Interview with Hernan Pfeifer Frenz, General Manager, Laboratorio Chile

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Could you give provides us with an overview of the Laboratorio Chile's history leading up to its impressive success since you took the reins of the company?

I have been working at Laboratorio Chile since 1995; however, the company was created more than 110 years ago by three visionary pharmacists who saw the opportunity to manufacture products locally. Between the 1940s and 1980s it became state-owned and then in 1989 it was privatized once again. Up until 1992 Laboratorio Chile produced entirely for the government and public institutions, but that year the company decided to expand its portfolio beyond pure generics by launching a new line of branded generics. This marked a turning point for Laboratorio Chile, which today is the market leader in both branded and pure generics, and number two in exports and the OTC market.

As you can see our history is truly a success story, and the main driver for this success has been the ability of the company to understand at an early stage the need of consumers and patients. Furthermore, our brand name has also helped us to grow as much as we have, because Laboratorio Chile today is one of the true Chilean brands that is recognized internationally on par with other national companies like LAN Chile and Banco de Chile. This has been proven by numerous surveys that always place Laboratorio Chile as one of the top 5 Chilean companies in terms of brand recognition. In fact, now that Laboratorio Chile is a part of the Teva Group, we still maintain our original brand because it was decided that this was one of the company's great assets that needed to be preserved in order to ensure growth in the national and regional markets. Finally, another key element for our success has been the quality and commitment of our employees, who are amongst the most motivated and enthusiastic in the market. This is because at Laboratorio

Chile we truly enjoy our jobs.

What have been the main changes and synergies generated by the acquisition of Laboratorio Chile by first IVAX in 2001 and then Teva in 2006?

The IVAX acquisition brought very minor changes because they have a general policy of maintaining the independence of their subsidiaries around the world. This was very different from the second acquisition because Teva's speciality is in maximizing the efficiency of operational processes. In this regard, we have received very strong support from Teva in improving our operations and in the construction of our new manufacturing plant. Teva has extensive knowledge in applying the best and most cost-efficient processes to improve the performance of a company, and they have helped us tremendously to implement these processes. Teva is also a leader in ensuring the highest quality standards for their products and this is something that they have brought to Laboratorio Chile. Today we operate under global quality standards that Teva requires for all of its operations around the world. This has been a great experience for us as a company because today we feel very secure in the way we conduct our operations and in advancing the performance of Laboratorio Chile together with Teva's support and expertise.

How would you evaluate Laboratorio Chile's performance in terms of growth, revenue and market share and what is the relative importance of the company for Teva's operations in Latin America?

Laboratorio Chile became the market leader in the year 2000 and since then our goal has been to increase our lead over the number two company. Being the leader is not always easy in the sense that you have to set very specific goals in order to maintain your position as the leader and to further increase your advantage over the number two player. In the private market we have been growing both in terms of units and value. Our growth in the institutional market is similar.

What are the main challenges that Laboratorio Chile faces in the Chilean pharmaceutical market today?

The main challenge for Laboratorio Chile is to manufacture our products under the highest international standards of quality while maintaining competitive prices in the local market. The average standards of production in the Chilean pharmaceutical industry are less stringent than those required by Teva, so we have had to balance the demands of the local market while producing as a global company. Furthermore, there are companies in Chile that import products from other parts of the world that have lower standards of manufacturing for pharmaceutical products, which allows them sell the products at lower prices. Given that our aim is to increase the gap between Laboratorio Chile and our competitors this situation truly represents a double challenge for the company.

There is a global trend of the largest pharmaceutical laboratories entering the generivs segment. How are you coping with these new entrants in order to maintain your position as the market leader?

There is certainly a new global trend of large transnational pharmaceutical laboratories entering the generics market. In Chile, however, this trend has not developed itself yet as there is not a large effort by the global pharmaceutical laboratories to bring their generics into the market. I suppose this is something that could happen in the future, but Laboratorio Chile is fully prepared to face the competition. We already produce one out of four pharmaceuticals consumed in Chile and we have the largest manufacturing capacity in the country by far. Some of the main factors for success in this business are scale, efficiency and having the best pharmaceutical knowledge of the market, and Laboratorio Chile has this better than anyone in the country. Furthermore, we have a strong commitment to train our employees and to produce the best quality products, which will make it hard for new entrants to overtake us.

