

Interview: Hernãni Sário, General Manager, Fresenius Kabi Portugal

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Hernãni Sário, General Manager of the Portuguese affiliate, Fresenius Kabi, discusses the challenges of the hospital market, as well as his company's strategic positioning in a market with few competitors in the manufacturing and export business.

How has Fresenius Kabi developed since the acquisition of Labesfal in 2005?

This acquisition was important because transactions of that size are unusual in Portugal. Our purchase of Labesfal was one of the biggest in the pharmaceutical industry in recent years in this country. Fresenius Kabi was a multinational acquiring a local company bigger than the affiliate. Through this acquisition we acquired all the complexity, size and content of Labesfal, as well as the knowledge, expertise and resources that Labesfal had in the field of IV generics. Fresenius Kabi wanted to create a competency center in Portugal for the development and production of IV drugs, and in doing so the company increased its position in the pharmaceutical sector in Portugal and became one of the biggest providers for the hospital sector.

These facilities in Portugal produce for more than 40 countries. Our biggest market is Germany, and our biggest client is Fresenius Kabi Deutschland, as well as other European affiliates of Fresenius. This subsidiary has also continued to bring investment to Portugal by building a new plant for cephalosporin production, and we have improved and increased the development of our existing facilities. Furthermore, Fresenius Kabi Portugal has increased its workforce from 300 employees in 2005 with the Labesfal purchase to 580 employees today. The affiliate is one of the biggest pharmaceutical employers in Portugal, partly due to the downsizing of other pharmaceutical companies.

This affiliate is also one of the biggest exporters of pharmaceutical products produced in Portugal, and according to the National Institute of Statistics, we are the biggest. Our exports in 2012 closed at €85 million, and in 2013 we expect to achieve €100 million. As Portugal does not traditionally produce pharmaceuticals, this is quite an achievement.

Has the government recognized and rewarded these investments that Fresenius Kabi has made?

We have benefited from an understanding by the government that such investments and presence of companies like Fresenius Kabi are important.

This became evident when we wanted the Portuguese portfolio available in other countries, partly through the Labesfal acquisition. This required the commitment of INFARMED, who needed to act as a good role model in terms of assessment and evaluation to other regulatory agencies in Europe. This has worked quite well. Fresenius Kabi Portugal has also benefited from Portuguese investment programs for all industry sectors. Furthermore, the way we have worked with our local municipality (Tondela), where our plant is located, has worked well. They really understand our value creation and employment in the area, as it is not close to any major city. Thus, the affiliate has demonstrated its contribution to the system's sustainability. As our main areas of intervention are IV drugs and IV generics, the more you use Fresenius Kabi's products the more you save, and the more you use domestically produced products. This provides trade balance in Portugal, and Fresenius is the only pharmaceutical company in Portugal with a positive trade balance by exporting more than importing.

If I had an environment in which pharmaceutical companies are truly valued by the Ministry of Health, it would help me in my role to bring more investments here. It is difficult to prove to my headquarters that Portugal is a good country to continue to invest in, when other countries are much better off and value the pharmaceutical industry more. Fresenius should continue in Portugal because of low production costs, big structural commitments to continue operations here, and proven success in our entire portfolio.

How did you manage to export to so many countries?

This was the dilemma of Labesfal. To grow outside Portugal meant allying with other companies to market products internationally. The other option was for Labesfal to create its own structure outside Portugal, which is very difficult for Portuguese companies in a competitive environment like the pharmaceutical industry. The alliance between Labesfal and Fresenius Kabi was the best option for them to fulfill their internationalization plan. We had the capacity to make Labesfal's portfolio available in other countries, and this is why INFARMED's help was critical. Fresenius Kabi has operations in more than 60 countries, so the organization had the means to market Labesfal's products internationally.

Additionally, we have also been increasing the number of clients that are not Fresenius Kabi affiliates. It is easy for us to bring other customers here, and not just local companies; we also attract international companies and local companies in their country of origin.

What makes Fresenius Kabi Portugal the partner of choice?

