

Innovation in Industry
Hovione, a Portuguese example

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CEO



HOVIONE

Agenda

- **A success story**
- **Portugal – strengths**
- **Portugal – weaknesses**
- **Next Steps**



Ivan Villax, Founder
circa 1951



Hovione *today*

- 48 years making APIs
- Three sites, 600 staff
 - Portugal 430
 - China 130
 - New Jersey 40
 - All meet the strictest US Food and Drug Administration requirements
- R&D
 - \$12m in 2006
 - 130 staff
 - 400 patents
- \$93m in sales, Generics and Innovator drugs

Who we are

- Experts in Pharmaceutical Chemistry
- Process development and compliant manufacture
- Offering customers solutions for difficult problems

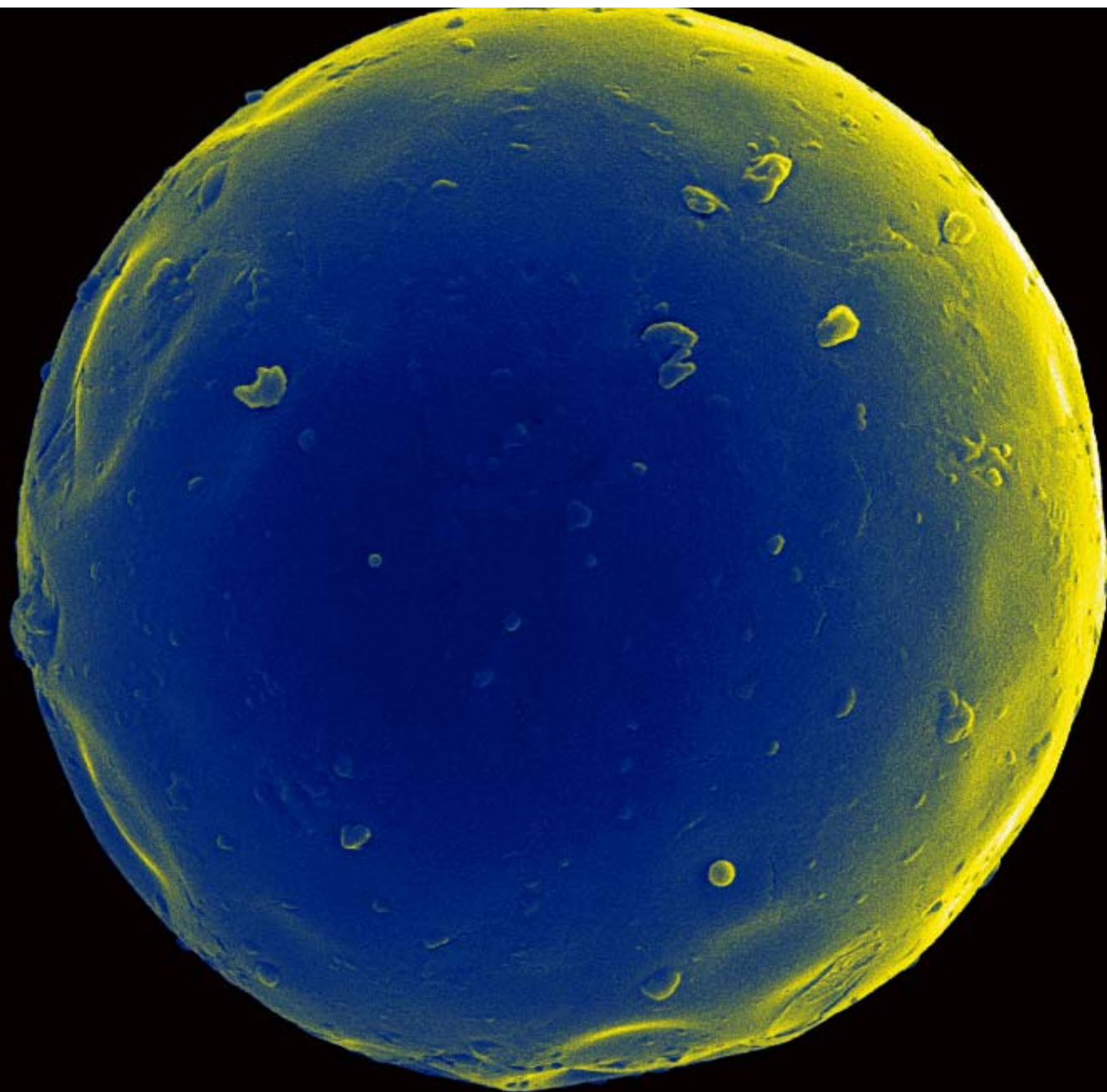
55% of
sales

20% of
sales

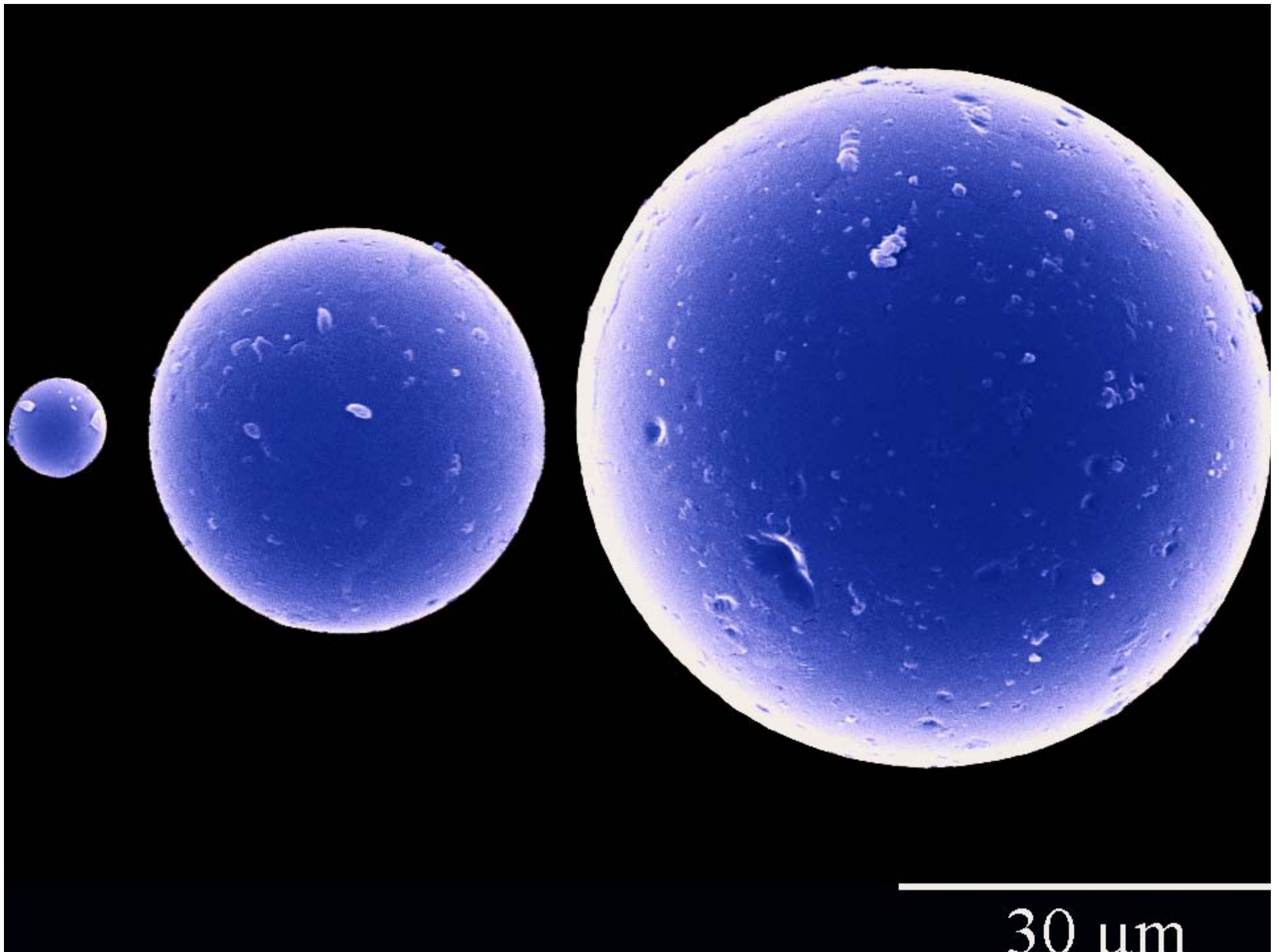
20% of
sales



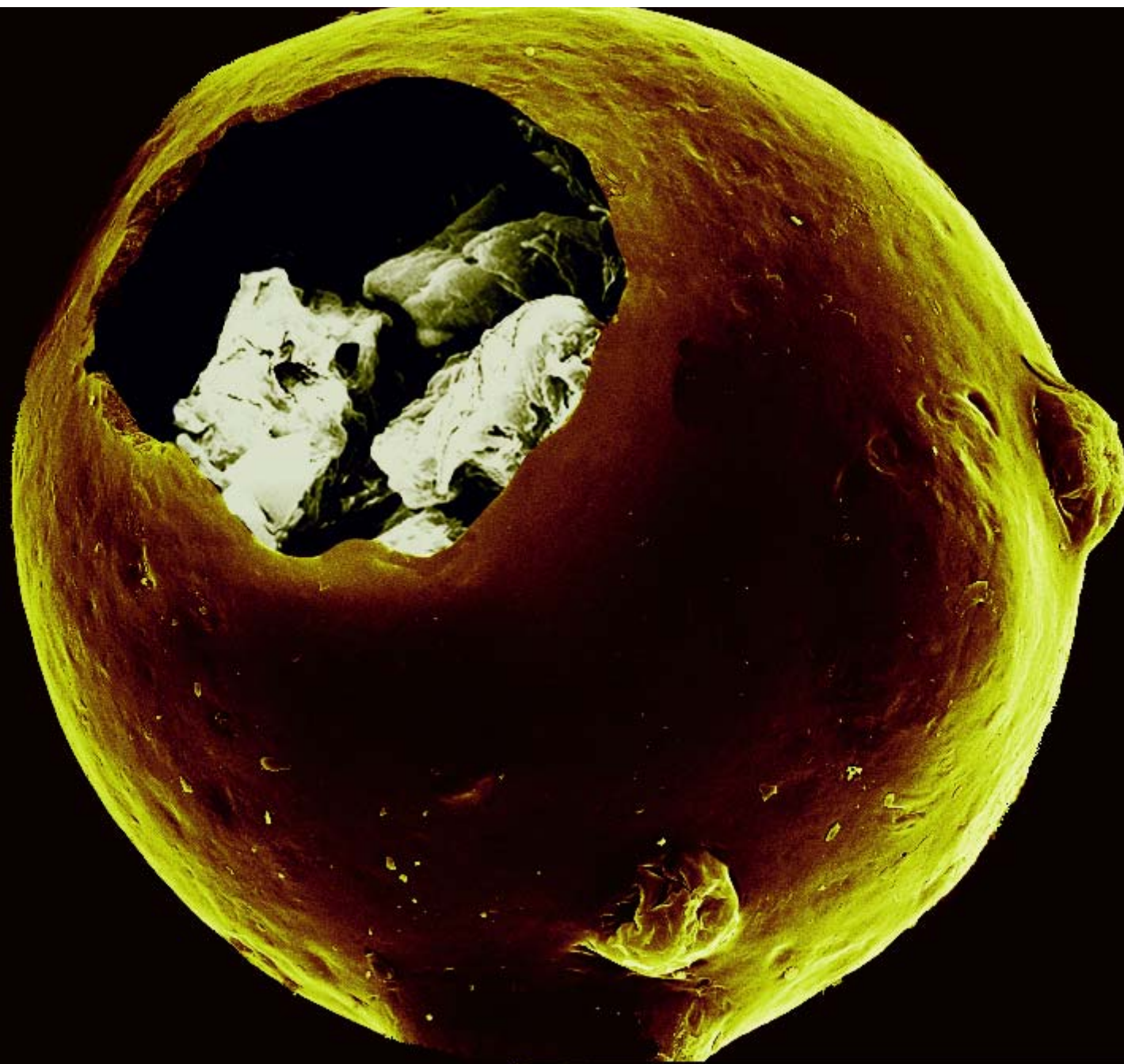
Lisbon, 16 March 2007



3 μm







100 μm

A Success Story ?

