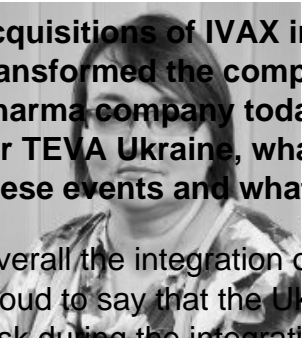


Interview with Alexandra Sologub, General Manager, Teva Ukraine

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 en on a solid phase of growth and consolidation, mainly through the acquisitions of IVAX in 2006, Pliva (Barr) in 2008 and ratiopharm in 2010, which have transformed the company from the number 40 global pharmaceutical player to a top-10 pharma company today. As the person in charge of managing these memorable acquisitions for TEVA Ukraine, what do you find to be the main synergies and advantages generated by these events and what was the course of the integration process locally?

Overall the integration of Pliva and ratiopharm were very successful on a global basis, and I am proud to say that the Ukrainian operations have managed both transitions very smoothly. The main task during the integration was to select the best practices and talent from the companies we acquired to then implement them throughout Teva. This required a re-evaluation of all of our practices and changing the ones that were outdated or inefficient. People tend to think that simply because we were the acquiring company we would leave our practices untouched and expect the newcomers to adapt to our methods of operation, but in reality it is in the company's best interest to adopt practices from the other company if they prove to be more efficient. Ultimately the goal is to make one plus one equal to more than just two, by leveraging the synergies of both companies and creating the greatest value possible from all the available elements. Indeed, the Teva group has very efficient and clearly defined internal processes that allow for such mergers to occur quickly and with the most positive results in the end. I think that this is one of the company's asset.

In Ukraine we managed to obtain great synergies with Pliva and ratiopharm, and are now in the process of doing the same for our acquisition of MEPHA (Cephalon). As part of this restructuring, we have already begun to invite MEPHA employees to remain on board with us, including at all levels of management. The idea is to accomplish the transition as quickly as possible to minimize the period of uncertainty that is typical during such a large restructuring. There is always a lot of pressure to have things done as efficiently as possible because essential functions, such as sales, promotional and regulatory activities must be continuous after these acquisitions. The reality is that the business must continue to operate as from the first day. The difficulty with shifting people around and having them adapt to a new structure is that people tend to be resistant to change. Nevertheless, I am confident that in the end those who will stay on board will understand the added benefits that will come from joining the assets of these two companies. Furthermore, the MEPHA acquisition will not have such a great impact on the Teva's operations as a whole given that it only represents about a 20% increase of our total business, whereas the ratiopharm acquisition meant a doubling of TEVA's global business.

With impressive financial results in Q3 of this year, including a reported 56% sales increase in Eastern European countries, Teva has been exceeding investor expectations across the board. Similarly, how have the Ukrainian operations for TEVA been faring in Ukraine, in terms of sales and market share, and what is the relative importance of the Ukrainian market within the Eastern European region?

Ukraine has also been experiencing considerable growth over the past few years and this has been both as a cause of the major acquisitions as well as organic growth generated from the local market. After the acquisition of MEPHA is complete we will represent over 3% of the total retail Ukrainian pharmaceutical market and are looking to grow this considerably in the coming years. We are focusing our efforts on our medical products in this market and have seen sharp growth in our prescription business in 2010/2011. On the other hand, our OTC segment has not been performing as well as we expected, but I am sure we will improve this next year with the MEPHA acquisition. Teva has also recently signed a joint-venture deal with Procter & Gamble's for OTC products. As you are aware, Procter & Gamble has an impressive portfolio of consumer health products and together with TEVA's aggressive commercial expertise and marketing strategies we hope to achieve great results in this segment.

As part of Teva's plans to reach 31 BUSD net sales by 2015, I anticipate the Ukrainian market to be contributing \$160 million to the company's overall revenue by that time. While it might not seem like a large figure, our Ukrainian operations have been growing above the market average of 12% and we expect to adjust our forecasts to achieve a growth between 15-20% in the coming year. I realize that this kind of growth is very ambitious, but I am positive that it can be achieved with our new strategy and expanded portfolio. Only five years ago we were ranked 40th amongst all the pharmaceutical companies in Ukraine and today we have managed to jump 35 positions to achieve the 5th position, so for sure we can continue to push upwards in the ranking by growing at a faster rate.

Given such ambitious growth expectations, what are the greatest challenges that Teva is experiencing in the local market and will have to overcome in order reach its targets?

The Ukrainian market contains a number of challenges that apply to all pharmaceutical companies. As you are probably aware, there is currently no reimbursement system in Ukraine, the government supports the purchasing the medicine for treating only short list of the diseases, such as AIDS, tuberculosis, oncology diseases and some others. Therefore patients are mostly paying for their medicines out of pocket. This means that the total market value is limited to the purchasing power of the population and as pharmaceutical companies we must keep this in mind and do our share to provide affordable medicines to patients. In the recent years we have seen a great increase in the value of the pharmaceutical market, without seeing a commensurate rise in the volume of the total market. This is illustrative of increasing prices for pharmaceuticals as a means for pharmaceutical companies to generate value

