Interview with Tony Hynds, Managing Director, Actavis Ireland

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rsonally instrumental in leading the establishment of Actavis in Ireland in 2008. You commented at the time, â??Historically, Actavis grew by acquisition in other markets, but there was a huge opportunity in the Irish market for a new business which could take advantage of the pipeline and offer pharmacists a superior product, service and distribution system.â?? What opportunities did you see for this company, especially at a time when Irelandâ??s economic growth was plummeting?

Prior to 2008, the Irish pharmaceutical market was primarily dominated by innovators. Although in most of Western Europe, generic companies had fairly robust market share, in Ireland their role was minimal. Even after a patent expired for a given product and equivalents were allowed onto the market, originator companies still held 85-90% market share. The reason for this was the fact that, traditionally, there had been no government initiatives to support generic salesâ??no mandated generic prescribing, no legislation to support generic substitution, etc. Largely, generic companies had to make a go of it themselves.

Furthermore, before 2008, the route to market was largely through the doctor. Unlike many other Western European markets, the Irish market was a branded generic market; companies registered generic products, put brand names on them, developed a field force, visited doctors, and won prescriptionsâ??an approach very nearly similar to innovatorsâ??. The problem was that the only angle that the generic players could utilize was that their product was as good as the original, but cheaper. There was no pressure on doctors to prescribe less expensive medicines, and they were used to brands because of the major presence of the innovator multinationals in the broader Irish landscape. It was very difficult for generic companies to break in.

In 2008, the situation changed. We witnessed the start of austerity. Ireland had previously enjoyed a major economic boom, but it was now experiencing economic collapse. Seemingly overnight, the money was gone, and the government was effectively broke. In almost any country, one of the largest spending areas is healthcare, and within healthcare, drugs. I saw that there would definitely be opportunity for generic companies in the years to come.

In Ireland, most generic companies were founded by local entrepreneurs in the 1970s and â??80s. Gradually, these companies were being bought out by large foreign drug producers. Actavis was interested in purchasing just such an asset to break into the Irish market. The company was an interesting case, because while most generics players active in this country in 2008 were in-licensing products, Actavis manufactured the majority of its own portfolio, thereby avoiding third-party costs. Moreover, as the organization was based in Iceland, they were able to conduct development work on

major molecules prior to patent expiry, get a dossier ready, bring it to the regulator, and have the license prepared on Day One of the loss of exclusivity.

Actavisâ?? search for an Irish acquisition stalledâ??and when it did, I approached the group and proposed a Greenfield operation. Happily, the Actavis board accepted the business case, and we were up and running.
To sum, I saw that austerity would mean price pressure, and the possibility of some state-supported generic initiative. Actavis, meanwhile, was interested in the market. I believed that 2008 would be a great time to start.

When you launched Actavis Ireland, you promised major savings to the Irish healthcare systemâ??as much as 60% in the case of certain drugs. Have you delivered on that promise?

We certainly have. When we started, we had a small portfolio of approximately 15 products, mostly OTC and brands. We immediately began an aggressive campaign of product registration. Today, after only four and a half years on the market, we have over 200 licenses, with some OTC drugs and a vast majority of unbranded generics. Therefore, we are able to offer substantial cost savings.

Earlier this year, Watson completed the acquisition of Actavis for 4.25Bn EUR, creating the third-largest generic company in the world. Why do you believe Watson was interested in Actavis?

Watson was very large and very successful in the U.S. Actavis, on the other hand, had a limited presence in the U.S., but was very large and very successful in Europe. Watson wanted a broader global presence, and Actavis had an extensive network of plants, good market share, sales and marketing organizations, R&D operations, and even a small footprint in Asia. It was privately owned and available for sale. The merger was a great marriage of strengths that was beneficial for both companies.

It is interesting to note that the combined organization retained the â??Actavisâ?? name after the acquisition.
Indeed it didâ??and this was great for us within Actavis, because we did not have to re-brand ourselves. In Ireland, we had spent a great deal of money on PR since 2008 to get our name known in this market. I did not relish the idea of having to start that work anew.

Watson found that its own brand would not transmute well to the European market, because â??Watsonâ?? is a family name in many countries and would be difficult to trademark. The management actually engaged a PR company that had worked with the likes of Starbuckâ??s in order to find a new name for the combined organization, and they literally could not come up with a new name that could tick all the boxesâ??translate well, have a pharmaceutical connotation, and etc.â??as effectively as â??Actavis.â?? It was more beneficial to rebrand the entire organization under the Actavis banner.

To what extent did you operations change after the acquisition?

For now, it is very much business as usual. There are a number of markets where Watson and Actavis operated side-by-sideâ??so those organizations will undergo integration. Watson had no presence, however, in the Republic of Ireland. Therefore, we are currently moving forward as before.

