Interview: Peter Burema â?? CEO, NextPharma, UK

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Peter Burema, CEO of NextPharma, explains the specificities of a UK-based CDMO with manufacturing sites on the European continent. He describes how NextPharma refocused its efforts on being a customer-centric one-stop-shop by deciding on smart investments, and why quality will always remain the key differentiation factor for a CDMO.

In 2014 you joined NextPharma after a highly international career. Letâ??s start by introducing the company and the scope of operations of NextPharma today.

When I joined NextPharma as CEO in 2014, the company was going through some challenging times. In general, I would say that the manufacturing and CDMO environment in Europe is challenging, especially compared to the US where there has been much less price pressure (although this is slowly changing there as well). Margins for Pharmaceuticals in Europe are in general much lower which translates into the need for a European CDMO to also work much more cost efficient.

We hence needed a change of strategy. At the time, we still had a UK marketing office, but I didnâ??t think the capabilities we had developed here were core for the BtB business in the manufacturing space. NextPharma had also started to expand strongly in R&D capability in this UK office, but for a relatively small CDMO we didnâ??t have reputation in that field at the time.

The problem was that it takes time to build a reputation, whereas you are at the same time incurring high cost of building such an organisation from day one. Consequently, costs exploded but no new business was coming in. We decided to stop the R&D capability build-up in the UK and we restructured these R&D capabilities in a way that they were brought back to the manufacturing sites where the expertise for the technologies we offer was anyhow the greatest. In the meantime, we have now through our model of â??Centres of Excellenceâ?• built quite a reputation for ourselves with customers from around the world, working with us on the development of both innovative formulations of existing compounds as well as NCEâ??s.

And today we donâ??t do marketing or business-to-business in-house marketing. We are much more focused on key account management and on further building a reputation through direct contact with our customers.

As a result, we managed to increase the companyâ??s profitability to a more sustainable level. We grew EBITDA margins from 6-7% to over 12% now. Our aim is to, medium to long term achieve 16-17%. It is our belief that you need these margins to be able to make the required investments. Without it, one will struggle to keep onesâ?? facilities up to the ever-rising standards that the customers expect.

How did you reach that EBITDA?

The improvement in EBITDA was initially quite clearly from cost cuts. But we also made it clear internally and to our customers that we are a contract manufacturer. Anything we do outside of contract manufacturing is meant to support the contract manufacturing. So, we focus on the Development work within R&D and our â??Centres of Excellenceâ?• in each of our factories, all with dedicated technological capabilities, reflects this approach.

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NextPharma today has 5 manufacturing centres in Germany and one in France, each specialized in a particular area. Would you decribe NextPharma as a one stop shop?

Without a doubt, we are a one stop shop. Some areas we currently donâ??t cover are sterile injectables and biotech. But over time we will start to enter into those capabilities.

We have six facilities in five locations. Berlin is a facility that does penicillinâ??s. There is no innovation within the penicillinâ??s space, but there is longevity. Itâ??s mostly used molecules have been around for 40 years or longer and they will continue to be around for another 100 years and longer.

Most pharma companies have moved out of the segment because sites have been getting old, prices have dropped so low, and their capital investments are no longer justified. There are very few companies still left doing this so in a way we are much more niche now and our business is growing.

Moving west, GÃ¶ttingen is in the centre of Germany and a beautiful student city. This is where our biggest site is situated which manufactures a very broad range of product formulations.

On the same location on the other side of the road is a second facility that does dedicated Cephalosporin antibiotics.

Further west from there is Bielefeld where we make slow release formulations based on pellet technology. We are the second biggest manufacturer in Europe in this space. This technology can be quite complex as the equipment used requires a lot of operator know-how and which is why we

have a well established customer base.

Further to the south/west we have our Waltrop site which is dedicated for womenâ??s hormones and hormonal creams and ointments.

Finally, Limay in France is doing big volume liquids. This was the last site which was acquired back in 2004 and we have not made any big acquisitions since then.

All our sites are profitable with growing business with both existing and new customers They all offer enough space for further expansion which gives security to our customers as they donâ??t have to worry about limitations in servicing their future increased demand.

There is no overlap in our activities within the different sites.

As a result, when people come to us with a technology specific request, they know we have the relevant competences for such technology in one of our sites.

Our development teams know the site equipment extremely well whereby lab-scale and commercial-scale equipment most of the time are the same, allowing for a smooth scale-up process or product transfer into one of our sites. We have built a very good reputation with our customers on the basis of our track record.

By way of example, at the moment we do more than 20 development projects for non-European customers, notably in the USA. But even companies from India come to us. Part of the reason for this is the fear of IP leakage doing the work in India, but certainly also the competence and knowledge of our Development teams.

