

Interview with Raffaele Petrone, CEO, Petrone

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Petrone group was created in 1965, based on your parents' Carmine and Fernanda's entrepreneurial spirit. They survived through times of challenges for Italian groups and maintained their independence. In your opinion, which main milestones of the group's history were keys to its success, enabled the company not to fail and get where it is today, keeping growing organically still remaining independent?

Everything started with my grandfather's Raffaele Petrone's pharmacies, followed by the development of the group's first pre-wholesaling activities, and trading companies supplying hospitals and exporting overseas.

Nevertheless, the group never aimed at becoming a full-line wholesaler and other business lines have been increasingly considered in the last years. Starting with manufacturing activities in 2000 through the acquisition of shares in Mifarm which was, at the time, one of the few FDA approved private Italian companies. Later on, the group explored CMO and CRO through its interest in Pierrel group, and launched in 2007 its own medical devices for the hospital market. Hence Petrone is today covering most of the pharmaceutical value chain.

In addition, it is now looking to invest in early stage companies able to produce very special types of products or devices. The first and most important initiative of this kind was addressed to Advanced Accelerator Applications (AAA), one of the most important European players for the production of radiopharmaceutical ingredients. Back in 2002 this initiative was going against the concentration trend. Indeed, as AAA's products have a life shelf of four hours, they have to be produced and distributed locally and cannot be manufactured in a de-localized site.

Part of such a success story relies on the uniqueness of the Petrone family. I personally consider that my parents have been brave in trusting their sons (Pierluigi Petrone, Massimo Petrone and myself) ever since we were 18 years old by giving us strong responsibilities. Of course, we enjoyed a high level of support without which nothing would have been possible.

As Petrone showed such a high level of flexibility and responsiveness to change throughout the years, what has been the rationale behind always looking to diversify the activities whereas many service providers tend to be more focused?

Petrone does not really have equals in Italy.

It is far from being the biggest group but it is following a completely different strategy than most of its peers. Actually it does not aim to achieve a precise mission in a specific field of the medical world, but rather be active as a transversal group in the most difficult areas of the pharmaceutical industry. The idea is to have a central office leading different branches ensuring direct presence in most sections of the pharmaceutical business, and for this reason Petrone's structure could be metaphorically compared to an octopus, or a dendrites network.

In the last years, the main priority has been to add different units to the existing business of the group, following my personal motto "not to be the first, but to be the best". And like a puzzle in which each specific piece is needed at a precise place to complement the whole picture, or like a puzzle needing more pixels for a higher definition, all the units are contributing to the group's global goal.

Overall, Petrone's successful strategy is to try to offer new options and solutions to its customers instead of copying the global trends followed by other players. In this way, the group is able to avoid to a great extent direct competition and the typical price negotiations that only lead to discounted prices without bringing more added value to pharmaceutical players. But each time a new business area is explored, Petrone dedicates time to acquire an in-depth understanding of the challenges and opportunities it offers.

Looking at how such consistent strategy was converted into numbers, how do you assess the performance of 2008 in terms of growth and revenues and on which key drivers does such a performance relies?

The total group's sales account for approximately Euros 500 million, mainly generated in Italy as Petrone is always aiming at increasing its critical mass in its mother country- as well as Spain and Ireland.

To achieve such a performance, I personally believe that one has to focus on listening to potential partners and customers before talking- in order to really understand their needs and expectations. This is how Petrone is now able to approach laboratories of all sizes with a unique range of services to offer; from CRO to CMO, distribution and sales of products.

But we will never push companies to outsource part of their own skills such as marketing activities to Petrone because it would force them to renounce to part of their essential philosophy and would compromise their image. We stick to "back office" services, which can be externalized without direct impact on the construction of the business itself.

Nevertheless, Petrone's goal is to bring real added value to such "back office" outsourceable services. Following such vision, the group recently launched in Italy and Spain a new urethral catheter, which is 30 times as expensive as its predecessors but paces 300 times more. For example an hospital with 100.000 patient every year, using this device, is able to save Euros 18 million each year for an additional investment of Euros 500 000.

Looking at the wide range of value added services Petrone is currently offering to the medical world, on which service lines do you see remaining unexploited potential to sustain future growth?

Overall, Petrone will never position itself as a big player in the wholesaling field and it cannot and does not wish to- really differentiate itself from competitors in this field where price competition is the main way to succeed.

This is why the group is currently focused on pre-wholesaling in Naples and Milan, as well as Contract Manufacturing of high tech products. For instance, enjoying the high incentives granted to the Southern Italian regions, Petrone developed some GMP compliant CMO for vectorial viruses-products that can be only manufactured by a few companies worldwide.