In the meantime, Ukraine has some of the lowest health indicators out of any European country, which clearly demonstrates the high unmet medical need of the local population. As an out-of-pocket market the average Ukrainian spends \$64 per year on medicines, which is extremely low compared to other European countries. These means that consumers are extremely price sensitive when purchasing medicines and will tend to prefer the cheapest option irrespective of the quality and efficacy of the treatment. The only reason why this situation has been sustainable so far is because of Ukraine's very strong local pharmaceutical industry and producers from such countries as India, that manufacture drugs at extremely low prices. To give you an idea, our generic products can be up to five times the price of the cheapest version available on the market. When you consider such a difference in price, immediately the first thing you have to question is the quality. In addition

last few years we have seen an increase in the value of the pharmaceutical market, with lower commensurate rise in the volume of the total market. This is illustrative of increasing prices for pharmaceuticals as a means for pharmaceutical companies to generate value. Local producers were more aggressive in increasing the prices than the foreign ones and as a result growth of local producers in value was higher than foreign ones. In the end, however, it does not benefit the patients in any way if we are simply selling the products at higher prices.

Furthermore, the most testing characteristic of this market is the fact that it is so volatile and unpredictable, not only economically, but mostly in its regulations. As the pharmaceutical market and healthcare system as a whole are not developed the regulatory and legislative policies related to the pharmaceutical industry are constantly changing, and this makes it extremely difficult for companies to forecast their business accurately. You might have also heard that the government tends to protect the interests of national pharmaceutical producers. Of course it's a normal practice in any country, but by doing so, the policies that are the most beneficial for patients should be developed, not simply obstructing the activities of foreign companies. In addition to this, there are constant changes of staff at the Ministry of Health, including the ministers themselves. Under such conditions there can be no continuity for the country's healthcare and pharmaceutical sectors and this is one of the reasons why we see such low health indicators in Ukraine.

The company should react adequately and in time in such a changing environment. We in Teva are preparing for changes - this is one of the key company values that is so necessary in times of integration and on such a market as Ukrainian.

Internally, one of the greatest challenges is to manage our extensive portfolio of products that was created after the number of the integrations. Thanks to the legacy, Teva has a long-established presence in the Ukrainian market particularly with the big brand, such as Sumamed, Olfen, Hepabene, Decatilen, Bisoprolol-ratiopharm. Additional to this I am allowed much freedom by our headquarters in building the rest of the portfolio and deciding which products to bring to Ukraine. Of course it is an advantage to have so many products at our disposal, but on the other hand it is also a great challenge to distinguish how many and which products should be available locally.

Speaking about market conditions, during our meeting with Mr. Ignatov of AIPM, he highlighted the numerous positive signs by the government in a shift towards improved regulation of the pharmaceutical sector and the much-awaited introduction of a reimbursement system. What partnerships has Teva developed with local authorities to ensure that such changes are indeed enacted and that you become an essential partner in healthcare?

Yes, there are positive signs on behalf of the government to address the country's healthcare needs, however, I am not sure that what we are seeing at the moment will ultimately result in the implementation of a reimbursement system. Discussions about reforming the healthcare system have been ongoing for more than 15 years and there are no results of this discussion yet.

As you mentioned, recently there have been changes made here and there, including the signing of the PIC/S agreement in January 2011 and also some pilot projects to implement a more efficient restructuring of healthcare institutions in some of the country's regions. I agree that there has been an improvement in the quality control of pharmaceutical products, but certainly not in their reimbursement and pricing. Most recently we have seen a new law that will require the registration of product prices. This was an attempt by the government to better regulate prices in the market that have been increasing considerably over the years. The problem is that price registration without introduction of the standard of the treatment and reimbursement system looks like only incomplete steps.

While I certainly believe that there have been some steps forward, they only represent pockets of development scattered throughout the system. In an ideal world we are all hoping that these reforms take place, but realistically I believe it will still take a few years before the authorities realize what they need to do and make it a priority on their agenda.

At least the few step forwards do seem to be affecting the pharmaceutical sector positively. Is the fact that Teva recently set up a new logistics hub in Ukraine a direct response to the improving market conditions?

Teva has great expectations of the Ukrainian market and others in the surrounding region, and this was the main reason why we decided to set up a logistics center in the country. Geographically speaking Ukraine offers great advantages to serve our operations in Moldova and the Caucasus region. Furthermore, this will also strengthen our distribution network locally to ensure that we can respond quickly and efficiently to demand. Particularly in Ukraine this will be a great advantage for us due to the constantly changing regulations that lately have involved alterations regarding the registration of products and their prices as well customs legislation. Having a local logistics hub grants us a stable supply of products despite of any similar changes that we might experience in the future.

As the person responsible for transforming Teva Ukraine into one of the top 10 pharmaceutical companies in Ukraine, what are your expectations and ambitions for the company locally in the next 3-5 years?

Very simply I would like to drive Teva to become the #1 pharmaceutical generic company in Ukraine. Given our sharp rise in the rankings and our plans for the near future, I have no doubt that we achieve this. This of course only addresses my own personal ambitions at a commercial level, but more importantly I want to make sure that Ukrainian patients have access to world-class drugs at affordable prices. Especially because currently there is very limited support from the government in the purchasing of medicines, this is the least that people of Ukraine deserve and I want to make sure that Teva continues to offer the best treatments at a reasonable cost.

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