not any employment contract relationship and the physical goods are sold to a third-party logistics supplier. It is a close model to an affiliate, but technically it is not quite a subsidiary.

We however have a subsidiary in the USA, Stratpharma Inc., a fully owned subsidiary by Stratpharma AG. But, Stratpharma Inc. is employed as a contract field force and not yet buying their product from Stratpharma AG. We sell to a third party and we have a contract field organization. At

some point this will change, as for the time being, we are investing money in the US.

Why those markets?

There was good business in Australia and it was also opportunistic at the time. We were until then working with a partner who faced a local crisis. We were therefore left with a good business opportunity and a big hole! We decided to invest directly and took over full responsibility for Australia. As for the US, it is the largest single channel in buy and bill market for aesthetic physicians, with one regulatory agency, and it is by far the richest market in the world. Numbers speak for themselves with the launching of Strataderm, Stratamed and Stratacel. We have thus far seeded and launched StrataXRT into radiation oncology, but it is highly likely that we will take a partner for that in the USA, and we will also partner for our other oncology segment and possibly the new gynaecology products as well.

What about the rest of the world? Tell us a bit more about those distributors and partners that you have locally.

As a general rule we look for the best local distributor. The best means they have a footprint in plastic surgery, dermatology, paediatrics, radiation oncology, gynaecology and they have OTC ability. They need to be across those channels.

If you think of countries like Indonesia, Malaysia, the Philippines, Greece or Romania (and before getting to places like Germany, France, the UK and Italy where the best locals are already global companies), local distributors in such nations are often multi-generational companies, with excellent field forces, financial stability, long-term management and visions, high knowledge of the geopolitical context of the region and simply excellent knowledge of the overall environment. They are very competitive. They are also, typically, the companies to whom Galderma, Pfizer or GSK will license to (for those specific type of markets). Some of them reach down a lot further, but they are the type of company that look for license partners. They need the global-branded products. If we can offer that in a turnkey solution, they are very satisfied as they can become profitable quite quickly. That is therefore the model for penetrating the world. It works in lots of countries but not in the biggest pharma markets. We have started our presence in Germany and the United Kingdom, though it is not big yet.

How are you going to finance all your plans?

We are a privately held company, with one major institutional investor. We cycled out a group of shareholders in 2015; we then brought in our first institutional investor with whom we had a funding relationship dating back to early 2011. We then placed mezzanine style investments with different groups, we have some bank debt with one of the big Swiss banks and we also have some mezzanine debt with one institutional fund. Furthermore, we have just placed some convertible debt through a private wealth network. In fact, there are some family offices but it is mostly wealthy private individuals that have invested in an instrument, which is a convertible loan, which after a lock-in period the instrument can be converted into shares. How much will eventually be converted, we don't know yet, as this will depend on how much Stratpharma will grow in the coming years. Today, we are looking to replace some of the bank and mezzanine debt: about CHF 25 million in existing debt and I am looking to place at least another CHF 10 million in a convertible instrument to

fund an acceleration of the envisaged growth.

What are the three big goals you would like to have reached when we come back in five years?

For our first range of products, we should be in the number one, two or three positions in every market we compete in and for those markets to include the largest countries. In five years, I would like to see our second-generation products already reaching their potential market share. Lastly, I would like to see the third-generation products starting testing and trials. I think we will have competitors doing things like us by then, but we are ready and up for such a challenge.

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