With that said, the merger will start to make things more interesting down the line. One of Actavisâ?? strengths has always been an excellent pipeline of generics; however, its biosimilar profile has been weak. The generic model, as we know it today, will expire in 2020. The industry will run out of solid oral dose blockbusters to copy. The future, therefore, for companies like ours is in biosimilars.

Watson has a biological pipeline that we hope to launch in Europe by 2016. As Actavis, we have the sales and marketing infrastructure, but we did not have the products to fuel our future growthâ??with the Watson merger, now we do.

Can you delve a bit further into how you believe the generic model will change in the coming years?

There are a number of shifts going on. We have mentioned the transition to biosimilars; I will add that I believe the market will come full circle, and return to an emphasis on branded products for specific therapeutic areas.

Furthermore, we see that many European countries have now shifted to tendersâ??particularly markets like Germany and the Netherlands. For now, Ireland is different, and our marketing and sales are still based very much on relationships. There are 1,700 pharmacies in Ireland, and we sell to them on a one-to-one basis. We still need our sales forcesâ??and we will need them three or four years from now, because we will return to selling brands to doctors, be those biosimilar brands or traditional pharmaceuticals.

In our conversation with Mr. James Hanlon at Clonmel, he noted that the top five generics players in Irelandâ??Teva, Rowex, Pinewood, Clonmel, and Actavisâ??have little to separate them in terms of market share. How can you gain an edge?

In any generic competition, the key is price. We all sell the same products.

The only way to compete on price is to have a competitive cost of goods, and the only way to have a competitive cost of goods is A) to have a competitive API supplier, and B) ideally manufacture the finished product in-house. Actavis has several major plants. We have one in Barnstaple in the UK, where we produce large volumes; we also have facilities in Bulgaria, Iceland, and Malta. Nobody will be the best at everything. There are products that our competitors will be more competitive than us on; similarly, there are products that we will be more competitive on. We have to know our strengths and weaknesses.

Actavis is currently fifth among the generic players you mentioned, and I am not satisfied with that position. As we have discussed, Actavis-Watson is now globally in the top three. I would like for us to break into the top three in Ireland, as well. We cannot do so overnight, and it will take a considerable period of time to get thereâ??but I am confident that we will be able to do it. The key element for me, today, is to outgrow the market.

At the moment, the generic market in Ireland is growing at approximately 35%, because we are in the midst of the Patent Cliff. Major molecules are losing patent protection across the board. As Actavis, we try to be there on Day One with the blockbustersâ??we know we cannot compete otherwiseâ??and we try to diversify our portfolio with smaller-volume products as well. Currently, we are growing at over 100%.

To what extent is such high growth sustainable?

In fairness, when you start from a very small base, a triple-digit growth rate is easier to achieve than it might be otherwise. Having said that, I expect our growth rate to remain quite high for the foreseeable future. We are extremely good at launching new products. As I have said, on Day One, we have stock in our warehouse that is ready to go to the pharmacies. We have reached the first or second position in the majority of our Day One launches, which account for most of our growth.

We will continue to grow very aggressively for the remainder of 2012, through 2013, and into 2014. Subsequently, I expect our development to slow a bit, but to remain above the market growth rate.

Do you see government policy increasingly favoring generics, as you predicted in 2008?

I do. Of course, as with our own growth, we have to note that the caveat is that Ireland started from a small base: there was no generics-favoring legislation on the books in past years. Innovators had been very adept at using their economic leverage to ensure that generic legislation was suppressed. In fairness, innovative pharmaceutical companies employ many people in this country, and contribute a great deal to our export product. They are in large part driving our economy. It is only logical that they should use this fact to create a favorable environment for their own sales and marketing organizations. I would do the same in their shoes.

The innovative industry was able to draft an agreement with the state that ensures that, although austerity has brought down the prices of their current drugs, they will be able to bring new products to the market through a clear and stable mechanism. The generic industry has no such agreement with government. However, there is legislation coming: a law has been drafted that will allow generic substitution at the pharmacy level. We expect that in the first half of 2013, this legislation will be put into effect. I believe that this will be a game changer for our sector.

What most excites you about your business today?

I am most excited about volume growth, and most concerned about price erosion. For Actavis, the key to our strategy is a balanced portfolio. If we only had an unbranded generic portfolio, it would be difficult to survive in Ireland, because margins are diminishing. Hence, we have some unbranded products, some branded, and some OTC, which are unaffected by the price erosion in the generic space. A broad product offering is essential for us.

After 30 years spent in this industry, what has been your proudest achievement?

I have always been very active in lobbying for generics in Ireland. When I was chairman of APMIâ??the generic trade association in Irelandâ??I fought ardently for the government to enact laws supporting either generic substitution or generic prescribing. I favored generic substitution, because I believed that

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