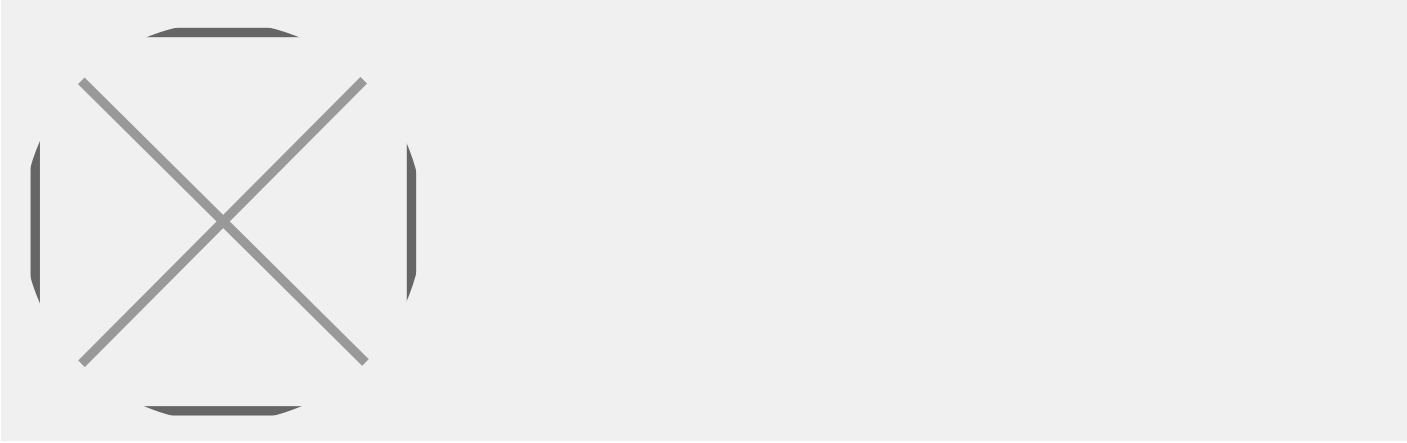
Interview with Vlad Hogenhuis, Managing Director - Belgium & Luxemberg, MSD Belgium



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Truly seems that you have pharma in your genes, with a father who successfully developed a migraine drug in addition to your 4 years practicing medicine and now continuing an 18 year career with MSD. What distinguishes MSD as a pharmaceutical company in your opinion?

At MSD, we are deeply conscious of the company's relentless focus on innovation and addressing patients unmet needs. Personally, as a trained physician I am inherently predisposed to do my very best for each patient. Therefore, it is very important for me to be a part of a company that dedicates its resources to developing truly innovative medicine. Occasionally, this dedication to innovativeness is reflected in MSD's excellent track record in earning prestigious accolades such as the Galenus award because of their products tremendous and sometimes lifesaving underlying value to patients. Moreover, I have benefited much from MSD, having being granted the chance to develop my professional skills and to give me the opportunity to experience various working environments such as Belgium, of course and emerging markets including China as well as the company's headquarters in the US. In summation, it is MSD's relentless focus on innovation and its ability to develop all of our employees' professional skillsets and experiences that makes this a very special place to work.

MSD has been among the very few companies that have recently been able to remain profitable. Can you provide us with an overview of the subsidiary's recent performance and what underlying factors you attribute to your success?

I believe that the key to our success is our twofold focus on our customers as well as the focus on execution. As an MBA, we have a tendency to examine beautiful case studies in which we subsequently thought about the theoretical underpinnings driving these phenomena within them. However, following eighteen years of work experience, I have concluded that the focus has been misplaced. Instead, I believe that the emphasis should be directed at the execution process and its improvement. Illustratively, we can incrementally improve any given strategic plan from 90-95% to 98%, however, typically the execution of that plan lies somewhere between 50-70%. Therefore, realizing an improvement in the execution process to the 80-95% level is critical and much more effective. To that end, my predecessor, Mr. Jan van Acker put together a team dedicated to ensuring that we continue to improve upon the effectiveness of our customer focus, and I am very proud of this management team.

