Interview with Nenad Pavletic, President, AstraZeneca Russia

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You have said that AstraZeneca intends to be “in Russia for Russia” and the company has recently announced a large-scale investment in this country, financing a $150Mn domestic facility in Kaluga. What are the implications of this project for AstraZeneca and why was it important for you to invest here?

First of all, Russia is a part of the BRIC, and as such, it is one of the most dynamic emerging markets in the world in terms of GDP growth. The rate of investment, and the developmental goals of the government as far as innovative industry is concerned, are also quite active and ambitious. The nation is sincerely committed to changing the landscape of healthcare coverage and healthcare access.

If I am correct, the life expectancy in Russia hovers, on average, around 68—vs. 81 in the developed regions of Europe. As a company, we strongly believe that the need for innovative, modern treatment in this country is huge. With the development of the economy, as well as government investment in medicine access, there will be a significant increase in the rate of diagnosis, and subsequent need for effective treatment.

Just recently, President Medvedev stated that the Russian healthcare landscape should shift away from treating disease and toward a model that focuses on prevalence and disease prevention. Mr. Medvedev emphasized that lifestyle changes, early detection, and improved healthcare quality will help to achieve this goal. I believe that we as an industry—and we as AstraZeneca, one of the top industry players in the world—have an important role to play.

To return to the question of investment, given these facts, our organization sees Russia as one of the key global markets for any multinational. At AstraZeneca, we decided that we would like to develop a local manufacturing facility via our investment in the Kaluga region, so that we can improve this nation's access to AstraZeneca medicines.

Our investment does not end with manufacturing. As a company, we believe that AstraZeneca's R&D capabilities will help to address Russia's healthcare needs. We believe that we can leverage the expertise of Russian scientists and medical professionals. In this line, we are also investing in research and development. The third element of our strategy is the continuous education of healthcare professionals, primarily in the sphere of novel treatments where the organization competes—but also in the broader sphere of modern treatment guidelines and modern medical alternatives.

What were the difficulties you encountered in getting this project off the ground and why did you choose the Kaluga region?

The primary difficulty was the fact that for AstraZeneca, Russia is not yet a particularly familiar investment environment. It is a very particular market, that is rapidly evolving, and our first task was grasping the dynamics of the region, from both a business and administration perspective. We also had to understand the ethical mandates and the level of transparency.

After we went through this process, and we felt strong enough and confident enough to commit, we looked for a regional partner. We have internal criteria for this selection process, and in the end, we decided upon the Kaluga region. The deciding factor for Kaluga centered upon the fact that it has an extremely good reputation for attracting investment, and the regional administration team is highly professional. I have said several times that although I have worked in over 20 counties in Central and Eastern Europe, this was one of the most professional teams that I have ever encountered. There is also a strong talent base in Kaluga because of its proximity to Moscow, as well as a well-established framework for maximizing investment value and providing assistance for locating good employees.

You mention that your biggest challenge was the company's lack of prior experience with Russian investment. This must have been true on a personal level as well—you have only managed this affiliate for nine months, and one of your first tasks was overseeing this very substantial initiative. How difficult was it to take on this project as a newly arrived director?

Large companies do not start nor end with one man! There was already a project team that was working on the Kaluga development from our operations side prior to my arrival.

When I came to Russia in early September of 2010, I first had to familiarize myself with the same elements of the Russian environment I have already spoken of: business practices, administration

practices, as well as ethical and transparency practices. I received support in these matters from our colleagues on the operations team, and after some time, we were all ready to move ahead.

I tried to understand the process, and then to add value from my personal experience and perspective. I was not an initiator. AstraZeneca made a firm decision in the middle of 2010 that the company would like to invest in manufacturing here, and once the decision was taken on a global, corporate level, it was up to us to implement it.

Your Kaluga plant should provide a boost to your sales, allowing you to bid on equal footing with locals for government tenders. At present, AstraZeneca controls only about 1.5% of this market, and was ranked 20th in overall sales by the IMS in 2010. Globally, the company is ranked 7th. How do you explain your poor positioning here?

I would not call it a matter of poor positioning! AstraZeneca strategically decided, on a global level, that we would identify ourselves as a biopharmaceutical company focused on innovative drugs. In Russia, we have maintained this identity, and have strayed away from the diversification into generics, medical devices, OTC, etc… These are examples of diversification that many market leaders in this market have undertaken.

Secondly, our strength is in the hospital and oncology segment, but we are now developing our retail capabilities because we have some excellent products in this sphere.

From our Kaluga investment, we expect that, first of all, we will be able to increase access to our medicines—within the government reimbursement program, and also to out-of-pocket patients. We strongly believe that with our portfolio, and the benefits that our products can bring to relevant patient groups, our position can advance to within the top seven or top five pharmaceutical companies in this market. We expect to achieve this within the next five years. We will become one of the leading players in Russia, and our manufacturing investment is a key lever and pillar of this strategy.

We want to differentiate ourselves as a company that wants to invest in Russia, and wants to be a part of the innovative industry that is outlined in the Pharma 2020 strategy. Thereby, we want to improve the lives of Russian patients with our innovative medicines.

You have personally faced similar situations in your career, when you managed to boost AstraZeneca’s positioning in Slovenia from number 18 to number 4.