- **Sales - \$93m – up CAGR 10% per year in last 10 years**
 - ⇒ 21% are sales of R&D services
- **EBITDA - 20-25% of sales – up CAGR 11% per year in last 10 years**
- **Sales/employee: \$155.000 up CAGR 7% in last 5 years**
- **Recruited & trained (6 months-3 years) >100 graduates, last 10 years**
- **R&D is 13% of sales**
- **Major Portuguese:**
 - industrial R&D investor - \$12m/year
 - Patent applicant – 3 patents per year
 - Employer of PhDs
- **Clients:**
 - 5 of 10 top Pharma Multinationals
 - 30 Nasdaq listed Biotechs
 - Top Generic houses

Portugal – Strengths

- **A beautiful country**
- **We are a friendly people**
- **Respect (if not awe) for Science**
- **800 years of History and unchanged borders**
 - ⇒ Collaborative,
 - ⇒ Open doors, Open minded
 - ⇒ Keen on new ideas
- **Strong, solid, traditional universities**
 - ⇒ and we get the pick of the crop

Portugal – Weaknesses

- **800 years of History and unchanged borders**
 - ⇒ No ambition
 - ⇒ Lost Scientific tradition
 - ⇒ No more spirit of adventure
- **Strong, solid, traditional universities**
 - ⇒ Too theoretical
 - ⇒ Remote from reality
- **Political parties:**
 - ⇒ Inability to agree on policies where the impact is long term (education, R&D)
- **Government:**
 - ⇒ Constant change
 - ⇒ Challenged when it comes to implementation

Examples

● 1992

- Hovione's \$3m waste stream recycling investment project found not eligible as an environmental protection project
 - ⇒ Recycling is part of the production process
 - ⇒ anti-pollution = end of pipe

The EU Commission & UNEP awarded Hovione with a waste management prize!

● 2005

- Hovione's \$19m investment in a research centre in Princeton New Jersey found not eligible for a tax credit scheme designed to encourage the internationalization of Portuguese Industry
 - ⇒ A Research Centre was deemed “not productive”

This is post-Lisbon Agenda...

S. R.
MINISTÉRIO DAS FINANÇAS

NOSSA REFERÊNCIA	
N.º ENTRADA GERAL 113465/00	DATA 19.10.2000
N.º OFÍCIO SAÍDA GERAL	DATA
N.º PROCESSO 1727/00 (DSBF)	DSIRC
SUA REFERÊNCIA	
N.º OFÍCIO	DATA
N.º PROCESSO	

Registada c/ Aviso de Recepção

Exmo. Senhor

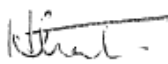
Presidente do Conselho de Administração
Hovione FarmaCiencia, SA
Sete Casas
2674-506 Loures

ASSUNTO: Candidatura aos benefícios fiscais previstos no nº 4 do artº 39º do EBF e regulamentados pelo Decreto-Lei nº 401/99, de 14/10
Projecto de investimento nos EUA

Na sequência do exercício do direito de audição efectuado em 15.04.2004, comunica-se a V. Exª. que, por despacho nº 629/2004-XVI, proferido em 29.12.2004, por Sua Excelência o Secretário de Estado dos Assuntos Fiscais, foi mantido o despacho de indeferimento nº 384/04/MEF, proferido por SEMEF, em 19.03.2004, com base nos fundamentos nele referidos - incumprimento do requisito exigido no nº 3 do artigo 1º do Decreto-Lei nº 401/99, dado que o investimento não contribui positivamente para os resultados de exploração da empresa promotora, durante o prazo estabelecido no nº 1 do artigo 9º do referido diploma. Assim, irá proceder-se ao arquivamento do respectivo processo.

Com os melhores cumprimentos,

A Directora de Serviços


(Maria Helena Martins)

**Rejected ...
because the
investment [in a
research centre]
does not
contribute
positively to the
profitability of the
parent company.**

**Ours was the
largest
Portuguese
Investment in the
USA - ever**

Portugal – Weaknesses that matter

- We can put up with everything – except
 - ⇒ Lack of trained people
- Why is innovation a success in the USA?
- Why so many great Biotechs in Basle?
 - Trained people, seasoned managers
 - Multinationals have great commercial research organizations
- In Portugal: Few... maybe one large research organization - Siemens
- What do we do:
 - We have a strong culture, we train our own scientists and managers
 - We hire from University
 - We limit our growth to 10%/year
- ... But what can start-ups do?

Next Steps

- **De-localise industrial production to China**

- Inflexible labour laws
- Strong €
- REACH etc...
- Frustrating red-tape

China already has 50% of Asia-Pacific's Biotechs !
Singapore...

- **Focus our Portuguese activities on**

- R&D
- Intense value-added industrial steps

- **Could we grow our R&D services as a stand alone business?
Could we grow quickly to 1000 scientists ? Could Hovione
provide the seasoned manager scientists to manage start-ups in
due course?**

maybe.

Thank you / Obrigado

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Hovione

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