On the other hand, my attention has been on defining one of three behavioral objectives, by brand, with a relentless focus on execution – whether that is a medical plan, a marketing plan or a sales execution plan. This requires a relentless bias of our subsidiary to organized execution and reinforcing that throughout the year. Therefore, I believe that as a result of these efforts, we have been able to achieve consistent results in the primary and specialty care fields. Moreover, the fact that we did achieve these results is remarkable in itself when you take into consideration the austerity and price pressures we are facing as a research industry, and I attribute this by ensuring that we can tangibly demonstrate the value of our product to our payers, for example by decreasing hospitalization or the length of stay in a hospital for a patient. Hence in short, I would attribute the secrets to our success to good people working together towards a common goal while emphasizing on the execution process and the customer as well.

It is evident that MSD has a broad range of products across a number of therapeutic areas. To what extent do all your products have a presence here and what therapeutic area(s) would you rate as the best performing?

Indeed MSD does have a rather broad portfolio of products. In fact, we have categorized our products into the top ten performers, followed by the next ten and then finally the five launch brands. This aggregates into 25 brands, each of which requires plenty of execution to ensure that they all reach their targets. In terms of market penetration, I would say that our market shares are remarkable where we maintain leadership positions in as many as 15 brands, which can only happen if we continue our focus on helping the physician treat their patients to the best of their ability.

MSD’s manufacturing site in Heist-op-den-Berg is among its largest in the world producing more than $5 billion in sales value. Considering the significant and long term investments involved, what are the primary motivations for setting up this facility here in Belgium?

Belgium is a country where the pharmaceuticals industry plays both a critical and special role. It initiated with the chemicals industry from which the pharmaceuticals industry consequently evolved with large local players. Consequently, there has been significant investment by Belgium in the industry. As you also may know, Belgium is also among the world's largest exporting countries boasting the highest per capita export levels. More specifically, pharmaceuticals form a significant proportion of the trade surplus that Belgium generates accounting for approximately 14-15% of those exports.

As a company, MSD has recognized the opportunities available to us in Belgium. Indeed, we have identified that there is an abundance of qualified personnel in combination with important tax considerations that can help sustain our long term commitment to the country. For instance, these schemes include a specific treatment of R&D expenses. These considerations are very important to us, as we are a research driven company.

We set out by recognizing that MSD's manufacturing site in Heist-op-den-Berg is one of the best performing sites, with the capability to scale up owing to its dedicated workers and well educated workforce. With the sites output rising by double digits every year, with the exception of the 2008 crisis, I believe that that acknowledges the company's capability to make the technologies work seamlessly together – be it in packaging, the production of tablets or other more complex tasks such as sterile filling. MSD certainly has the appetite to push the envelope and go there. In addition to this, over the past 7 years, we have invested $140 million in the facility and we are certainly looking forward to continuing our manufacturing volume expansion, albeit that we need to remain cost-conscious and competitive.

Similarly, we are particularly proud of our logistics and distribution center in Boortmeerbeek, called Sentipharm, which is also the largest of its kind for the group's global operations. The distribution site there employs approximately 120 people and exports our locally manufactured products to more than 140 countries worldwide. This has endowed us with the advantage of being among the very few companies in Belgium that has direct access to the distribution channels, minimizing customs procedures which facilitate the streamlining of our processes by implementing just in time inventory practices.

As a result, these two combinations of superior manufacturing and logistics increase the footprint of MSD in Belgium to 1500 people. Needless to say, we are rather proud of our presence here as we have grown to become among MSD's largest affiliates in relation to the market size.

What is the capacity utilization of the facility?

Sentipharm is a 20,000 m², with a storage capacity of 25,000 pallets. We first would like to look at how we can use technology and productivity to improve our operations. Therefore, we are continuously modernizing and installing new production lines that are better performing, equipping

our facility with the latest state of the art technology and processes. Moreover, in order to ensure employee satisfaction and overall productivity, we pay considerable attention to the inputs of our workforce. For that reason, we regularly have on-going and constructive discussions with union representatives in which we transparently communicate the opportunities we face and the strategies developed to grow our business in a consensus fashion.

