Interview with Dieter Torheiden, Managing Director, Solvay Australia

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How will the PBS reforms affect Solvay?

The easy answer is: heavily. Fortunately, Solvay's leading product which is still under patent will not be subject to the full August 1 price cut at this stage. Nevertheless, there are two other drugs fully affected by the cut (-25%). This of course causes problems and will have some impact on Solvay. In comparison to the development of Solvay over the last five years, there is already noticeable impact on growth rates. From 2002 until last year, there were growth rates of 25-30%, and now this figure has decreased to approximately the market average of 10%. It's a new experience and an unexpected occurrence, but overall the reform as planned and initially agreed upon has been good. At the end, the outcome is still uncertain and for the industry not always satisfying.

To satisfy the industry in other ways, the government has come up with the PISG. Can you outline the impact you expect this initiative to have on the industry?

The idea behind PISG is quite good, and Senator Carr's initiative is OK, but I personally have some doubts about the outcome. Industry hasn't been too involved in the committee member selection, and in this regard I'm not fully satisfied. If the PISG has something to do with innovation, then there is too much focus on manufacturing at the moment.

If not a focus on manufacturing, where should the focus lie?

Innovation in manufacturing is fine, but the manufacturing side, as I understand it, is a commodity business – and Australia is too expensive. That's the reason the country has already lost a lot of pharmaceutical manufacturing sides. Much innovative industry shut down its manufacturing side, and although there're still mainly generic companies manufacturing in Australia, and a lot of export therein, the focus on that part of manufacturing is not the country's future. I agree that manufacturing in niche areas, for example biotechnology, may be promising. But there are other parts to innovation, where we should focus more on the R part in R&D.

Where do you see the government most able to help, in terms of encouraging this growth, PPPs, etc.?

The government can and should play a major role. What is needed are supporting programs/initiatives for any kind of innovation, especially in the pharmaceutical and biopharmaceutical areas. PPP or older stimulus programs like Factor F have been important. The P3 program hasn't been too successful as yet, although noticeable success is often delayed, like with Factor F which saw investments resulting in positive outcomes far later. Additionally the advantage with Factor F happened on the pricing side as well. To interest Big Pharma, more than $10 million over five years is needed. In doing clinical trials in phase 3 or 4, this sum is a drop in a large bucket. If the government really wants to keep Australia on top or in a good range for R&D investment, it has to come up with certain successful programs. What that is exactly I'm not sure, but that's the reason PISG exists. The group will hopefully come up with some ideas. For example, the Rudd government announced the 175% tax concession program, that can and will have some impact, probably not enough.It's a reality that the industry will go where the advantages will be offered. In a few countries like Ireland and Singapore, they analyzed and offered the right message and incentives and the companies have responded. Big Pharma doesn't just make a short-term decision. If a company decides to invest in a country, it represents investment for the next 20 to 30 years. But often, and especially in government, there is no strategic long-term thinking, this is heavily influenced by the next election date. In the last 10 years, Australia has seen a good development in biotech and biopharmaceuticals. A lot of start-ups and smaller companies settled in certain regions like Queensland, Western Australia or Melbourne. These are regions where state governments have known how to attract these start-ups and commercialize their inventions. However, the federal government just cut subsidies for commercializing start-ups which sends the wrong message, and it's in my opinion a clear message/influence from the Treasurer. Nevertheless, the treasurer needs to understand that one needs to invest now to receive benefits later.

Solvay celebrated its 10th anniversary last year. How has the company grown over this relatively short history?

Solvay has been in the top 3 to 5 companies in growth figures in recent years, and although this comes from a lower base, it's nonetheless an impressive figure. The company has been quite successful, especially in the cardiometabolic area, including hypertension and lipid-lowering products. This is an elephant market, and Solvay has to be quick, clever, and fast enough to "dance with the elephants," so to speak. Solvay has been growing the number one CCB (calcium channel blocker) in Australia, and is still growing in sales with this product. I'm personally proud of our sales force effectiveness, informing the right doctors with the right message about the right products. Solvay Pharmaceuticals International is not a top 10 player, but the company has a lot of reliable, efficacious and traditional products which are usually specialized in niche markets. Here in Australia, the company decided six years ago to heavily invest in the CCB market and corresponding in sales people. With that investment Solvay employed, in principle, far too many salespeople for its turnover at that time, but we had to be competitive in that elephant market.

How were the challenges in terms of balancing the necessity to grow quickly, while at the same time facing a tight labour market?

Of course it was a challenge, but Solvay managed quite well, and organized excellent training for the sales managers and their teams. In the early stage, the policy was to focus on headcount, believing frequency would be better than quality. This had some negative effects in 2002 and 2003 where there was quite a high employee turnover. One might say we made the wrong recruitment, but at that stage it was a problem to find good people when there were simply not many around. Another issue was that we probably underestimated the cost of good people. When I came here five years ago, Solvay was not well known in the healthcare market, so I personally tried to become involved in as many industry and other external activities as possible to show there was a new player in the market and to improve our image.Solvay learned a lot over that time, and the company within 18 to 24 months developed a really good and effective sales force team, adapting more toward quality than quantity.

You mention a focus of shift from quantity to quality. What other characteristics would define your management stile?

I'm open for a lean and participating management stile. I'm convinced openness and "walk the talk" is the right way. You need to lead by example. Be open in talking about potential problems and what the future will bring.

What's your vision for Solvay in the next five to 10 years?

Solvay wants to be a $100 million company. Currently, we're at $75 million. Previously – without price cuts – $100 million wasn't far away. Now we'll need another few years to make it to the $100 million mark. That's one point, to achieve this vision, another one is to keep Solvay on a level of importance in the Australian market. To achieve this, the company needs to do more in this

direction. With one or two new products in the pipeline, we will look for something which can help us additionally, not just in the pharmaceutical area. The future will be in pharmaceutical services, and/or combining pure pharmaceuticals with additional benefits, for example with devices, etc. Additionally, future treatments will not just be for e.g. hypertension or a disease area, but the whole patient. Furthermore, it will be more in the direction of prevention. At Solvay, at the moment we are still more on the treatment side, even at the pipeline level. What I'm referring to is still a long way to go, but we need to be active and look for the next big thing.Whilst doing that Solvay's focus remains on upcoming new products and investing in our existing portfolio.

What is your final message to Pharmaceutical Executive readers?

Solvay will do everything in its power to deliver good, effective and affordable drugs and more to all Australians now and in the future. In doing so, the company will not forget the importance of its stake – and shareholders, and will keep investing in its most important assets: well-trained and motivated people.

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