Interview: Dave Murphy – CEO, PM Group, Ireland

"Ireland is probably one of the busiest countries in the world right now in terms of pharma capital investments"

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Dave Murphy, CEO of PM Group, the largest local service provider to the pharma industry in Ireland, highlights key developments of the group since 2013, their exciting internationalization and acquisition plans, his thoughts on the hot manufacturing trends within the pharma industry, and what drives his team and him every day.

Dave, it is great to be able to catch up with you again as the largest EPCM player in the Irish market – and a great Irish success story, with significant global operations! What has changed since 2013?

Ireland has really turned around since 2013 – FDI levels have increased, particularly in the pharmaceutical industry. We have seen a number of notable investments here, and Ireland is probably one of the busiest countries in the world right now in terms of pharma capital investments, with Regeneron out in Limerick, while within Dublin, you have Alexion in Blanchardstown and BMS in Cruiserath, as well as Shire in nearby County Meath, and so on. The pharma industry is extremely busy here. Not only are existing sites busy being upgraded and expanded, we also have brand new greenfield investments.

This is true of the global pharma industry too: there are a lot of new investments all around the world. As a result, our pharma business has grown quite strongly in recent years.

In terms of our international presence, we do a lot of work for GSK and AstraZeneca in the UK. We are also in mainland Europe, mainly Belgium and Switzerland. While we have a significant long-term presence in Eastern Europe, notably Poland but there has not been much pharmaceutical

investment there in recent times. We are also in Asia, specifically India, Singapore and China, with our Shanghai office, and in terms of pharma investments, the latter two are most important.

Finally, the US is where many of our clients are headquartered, so we want to leverage our existing relationships to expand our footprint there. We are currently in Boston and San José.

With that sort of international exposure, how do you ensure that you balance the need to adapt to local culture with maintaining PM Group's company culture?

Every location has its own local quirks and culture, so it is clear that you cannot just impose an "Irish-type" culture. Our core values are what we fall back on: integrity, focus on expertise, partnership and openness – that sort of approach. We are focused on working hand-in-hand with clients and we want to bring that with us to our global operations.

Our offices in Asia provide good examples. When you start out, you need to have expats to start the operations, but then you have to make the effort to employ locally. We have been very successful on this front. Our Shanghai office has about a hundred people but only three expats at this stage; most of the management is local Chinese. The culture there is still very strong, as a result of great direction and leadership from the people we seeded the operation with.

One of the most current events particularly impacting Irish companies across all sectors is Brexit. How has PM Group felt the effects of this?

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Our significant presence in the UK means that we are hedged against that, with most of our UK projects done through our UK offices. Fundamentally, our perspective in the UK has not changed: it is a country where we think we can continue to drive growth. Two of our biggest clients globally, AstraZeneca and GSK, for instance, have both come out quite bullish on that front. Both have invested in significant capital projects recently, and they also have strong existing networks there, so we doubt anything will change significantly on that front.

We are in fairly niche sectors like pharma, medtech and also food, which means we do not see much change in terms of business as long as capital investment continues. The main impact we are seeing now is currency, which has been quite volatile, but that is a short-term effect.

As a very successful Irish international company, how would you say the Irish brand and company culture is perceived abroad?

It depends on the market – in the US, which has a significant Irish diaspora and ongoing links with Ireland, it is a bit easier! It was a bit more difficult in Asia initially, because people there might not be familiar with Ireland, as a small country of less than five million people on the outskirts of Europe.

That said, the pharmaceutical business is very internationalized now, and it is ultimately quite a small community. 60 percent of our business comes from 10 or 15 clients, which means we deal a lot with the global capital project teams, who seem to pop up in many of the countries we work in. More importantly, your track record tends to travel with you as well. We have been able to go to a new country and show that we have worked for the same company in other countries with other managers, who can then testify to our reputation and quality. This is immensely helpful.

In the past decade, PM Group has also pursued a fairly aggressive M&A strategy but last year you said that an IPO is not yet on the cards. Where does PM Group stand now in terms of external growth?

We are still very much focused on our employee-owned ethos and staying private. We had a 25 percent shareholding by Amec Foster Wheeler which we bought back last year, so we are now 100 percent owned by our management and employees. We are private and independent, and very happy to stay that way.

Through the recession and post-recession, we parked our acquisition strategy in order to focus on organic growth, which meant doing a lot of housekeeping and consolidation, strategy analysis, etc. There was quite a bit of reorganization. We have now established that we are happy with our current footprint, sectors and services, so we are back looking for potential acquisitions to accelerate growth.