Fresenius Kabi Portugal's facilities are approved to produce for Europe, Latin America, the Middle East, and Asia-Pacific. We have the capacity and flexibility to fulfill all requirements. The level of quality is also very high, which is important for regulatory agencies worldwide. We are also competitive. Furthermore, we have the capacity to produce both oral and IV forms, whereas most local manufacturers' facilities, which were previously owned by multinationals focused on the generic oral retail business, can only produce orals.

What is the strategic importance of Fresenius Kabi Portugal in relation to the entire organization?

This affiliate is an important one within the organization. Our production capacity, in addition to sales and marketing, gives us significance because the group understands the paramount nature of our added value. Also, other affiliates of Fresenius Kabi are dependent on our production. If our plant does not operate well, it will affect local business in Portugal and other FK affiliates worldwide. Also, we are a very competitive affiliate within our group. We are usually one of the first affiliates to launch IV products, and this means the organization can understand how a product will work in other

countries based on its performance in Portugal. We sometimes serve as a pilot for the dynamics of a product in an international environment, and have gained the confidence of the group through our successful projects.

What keeps you awake at night?

We have seen a big decrease in our sales this year in Portugal by almost 20 percent due to price decreases in the hospital sector. The hospital bill is not controlled; 70 percent of it comes from pharmacy or hospital products but are used in an ambulatory setting, while only 30 percent is used for hospital use. In this 30 percent, there is a significant decrease in consumption, where most of Fresenius Kabi's products fit. While the special payment of the 2012 protocol helped, the Ministry of Health has yet to fulfill their obligation and pay us.

The level of debt of hospitals to companies is increasing. Some measures of the constitutional court have affected the hospital budget as well. For example, hospitals had to pay a Christmas salary for their employees. But the budget for hospitals was built without taking this into account. When the court reproved this measure, the hospital paid this extra salary but the budget was not revised. Therefore, hospital finances are in a critical state, which affects companies focused on hospitals.

What are your expectations for the next few years?

Next year I do not expect to see the same measures of the past few years. The Ministry of Health recently said that the cuts in the pharmaceutical sector could not go any deeper. If this is true, I can expect stability and perhaps small growth in 2014 from the introduction of new IV generic products. Fresenius Kabi Portugal has also worked internally to increase sources of efficiency by adjusting cost structure, carefully analyzing new investments, and economizing our workforce. We have also looked for ways to present new services to our clients to benefit all stakeholders. For example, we will launch an initiative in 2014 focused on treating patients in a homecare setting, partnering with the NHS to bring hospital patients to their homes for treatment.

We are also exploring our export business. We are responsible for operations in some African countries; our business in Angola and Mozambique has been growing noticeably. We have also diversified our operations into clinical nutrition, IV drugs, standard solutions, and medical devices. This broad portfolio is important for decreasing the affiliate's risk. Fresenius Kabi Portugal has also extended its work to transfusion technology this year. At the end of 2012, we acquired a leading company in the transfusion technology business called Fenwal, which was integrated into Fresenius Kabi's Portuguese organization in 2013. This will bring all the other products and services Fresenius Kabi has in this area to Portugal, and therefore provides a new area for growth.

What is most important for the health authorities to understand for the industry?

It is very important for the authorities to look at the pharmaceutical industry not only as a source of cost, but as an investment that the country is creating in the health sector as well. All the evidence demonstrates that Fresenius Kabi's investments in pharmaceuticals are creating value. Patients are being treated and disease is being prevented, which means less expenditure in the NHS.

The government was conditioned by the troika's measures. The troika is finally understanding that this cannot continue and I hope that the pharmaceutical industry will be considered a strategic sector for the country.

This added value is for the economy as well as the NHS, and the government needs to understand and value that through concrete measures. Declarations and statements that Portugal will change is not enough.

We need actions that show that companies like Fresenius Kabi are strategic for Portugal so that we can continue to invest here, and local management can continue to show to our corporate organization that Portugal is worthy of investment.

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