I am not sure that Slovenia is comparable to Russia. Slovenia has two million people, and represents probably just a fraction of Moscow! The competition and complexity of the Slovenian environment is much less pronounced.

I strongly believe that if we properly execute our investment strategy, and proliferate the scientific and medical education of professionals, and if we execute our branding and marketing strategies, then doctors, as well as patients, will find added value in using our products. With that, we will support the growth of AstraZeneca's business. We have some of the best-in-class products available, and we are one of the most serious companies in terms of commitment to this region. Coupled with a strong talent strategy, and being an industry benchmark in ethical standards and behaviors, over five years we can emerge as one of the best-performing companies in Russia.

Many companies have had difficulty registering new medicines, especially with the new provisions of the Circulation of Medicines law. Do you find this to be a barrier to growth? What is the significance of good standing with the authorities and a committed clinical trial program?

A strong clinical trial base is now, and will be in the future, a prerequisite for registering products here. Russia is not that different in this requirement, relative to many other large countries. For our company, Russia is a priority country for clinical trials, in terms of bringing state-of-the-art clinical activities in line with our Russian R&D strategy.

AstraZeneca will continue to include all of our key and new brands in our clinical trials program in this region. Further, we will expand that program, because there is a good scientific base in this country, and we will look to Russian scientific centers to support our clinical work. Conversely, we can support this scientific community by giving them the opportunity to work with innovative treatments in a state-of-the-art framework.

In terms of regulatory obstacles, my key comment is that the pharmaceutical industry is a very long-cycle industry. If we as pharmaceutical players want to ensure the quality of our products, the quality of our regulatory filings, the quality of our production standards in line with GMP, and the quality of our clinical activities, we need to have a predictable environment. In Russia, the environment is not fully predictable, and this makes it quite difficult for us to ensure the highest quality for our patients. Non-planned and unpredictable changes create significant barriers for our activities.

We do understand that changes are necessary, and that Russia must align itself with both global standards and local requirements. We are not against this kind of transformation—in fact, we support it. However, my wish would be that the sequence of planning becomes more predictable, so that we can adjust our operations accordingly.

Most managing directors working within the Russian pharmaceutical industry would agree with you. But we have often heard that the direction is nonetheless positive. What is your view?

The direction is indeed positive. I think that the Russian government, in the last 24 months, has taken many steps toward the improvement of, as I said, medicine access, and raising the life expectancy of the Russian public. The market, and government initiatives, are both moving in a positive direction. The changes may not always be what we as an industry want to see, but I think that with mutual understanding and cooperation, we can forge an environment that will satisfy the needs of both government stakeholders and industry stakeholders, and better serve society.

I am more concerned not with the direction of change, but with its pace and predictability.

Russia very much wants to develop an innovative pharmaceutical industry, as outlined in the Pharma 2020 strategy. We are witnessing more and more collaborations such as that between AstraZeneca and Skolkovo, and AstraZeneca and the Russian Venture Company: i.e., collaborations that bring together academia, private institutions, government agencies, and development incubators. Can Russia leverage these kinds of collaborations to realistically develop into a global innovation hub?

If you look at where Russia is in terms of innovation, and the intellectual capacity that exists in this country, I believe that the possibility to develop an innovative pharmaceutical industry certainly exists. Whether it will take ten years, or longer, is something that we can debate at length. As I said, the pharma industry is a long-cycle industry, and if there is one thing that is true, it is that things cannot fundamentally change in one year.

I do believe that academia will have a significant role to play. Scientific and innovation hubs like Skolkovo could have important roles, especially in attracting venture capitalists to enter Russia and become partners in supporting innovative developments. The big pharma industry has its own role to play, in supporting research, and, especially, later-stage development of products—for example, in driving products through expensive clinical activities and fostering their approval and commercialization in Russian and beyond.

Today, worldwide, most of the large pharmaceutical companies in the innovative industry are looking towards downsizing their internal R&D centers, and leaning towards outside collaborations with small biotechs, start-ups, etc. The first question is how Russia can attract these small innovative centers, and the entrepreneurs and venture capitalists that will finance initial research. The second question is how the big pharma industry can participate—because I believe that we can really play a pivotal role.

The government must facilitate this process. Again, the length of development is difficult to predict. But is it doable? I believe it is.

We have met many managers newly sent to head multinational affiliates in Russia. As a manager that is himself newly arrived in this country, what is your advice to your

colleagues?

First of all, expect something completely different. Russia is unlike any country I have previously worked in. It is a matter of size, of the complexity of doing business in such geography, and of the scale of operations. In many ways, Russia is incomparable to other regions. I think conditions are far better in this country than what you may have anticipated going in. I think that the systems here are, in certain areas, very well embedded, and the processes are comporable to many international standards. So expect better than you thought!

Get used to a very high pace of professional and private life. I have lived in many different cities, including fast-emerging CEE hubs like Warsaw and Bucharest, and global capitals like London—and nothing is comparable to Moscow and Russia. The pace is considerably more dynamic. Life here offers a lot of opportunities, but you must be ready to adjust to the pace in order to seize them.

You cannot come to Moscow, or Russia, with your mind and your heart somewhere else. You must commit to this environment, without constantly thinking of when you will go home or to somewhere else—that is a road to disaster.

So in short: expect the unexpected, know that things are better than they look from the outside, and be ready to truly immerse yourself in this market and this city.

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