What is the role of contract manufacturing activities for Laboratorio Chile?

Laboratorio Chile does not conduct any contract manufacturing activities. Everything that we produce is for the Chilean market, for one of our 14 exporting locations in Latin America or for one of Teva's subsidiaries in another part of the world. Today we export about 20% of our total production and this is quickly increasing. One of our fastest growing markets today is Venezuela to whom we export more and more each year, even though Teva has their own plant there. Currently we are also looking to expand our exports to Mexico and Brazil, which in fact are the two largest markets in the region.

There are some serious issues in Chile with government payments to the point that the national healthcare system today has an estimated debt of US$ 500 million. Given the the institutional market is of great importance to you, how has this situation affected Laboratorio Chile's operations? What are you doing to ameliorate the situation?

This is a very serious issue but one that we have grown accustomed to because it tends to happen in cycles. The trend is that the public healthcare debt will accumulate over time until it reaches a point at which the pharmaceutical industry decides that it cannot continue financing the government. When this happens the authorities then begin to make an effort to pay back the debt at least to bring it down to an acceptable standard. Currently we are at a level of delayed payments of more than 200 days. The government is fully aware of the problem and in the past couple of months they have begun to pay us more than what they are purchasing.

The core of this problem lies in the structure of the public healthcare system that relies on the GES plan to provide the population with universal access to medication and treatments. This plan was recently expanded causing an increase in the consumption of pharmaceuticals, but the authorities

deeply underestimated the total consumption and did not allocate the necessary funds to cover the expenses. The government is now making very serious efforts to improve the situation by implementing structural changes and improving the overall efficiency of the system.

Part of Teva's global strategy is to increase their role in the biogenerics market so that it becomes 25% of its portfolio by 2015. What activities is Laboratorio Chile undertaking in order to increase their biogeneric portfolio?

We do not produce biogeneric products in Chile but we do import them from other Teva locations around the world. This is one of the great advantages of being part of a truly global company. As a subsidiary of Teva we are on track with their goals of expanding the biogenerics business and we are working hard to achieve the projections of the company.

Laboratorio Chile already exports to 14 Latin American countries. In this context, what is the next step for you; what is Laboratorio Chile's expansion strategy?

We have three main focus areas to increase our growth: 1) to further increase our position as market leaders; 2) to explore new business areas, such as cosmetics and new OTC products, as well as other areas of the general healthcare industry; and 3) to increase exportations, both to third parties and to other Teva locations.

What is your vision for Laboratorio Chile for the next 3 to 5 years and what is your final message for our readers of Pharmaceutical Executive about the contribution of Laboratorio Chile to the Chilean pharmaceutical industry?

I want to see Laboratorio Chile as the market leader by a much larger margin than it is today. The goal for us as the market leader is to be able to push beyond our glass ceiling of being the #1 company.

For the final message, I would like to mention the major improvements that have been made to Laboratorio Chile since it has become a part of Teva. We have had tremendous support from them to enhance our operations and to establish a culture of working with the highest standards and the latest knowledge available in the industry. This has been an incredible benefit for us. Aside from this, I would like to transmit a message about Chile as a country and what it has to offer to international companies. It is important that the global community understands the great opportunities that are yet to be explored in Chile. This is not specific to the pharmaceutical industry, but for any kind of business. The truth is that Chile is a great location to serve as a company's hub for their Latin American operations because of its strategic location. The country also enjoys the best economic and political conditions in the region and this has been demonstrated by years of continuous growth at rates above the regional average. Furthermore, we have numerous free trade agreements with countries all over the world due to a commercial mindset and culture that is prevalent amongst Chileans and we are now hungry for new opportunities.

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