In terms of potential targets, we are looking for similar companies, providing similar services and in the locations that we are already in, probably the US, the UK or Europe. It will primarily be to add volume and capacity, and to increase our footprint more rapidly in those locations.

Innovation is a key driver for PM Group, and notably, it came up with a new system to overhaul pharma production with the Standardised Disposables Design (SDD). What significance does PM Group attach to innovation as an EPC company?

It is an area that we – not just the industry – have struggled with, we were no different from our peer companies, when it came to innovation. It was very difficult to define what it meant for an EPCM company to innovate. The first thing we did was to educate ourselves on what innovation

could and should mean for us.

Two years ago, the executive team set up an in-house innovation scheme. Essentially, it is a competition with significant prize money – EUR 25,000 – available to all employees. We will increase the amount next year. On top of that, if the innovation is good enough, we will fund its development for wider use. This shows the extent of investment that we are dedicating to innovation, and it is already paying off in terms of the enthusiasm and excitement, not least ideas, it has generated. We are not there yet but it has definitely stimulated the sort of innovation culture that we want.

We are looking for ideas that will not just help our business but also our clients' business. SDD was an idea from an employee, subsequently funded by us for wider use, and his innovation is being recognized outside of PM Group, where it is up for two innovation awards.

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We have also been hiring a lot of younger people so we working to reap the benefits of their ideas. The process is in motion; we are happy with the way it is going so we just have to keep greasing the wheels.

With your own background in pharmaceutical manufacturing, how have you seen the industry demand for services change?

One of the biggest changes has been the outsourcing of services. Two decades ago, the pharma industry was keeping the engineering, design and construction elements in-house, but now it is largely outsourced. The companies still retain a small core team with highly experienced people, but they mainly work through partnerships – with service providers like us – now.

Part of this shift includes what we now call managed services. Many of these facilities tend to have significant ongoing capital expenditure on top of the initial investment, with routine annual projects of up to several million euros. We now also take care of those for clients, up to about EUR 5 million. That has probably been the biggest change in our business, the shift towards managing the site capex end-to-end and continuing that relationship with our clients beyond the initial design and construction work.

Another more recent trend with the industry has been to tender everything for procurement. I think this is a poor model that does not deliver value or the best outcomes. It makes it hyper competitive for service providers and forces us into very tight margins. Companies going down the long-term partnership route get much better results. It does not mean that they are overspending; it just

enables service providers to engage more positively with their business and their long-term objectives, which are often very specific to their operations. The industry needs to be more collaborative with their delivery partners to enable them to provide the best solutions.

We are seeing a lot of new developments in the manufacturing industry with an emphasis on leaner, more flexible operations. Are these real game-changers for the industry or just fads that will fade?

My view on this is probably somewhat controversial. I think a lot of companies are looking for a magic bullet for capital projects. I have worked in this business for 27 years: there is no magic bullet. There are definitely smarter and innovative ways of doing things but many people in the industry have expectations that there is some way of doing things that will be so much quicker and cheaper.

Capital projects are complex and there are well-established good practices for delivering them surrounding proper governance, capital allocation and correct execution. There is no substitute for that. People can build mobile disposable factories but while they have their advantages, they are not the panacea people seem to think they are. For instance, if you want to have a facility somewhere in Kazakhstan, these type of factories would absolutely be a fantastic choice, but if you want to do it somewhere in Ireland or the UK where there is already existing pharmaceutical project delivery infrastructure, it is probably going to be cheaper and quicker to just use that.

Looking forward, what are your hopes for PM Group?

The key thing is to grow. We are the market leader here in Ireland, so there is not much more space to grow in that sense, but we are also exporting a lot of services from here, so we can continue to grow our export business.

We would like to have bigger footprints in the US, mainland Europe and Asia. You can only grow by growing your personnel numbers, and you can only do that by generating new business. It is a very competitive business. A big challenge we will have to meet is resourcing – there is probably a shortage of pharmaceutical engineers in the world right now, so competition for them is very fierce.

Ultimately, we take a lot of pride in our work – the complexity of the facilities we deliver is immense, and this challenge keeps you going. I always remind my team: the facility we deliver is not an end in itself. We are part of the bigger picture: the manufacture of life-saving drugs. If these medicines cannot be produced to the required regulatory standards within the required timeline, it affects people’s lives. There is so much at stake, not just in terms of the extent of capital investments we are talking about, but the lives of real people, and this is what drives PM Group

forward every day.

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