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Dear Friends,

When the organisers of CPhI asked us to write an article about Hovione for the CPhI Show Daily, we accepted but the words that follow are probably not what they expected.

Last year we were basking in the sun-shine, it had been a golden time for the fine chemicals industry. The El-dorado was nigh, everyone was investing, the brave ones were buying plants, and some, driven by consultants were spending hundreds of millions of dollars on merging and acquiring other companies. The folly of the stock-market still had everyone in a frenzy. Life seemed sweet, easy and money was plentiful. The bankers in their excitement even decided that those making fine chemicals for the Pharma industry deserved some attention, they organised conferences and issued reports.

What a difference 12 months make. We are now in a recession, and the atrocities of September 11th are fresh in our minds. Everywhere one looks, it seems the colours have gone and the World is now in black and white. The articles one reads in the industry magazines talk of over-capacity, slowing growth, withdrawn drugs, unapprovable letters, cancelled projects. In some cases, the extent of the excess-enthusiasm was even given a number: a CHF1.3 billion goodwill charge on acquisition. The fascination with our business will now wane and the wave of interest will go elsewhere.

Quite a few of us will remain behind to pick the pieces left behind by this storm, tidy up the house and get it to move forwards. It will take a couple of years to get things back into balance, for the new-comers to find their direction, to establish with clarity who is a quality competitor and who has remained a trusted supplier. Those that expected to grow an API business in 4 or 5 years to \$500 million in annual sales will be disappointed; those that have been at it for decades, focusing on compliance and excellence will continue to deliver work that satisfies customers. It is the repeat customer that drives growth; track record is not just the absence of recalls and warning letters, it is also the ability to consistently find solutions for customer problems - and in drug development there are plenty of tough surprises to solve.

Being in compliant manufacture is not just a question of dollars; being "cGMP" is not just a question of investment in new facilities. It needs time more than money, it requires having a team of dedicated technical people with many years of accumulated training. You do not "go fast" because of more resources or tougher deadlines; projects move fast well because your technical groups are trained and have done it together many times before, your people are aligned, and the range of skills is well covered and well balanced. Can a confederation of a dozen plants acquired through multiple mergers ever have a common culture, a same view of safety, let alone of quality? How do you manage all the site managers competing for the new project? Being successful in compliant manufacture is tough, it comes with years of nurturing and focus. Is it a surprise that the smaller independent companies do it better than the large giants ?

The divide is often the time-scale - some squeeze their people and business partners for their quarterly results, the annual budget takes precedence over customer satisfaction, available capacity is a dreaded cost - others look at available capacity as a positive thing enabling prompt service, and focus on what is in their control: sales in 2003 and 2004 (indeed the sales for the next 2 years were decided some time ago...).

The divide is often the choice of target: large companies look at sales and profits, they look at the share price and at how to cut costs, performance is judged on dividends. This is not so for all: some of us are motivated by customers that say thank you, some even compete for, and win, environment awards, but those that succeed, work as partners with their customers to develop new drugs; if they were lucky they started working together 5 year ago for the first 10 kilos; if they are statistically normal, they will have worked together on two failed projects well before they can claim to have put a new drug on the market.

Our industry is about saving lives. Though on occasion we are seen as polluters carrying out unsafe operations, and sadly accidents do occur, as in Toulouse only last week. Odd how energetic reactions, deadly reactants, explosives, corrosives and flammables all come together to make pills that cure disease, kill bacteria and destroy viruses. Safety First is not a negotiable item, chemistry and its engineering need competence and have priorities that business pressures must not be allowed to interfere with. Success in this business needs great leadership, the decisions are not easy - Bayer reminded us all how tough it can get.

At Hovione we did not participate in the Technicolor storm of the past few years. We had approved a medium term plan in 1994 and executed it with success; in 2000 we approved another medium term plan and we are taking it forward unchanged. It involved buying a field near Princeton to build a kilo lab and pilot plant to support early phase customers in the USA and to assist in the technology transfer to our larger plants when the projects so warrant it. The plan also aims to build additional capacity in our areas of strength: process chemistry, GMP manufacture, injectable grade APIs and corticosteroids. Some of this expansion is taking place in our plant in the Far East which is not encumbered with EINECS costs and speed limitations that slow the pace of drug discovery.

The companies that meet at CPhI play a critical role in the world economy. We are a key link in the worldwide health care system - without us the pharmacies would be empty. Ours is an important job, one we can be proud of. It is important that we should move ahead and get on with our business with professionalism, and keep distractions to a minimum.

Guy Villax
Chief Executive - Hovione