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Since the summer there has been an avalanche of gloom in the industry magazines. Many articles reporting how much everything had changed since the last year; how fine chemicals are suffering by over-investment, by over-capacity, by a downturn in the cycle etc.. etc.. The reality is many companies made bets that the market perceived then as being excellent ones, but hindsight now tells us that too much optimism about the fine chemicals sector drove acquisitions and investment in plant expansion by companies inexperienced in the sector.

The tough part is, though many are now hurting, the misunderstandings seem to persist:

- 1. "We are in a down-turn in the cycle".** In pharma API there is no cycle - indeed some trends are up (more projects are coming out of the Biotech sector) others are down (more advanced stage projects are cancelled, more drugs have been withdrawn, pressures for better plant utilization at the merged large pharma drives less outsourcing)) but overall they probably cancel each other out - the amount of work out there is still increasing and is finding outsourcing homes. It is probably now in smaller parcels, bought by more experienced decision-makers and there is certainly more competition. The only cycle at Hovione is the winter when more antibiotics are sold because of the US flu season.
- 2. "The complete tool box".** Every company out there seems to agonize about the technologies they do not have. In making APIs you do not need to be a cost leader and a specialist in everything, you need to be a sound generalist able to address all the technologies, whether chemistry, engineering, analytical, etc... Technologies are therefore not a differentiator; if you are not a generalist, you are out of pharma APIs anyway. In the past 40 years Hovione has addressed every chemical reaction that has come its way, successfully. We have however some policy decisions such as: We do not use cyanides or other dangerous poisons and do not work with betalactams, penicilins or cephalosporins.
- 3. "Building a \$500m business in 5 years".** The wishful thinkers blame the failure of their plans on market changes. In fact nothing has changed: the \$300b Pharma sales worldwide are still made up by about 4000 different APIs, 95% of the medicines in the pharmacy have sales of <\$95m - in terms of API sales this equates to \$5m or less per API. So building a \$100m business takes, with luck, maybe no more than 20 different APIs at commercial phase. Fast growth or very large products means more risk - this business has already plenty of risk, you should not push your luck.
- 4. "Investment in plant and equipment".** In the last 3 years some of our competitors even carried out head-count reductions. The most critical aspect of Pharma API development and manufacture is people: technical expertise, compliance, project management, solving problems, communicating. People take forever to train, a research group needs so much time to learn to work well together, scaling up and optimizing quickly requires full collaboration between production, pilot and lab people; compliance is a people issue; - none of the articles ever mentioned people, and the need to have depth in, and a balance across, a complete range of skills. A passion for a job well done and customers that show appreciation for your efforts and commitment is what makes the difference.
- 5. "Time is money".** Managers faced with the stock market need to show increased profits at quarterly intervals. Drug development reality is more like 5 years before an API producer can have commercial phase invoices. CFOs of pharma fine chemicals need lots of patience, but for the technical people there never seems to be any time. Pharma APIs is not for investors in a rush. At Hovione we take the time to make sure we get it "right-first-time" every time.

Hovione's strategy remains unchanged for 40 years: APIs. It is all about doing well things that are difficult, giving customer what they cannot find elsewhere. We focus on our people and encourage them to find solutions for our customers and to anticipate problems and avoid surprises.

Later this year we will open our Technology Transfer Centre located in New Jersey. This facility has a kilo-lab and a pilot-plant designed to supply 1-50Kg of API very quickly and to act as a bridge between our US customers and our plants in Europe and the Far East. Where a year ago corn was growing, we now have a beautifully architected state-of-the-art facility sprouting with designed-in compliance. Everyone at the TTC has already worked at other Hovione facilities; all SOPs, specifications, methods and IT systems are the same as those adopted in our plants: a pre-condition for seamless transfers.

We grow on our own, never buying other companies, hiring talents straight out of university, developing our own engineering, chemistry and IT systems. We grow slowly, patiently, and nurture a solid, well diversified, portfolio of excellent customers with great compounds. With us Clients fly first class, there are always seats, we never over-book and we arrive on time.

Guy Villax
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