Do you also engage in contract manufacturing, and if so, what makes MSD the partner of choice?

Indeed, we do engage in contract manufacturing activities with a number of companies ranging from small local family businesses to mid-sized and large enterprises. Interestingly, we have found that many Belgian companies are extremely dedicated to high quality while also paying attention to reliability and cost. Hence, it is important for us to partner with key companies that are in the vicinity of the plant.

I think that the partnering process starts with a certain level of humility. In other words, I believe it is important to realize that MSD does not have all the answers as well as to make the active choice that we cannot and should not do everything. In addition to this, I believe that transparently communicating to our perspective partners what it is that we consider being our core competencies as well as defining the type of partnership we are seeking is imperative to the success of any partnership and forms the basis of managing expectations. Once an agreement is established, we have a very powerful alliance management function that employs dedicated people, tools and processes that assess their development. In this way, we are able to foster and progress the relationships that we consider to be beneficial to both parties, while improving those partnerships that are not responding to our mutual needs.

Mr. Deepak Khanna of MSD UK told us that we could expect to see more collaborations and partnerships as part of the changing R&D model versus the traditional bricks-and-mortar R&D facilities. Considering Belgium’s strength in R&D and academic excellence, to what degree is the Belgian affiliate leveraging these elements through partnerships and collaborations?

We at MSD have always recognized the unique position that Belgium reflects in the world of research. It may come as a surprise to you, but no less than 90% of our first-in-man studies, on all MSD pipeline products, are carried out in Belgium. This is attributable to the country’s university network which is incredibly concentrated (10 universities within a 100 km distance), deeply rooted and with well-established scientific excellence that is recognized across the world. In fact, the number of publications per researchers in Belgium is one of the highest in the world. Another significant lead of Belgium is that it has invested heavily in regulatory and ethical approval procedures. This has resulted in a rapid but thorough centralized approval process that is free of

the bureaucratic hurdles that other research facilities abroad might face; a big advantage for phase-I studies where speed is of the essence. Finally, Belgium has a great deal of experience in handling more complex studies in novel diseases, using innovative platforms and novel biomarkers to support early decision making. Hence, we feel very confident that we can minimize spurious results, maximizing our ability to take rapid and well-informed decisions with regards to moving our studies forward.

Accordingly, MSD has invested in a local research organization in order to facilitate the high number of first-in-man research studies that the company carries out in Belgium. We have established a research organization of approximately 200 researchers that are dedicated to pre-clinical clinical and regulatory affairs. Moreover, in order to ensure that we can continue to invest to the tune of €22-30 million per annum in early stage studies in Belgium, we have a dedicated team of phase-I experts that help to maintain the university networks that we work with as well as their quality levels.

Pharma companies in Belgium have voiced their concern with regards to the reference pricing system that they insist leads to a continuous downward spiral as a result of reference countries also adopting these systems. Do you share this view and how is this pricing system affecting your operations here?

Fundamentally, a reference pricing system makes a lot of sense for a consuming country that imports more medicines than it exports. However, for a country that is a net exporter of medicines, the exporting countries often form the base price of the country that receives the medicine. Therefore, if our prices are lowered significantly, that can be considered to be a good thing from the perspective of the healthcare budget. However, from the perspective of pharmaceutical companies that are located in an exporting country this is abysmal. Illustratively, as Belgium adopts the reference pricing system, the healthcare budget can save €1 per product, for instance, while at the same time there could very well be a loss of €20 or more, for example, on pharmaceutical companies balance sheets. This magnified loss will be a result of losses arising from the erosion of R&D budgets and investments in new drugs for instance.