One other important reason also has to do with our open and transparent communication. We are very clear with our customers if we believe something in the development phase will not work, not promising things we cannot deliver.

When we started doing our country reports 15 years ago, CDMOs were going east. Now we see a reverse trend because â??what was the cheapest has become the most expensiveâ?•. Many companies have burned their fingers in China, India, and Eastern Europe. What is your feeling on that trend?

For more than 7 years, I was leading Ranbaxyâ??s Global Pharmaceuticals Business, and at that time, Ranbaxy was the biggest Indian pharma company. Generally, people assume that cost wise, India is the best place to manufacture. I felt that there were indeed many reasons why that should be the case, but I also saw that in practice there were many reasons why it was not necessarily working out this way. One of the reasons is remoteness to the market. When you produce a pharmaceutical product under the strict regulations we all do, thereâ??s a risk that things go wrong. Products going from Mumbai to Germany can run into any number of issues in their supply chains and that long distances makes it difficult, time consuming and expensive to correct not running the risk one goes out of stock.

Biologics are today approaching 50% of the pipeline of pharma companies. Next pharma is not yet in that field. Is that something you will be pursuing?

Everyone is focused on biotech. Itâ??s a highly attractive and fast-growing segment. But at the same time, more and more patients are getting personalized products which the bigger Pharma companies prefer to manufacture in-house.

If you look at the manufacturing footprint of Big Pharma, they are at the moment closing or trying to sell facilities for small molecules because of underutilization and/or consolidation of off-patent product manufacturing in fewer sites.

These older sites need a certain amount of investment but at the same time they have to invest huge amounts in their new Biotech facilities to support their (future) pipeline; they canâ??t spend the same money twice and it is only logical that they invest in their future and not their past. This creates many opportunities for CDMOâ??s like us to take over the manufacturing of these small molecules for these companies, reducing supply chain complexity for them in the meantime.

If you take biosimilars, which would be a natural place to be active in for a CDMO, you are already seeing a faster price erosion then many were anticipating. Then the question is if an investment in such a facility, which is very substantial, can ever deliver a pay back.

In this context the development of High Potent capabilities is a much more interesting one, as again, this is a fast-growing segment both in generics and new compounds.

We have to see over time if we will build a High Potent facility greenfield or acquire one.

On the M&A front we are a bit of an outlier because we havenâ??t done any acquisitions in the last years. Weâ??ve looked at several companies but reconsidered during the due diligence process or found the price too high. We have in the meantime been growing organically by double digits in both revenues and profits every year, so we have less pressure to acquire. At the same time the CDMO space is going through a consolidation phase right now and we want to be part of the consolidators but in a sensible way.

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Are your acquisition interests in Europe or the US?

We are looking at acquisitions both in North America and Europe. In Europe, we are looking at Spain, Italy, and France, as well as certain specific technologies, if the right opportunity comes along. But acquisitions are not a panacea. You have to deal with integration, possible unavoidable layoffs, and it creates a lot of stress within both the company you acquire as well as in your own organization which both have to be able to manage. The last thing you want is that your customers are not getting the service they deserve only because you are distracted by integrating the newly bought company.

The main reason why we manage such a strong organic growth is because we focus on the five most important aspects for a contract manufacturer â?? 1) quality, 2) quality, 3) quality, 4) service levels, and 5) price. Ask any pharma company who works with CDMOs and they will say the same. If you canâ??t get your product to market, you lose market share. Or if the FDA shuts you down then you donâ??t have a product, full stop.

Reliability in Quality and service levels is key. We donâ??t interact with the CEOs of companies. We interact with the Supply Chain People because the last thing they want is to not receive a product because of problems with the CDMOs.

Then there is price, it is important, but no one will ever move from one CDMO to another for a 3-5% price difference. We are in a â??stickyâ?• business. Itâ??s tough to change products from one factory to another because it costs a lot of money, can create shortages, and you have to file for many different variations. You have to be very sure why you want to switch. That doesnâ??t mean you can ask for any price. But price alone will never be a decisive factor.

To come back to our expansion and M&A plans, we are also looking at opportunities in the UK. Yes, weâ??re all very much in the dark about Brexit and what it means for the Pharmaceutical sector, but do hope that the UK, also in the future, will remain a member of the European Medicine Agency accepting one regulatory system and accept each otherâ??s batch releases and inspections, otherwise you just add to costs which will make healthcare unnecessarily more expensive for the patient. Also, our UK customers have seen the devaluation of the pound over the past three to four years. Because we produce off-patent products, thereâ??s no room to further reduce prices. We hence have to be careful that accessibility of very well-established products doesnâ??t get jeopardized.

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