

Interview with Pat Gilroy and Fergus Elebert, Managing Director and Industrial Director Pharma, Dalkia Ireland

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Can you please introduce us to Dalkia?

Pat Gilroy: Dalkia is a multinational company that operates in over 40 countries throughout the world and turns over 8Bn EUR annually. We are the energy management and utilities services subsidiary of Veolia Environment and Électricité de France. Dalkia formed a subsidiary in Ireland in 2002, after the acquisition of a company called FP2.

One of the major hallmarks in Ireland for the company has been the development of our combined heat-and-power plant (CHP) offering. We have a number of CHP plants installed in the country that we not only designed, built, and operate, but also helped to finance—allowing clients to benefit significantly from reduced energy cost by controlling their own consumption on-site.

We also tailor-make energy management contracts for clients on the utilities side. We provide guarantees on conversion efficiency and distribution efficiency for various utilities, and in some cases, we even forecast usage. We guarantee that we can reduce levels in these categories.

These contracts are extremely attractive for customers, but the market would be much improved if there were more competitors in this sphere besides Dalkia—because when you offer something that no one else offers, you have to sell the concept, and yourself. Customers that are unfamiliar with the concept may not believe in it. When the concept becomes established, then you only have to sell yourself.

We make commitments to our partners for the long-term, and we tend to be a company that stays. We give firm commitments not just on energy, but also on availability and reliability. We put great emphasis on quality and safety.

In Ireland, we primarily work with U.S. multinationals. We also work with a number of Irish multinationals—indigenous companies that also have operations abroad. We are mainly an industrial-based business here, which is unusual for the group.

How active is Dalkia in the Irish pharmaceutical sector?

PG: The pharmaceutical sector is our number one market in Ireland, with food and beverage coming in second. Over 70% of our annual revenue is generated by these businesses.

We are very active in pharma right throughout the country. We are well spread geographically, and work with a significant number of the players in the sector.

Dalkia says that its approach is to “embed itself” in its customers’ processes. What does that entail?

PG: It is important in all of our sectors—but perhaps especially in pharmaceuticals—that we understand the way the client operates. We have to understand standards like GMP, GDP, and GLP. If we are not able to completely participate with the customer in compliance and quality, then we will not be able to operate in the sector—or we would be kept to a very peripheral role. Integrating our company into the client’s management systems—and yet still being responsible for our delivery—is a very important aspect of servicing the pharmaceutical market. We fully recognize that we need to be a part of the plant solution.

How has your customer landscape changed in recent years? How have their needs changed?

PG: We have worked with many of our partners for over ten years. Over this last decade, there were a lot of new products coming online. Existing facilities were being expanded or refurbished, and new facilities were being constructed. The focus, at first, was simply on getting things working, securing product availability, etc.

Naturally, as the sites moved on and people got very good at manufacturing their products, the next natural phase was cost reduction—how do we do the same job for less, while maintaining integrity in reliability and availability?

This is where we see the cycle today: there is comparatively little new investment, and many companies are trying to optimize existing assets. This is definitely an opportunity for service providers like Dalkia. We have been able to transition a lot of change with our customers in recent years.

What is the biggest challenge for the company?

PG: Because we are, as I mentioned, in a cycle of reduction, we do not see much long-term thinking in the market today. For the first time in over a decade—and perhaps for the first time ever in the pharmaceutical industry—companies are looking at the next two or three years, trying to reign in costs. We see fewer projects that take a ten or 15-year view.

Hence, the challenge is to look at the here and now, and try to make things work in the short-term. At the same time, we cannot ignore the long-term implications of our work, because two years from now, these plants are not going to shut down. When new products come online, you’ve got to be ready.

Dalkia’s revenues in Ireland approached 74Mn EUR in 2011—a year in which the company also more than doubled its pre-tax profits. How did you fare in 2012, and what is your outlook for 2013?

PG: We are quite happy with our performance in 2012—especially given the recession in Ireland, which is adversely affecting many sectors. We have not seen a huge amount of growth, but we have been able to meet the objectives set by our parent organization, thanks to focus from the teams

around the business.

Moreover, our pipeline going forward is quite significant. Whereas many companies were reluctant to invest in recent years—especially our non-pharmaceutical clients—2014 and beyond will see the fruition of a number of exciting projects.

This is surely one measure of economic recovery—the growth in the order-book of an industrial service provider.

PG: Absolutely. We can see the economy recovering because we can see sectors becoming active again. Private investment, in particular, was effectively non-existent in Ireland since 2008—in all sectors. In the second half of 2012, the situation started to improve. This is something that we can indeed see from our own order-book. The question marks around the Irish economy are disappearing, and there has been a real sea change that is set to continue through 2013.

Do the majority of your partnerships in Ireland come from global relationships built by the Dalkia group?

PG: Actually, the majority of our clients were acquired locally. However, that is changing, and we do increasingly see a trend toward the use of global service providers. Clients will seldom use the same provider everywhere in the world, but they definitely increasingly look to have a regional service provider.

Pharmaceutical companies in particular are starting to narrow their pool of providers in general. They have talked about doing so for a long time, and now we are seeing action from many companies in terms of designating “preferred partners.”

What makes Dalkia a partner of choice?

PG: First of all, our ability to deliver, which is second to none. Second, our competence in the area of energy—which, too, is second to none.

Our third competitive advantage is our ability to automate. This area is another emerging trend in the industry that is making things quite interesting.

Dalkia Ireland is a comparatively small subsidiary for the group. What value do you bring outside of revenues?

PG: We have a high concentration of industrial work. There are three legs that the group would like to grow on: district energy, industrial utilities services, and building energy services. In Ireland, our specialty is the industrial sector. Building on that expertise, we can support other subsidiaries within the group to develop their industrial services.

We can also offer our colleagues particular expertise in working with the pharmaceutical sector. We have mirrored Ireland’s unique concentration of pharma plants in our own portfolio, and can add value to our sister companies in pursuing pharma clients.

How can the business further improve over the next five years?

Fergus Elebert: We have to understand our customers' challenges. We earlier discussed changing trends in the pharmaceutical industry. Well, the major changes are as follows: cost is a major concern, patents are expiring, drug pipelines are not what they once were, and M&As are consolidating the marketplace. These organizations have to maximize efficiency to recoup their investments in facilities.

Pharma companies also face the global recession. Their biggest customer is usually government, and when government is under pressure, it is easy to look at drug prices. Companies can do little to stop reductions.

Pat Gilroy: We have to help clients make better use of their assets. One particular innovation we offer the marketplace is using a client's generation capacity on-site to connect to a virtual power plant that we operate, so that they are paid to have an asset on their site that could potentially supply electricity to the grid.

We have to become a lot more creative, because these cost challenges are real. Automation, and using things like generation capacity, is an attempt to think outside of the box.

We also have to be ready for the ramp back up in investment because it will certainly come. Over the next five years, we have to prepare ourselves to service clients who are releasing the next generation of drugs.

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