As an industry, we undoubtedly understand that we must contribute to the budget deficit. After all, as a socially engaged company, it is our duty is to be a socially engaged partner as well. However, if there is a certain percentage that is to be contributed, so to say, then let it be a proportional measure in which a euro saved in the healthcare budget equals a euro expensed on our balance sheet, rather than €10 for instance. I would like to invite and certainly support healthcare policy makers as well as the ministry of health to seek measures that help balance the budget in a manner that is not a disproportionate burden to the industry whose exporting activity forms 14% of the economy’s trade surplus while sustaining 30,000 jobs. Moreover, the ripple effects of such measures can be far reaching in a relatively short period of time as it will also serve to negatively

impact the feasibility and attractiveness of continued investments in the pharmaceutical industry, and in clinical trials and manufacturing in particular.

Unquestionably, access to innovation is critical to sustain the investments stemming from the pharmaceutical industry in any given country. With the increasing trends of globalization, there are a number of competing countries, such as India and China, which are becoming increasingly attractive destinations of investment. Once these investments are channeled there, I believe that it will be near impossible for Belgium or other EU countries to reverse the trend and bring them back.

Considering the fact that the 'low-hanging fruits' in the pharma market have already been picked, MSD continues to invest in the development of new medicines and as a result maintains perhaps one of the richest pipelines in the industry. However, with the rapid advancement of new technologies, how is MSD positioning itself in the emerging fields of pharmacogenetics and personalized medicine for instance?

The way that we define diseases today often stems from discoveries that were made over a century ago by pathologists. They defined diseases by how they looked through a microscope, but not necessarily by how it works at a molecular level. Thus, as technology and understanding improve, science will increasingly move to a more refined definition of disease that is molecular, receptor or expression defined rather than what its external appearance seems to be. Indeed, pharmacogenetics and personalized medicine therefore represent highly attractive opportunities and if science takes us there, it is MSD's mission as an innovative company to capitalize on that technology and develop new more advanced drugs.

Nonetheless, there are some drawbacks to this. If the costs associated with developing these new forms of drugs do not diminish over time, then the development of such drugs will become economically prohibitive, particularly in the case of smaller and less pervasive diseases. We therefore need to work along with the regulatory authorities and payers to redefine the regulatory hurdles for smaller diseases and make their treatment more feasible.

For this, I think we need to have a balanced approach. That is, it is our job as a discovery organization to prosecute a target in which we have the best biological understanding and a realistic chance of actually developing a drug out of that for a market that is reasonably well defined. Hence, we develop primary care drugs that are relatively mass markets which have a slow uptake and a slower decline since their lifecycles tend to be longer. An example of this is the latest pipeline osteoporosis drug that is in development, which, if approved, may offer in the future a new mechanism of action for the treatment of osteoporosis. On the other hands, we also look at specialized drug development such as Victrelis® which was awarded the 2011 Galenus prize in Belgium for its major achievement in the treatment of Hepatitis C. However, such specialized products typically tend to have shorter life cycles due to the ensuing incremental improvements in

the treatment of the diseases through new drug developments. Therefore, we take all these matters into consideration and basically look at the available science to make informed decisions on investing in primary care and specialty while still developing new insights based on pharmacogenetics provided they are economically viable.

Where do you see MSD's Belgian operations evolve over the next 2-3 years?

I think it is critical for MSD to continue to pursue the customer focused path that we embarked upon. More specifically, I am referring to a customer focus that is truly dedicated to the need of physicians as opposed to the need of a particular brand. It is only by orientating ourselves to being physician and services focused that we can succeed in satisfying our customers and persuading them to opt for our products to treat a patient, as the health of a patient comes first. Put differently, we are seeking to increase the value of the corporate brand as a whole rather than doing so on an individual product basis. I am confident that this will benefit us in the long run and will prove to be a significant growth driver.

An example of the value added services that we are offering is represented by our medical service associates who do not provide branded drug but disease aspect information. For instance, they continue to offer valuable disease specific information, such as burden of illness studies, treatment guidelines, and they do not engage in product promotion. This will certainly contribute towards MSD's long-term success by establishing the trustworthiness of its brand name and products.

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