But looking at the future, the first area of high potential is Contract Research, that will have to be conducted on a global scale.

The second activity that will boost the growth of Petrone group will be to find small companies offering interesting unexploited medical devices to be brought to the market.

Last but not least, the e-preclinical activities based on computer simulations to avoid animal testings have to be explored.

Looking at supply chain optimization in the highly decentralized Italian healthcare system; many pharmaceutical players tend to focus on easily accessible regions neglecting the more isolated ones. What is Petrone's take on this issue?

With two warehouses in Naples and Milan, Petrone made the choice to make products available wherever the customer needs them. The group is not willing to focus on specific regions and is

present in Calabria, Sicilia, Puglia and Basilicata as well as in Lombardia.

In this regard, it is also worth considering the Southern part of Italy that offers a less competitive environment and higher levels of understanding and disponibility. Whereas pharmacies in Milan are every laboratory's targets, a pharmacist in Reggio Calabria has more time to listen and to build long-term business relationships with sales representatives.

As the warehousing and distribution activities are managed digitally through specialised softwares, can you describe your investment policy in terms of continuously upgrading the level of technological excellence?

Petrone being highly diversified, it is using various softwares adapted to each business line- all linked together by an in-house highly sophisticated business intelligence program, which is much more flexible than the ones available on the market.

In this way, the group's companies can better adapt to the reality of each country, yet always following international codes and systems.

Beyond technology, Petrone is also a reference in consulting to the industry, especially for regulatory advice and legal activities, a topic of strategic importance for pharmaceutical players in Italy, as bureaucracy and lack of flexibility are perceived as obstacles for many companies. As an expert on regulatory issues, how challenging do you find it to deal with bureaucrats, not as informed as industry insiders?

Regarding the excessive bureaucracy in Italy, one has to admit that since AIFA started to be re-shuffled under the current leadership of Prof. Guido Rasi, things are finally moving. There is finally a focus on following the rules and applying the law - whether these rules are right or wrong.

But it has always been, and still is, extremely difficult for the industry to assess what are the best solutions and elaborate long term strategies in Italy because governments are changing and the indications from the authorities are never the same, which stops the country from offering a stable framework to attract investment.

Surely this is why Petrone has always been looking beyond Italian borders. How is the ratio between Italian vs International business due to evolve and which markets are you eying at?

Petrone has always been looking at the world, to export in other countries. It is well recognized on a global scale as a one-stop shop offering several products fully covering the needs of pharmaceutical players, and focused on services more than products themselves- a business that is underestimated by most companies.

For instance, we can answer to organizations such as cruise ships or oil platforms in need of small pharmacies onboard but that are unable to get direct supply from laboratories. Such activities require people able to speak different languages and to be available 24 hours a day, but they represent an important part of the business and contribute to Petrone's uniqueness.

Looking at international strategy, the group is unlikely to open new branches in Europe, but will more probably look at the Far East and the United States, which are close to the most important emerging markets - India, China and South America.

But it is worth mentioning that Petrone won't focus on these emerging giants which currently are the bread and butter of multinationals. Many smaller countries of Central America offer much more unexploited potential- including small islands in the Caribbean, Seychelles, Mauritius, Fiji that are independent states and are Petrone's main targets as they are too small to attract multinationals but still offer great business opportunities.

Where do you see further room for improvement in terms of brand recognition to attract new partners in Italy and abroad?

Due to Petrone's highly diversified profile, and to the fact that the world entered in an era of "disintermediation" with the growing importance of internet, it is not easy to deliver a message to all the stakeholders.

This is why a lot of work is carried to be constantly present in exhibitions and events. The pharmaceutical sector is at the same time a very wide and quite concentrated world where personal relationships still play a crucial role in elaborating long term business relationships. For this reason, twelve of Petrone's collaborators are constantly travelling around the world to visit customers at least three times a year.

Such initiatives are consuming in terms of time and investment but are absolutely needed. As a result, customers know that Petrone never left anybody on the way, and that they can trust us.

Looking at the future, what are your personal ambitions for Petrone group in the next three to five years?

Our focus is to maintain the growth, building on the current strategy and reinforcing the European presence.

Another main target is to be increasingly recognized as a one stop shop in terms of commercial business and in terms of reputation, as a group able to help foreign companies to start their own branch in Italy.

Indeed, the main challenge Petrone has to face is to communicate to the community about the real identity of the group, explaining who we are and how we bring added value. Therefore, a lot of attention will be dedicated to improve in this field, as well as creating a new concept of pharmaceutical distribution.

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