Interview: Daniel Pedrett – CEO, Rohner Chem, Switzerland



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Outsourcing of API synthesis has stabilized in the decade since Rohner Chem entered the pharma sector in earnest, and according to CEO Daniel Pedrett the company has reached a position where it is faster, more agile and more experienced than the internal supply organizations of many mid-sized innovators.

You were brought into Rohner Chem in 2006 – what have been some of the fundamental changes to for the business since that time?

Rohner Chem has more than 100 years of history in the chemical business, with a strong presence in the dye stuff, and had been operated under Ciba Geigy for a number of years.

The first challenge was to transform RohnerChem from a production site and part of a larger conglomerate into an efficient, independent company.

The second and more profound shift was moving the company out of the dyestuff business and specialty chemicals into a custom synthesis company focusing on pharmaceutical intermediates and APIs. This was only made possible by a substantial investment of over CHF 100 (USD 103) million in specialized equipment and technologies. This focus very much helped to establish a sustainable cGMP culture which we considered as essential to establish the company as a reliable supplier of registered intermediates and APIs.

Externally, I've seen the market for custom synthesis services change quite a bit. We of course started with a few key customers in the pharma market to get going, but we saw at that time there were huge differences in how companies viewed outsourcing; some embraced it, while others were personally or philosophically opposed to developing an outsourcing strategy. Today, the variation has decreased as most innovators have begun to recognize that compared to R&D, sales, marketing and distribution, manufacturing is no longer a core business for them and at least in some cases outsourcing can be preferable to manufacturing internally. As such, the trend towards outsourcing has broadened, and now we see continuous growth in demand for custom synthesis of APIs

Moving from the less regulated dyestuff industry into the highly regulated pharma industry must have required a significant change in culture and strategic mindset. How did you lead that shift internally?

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At that time, we had four production buildings; two were built in the 1930s and used older technologies. We were operating these facilities at the same time as the latest complex API custom synthesis systems in a different building, so for a while Rohner Chem's site showed all stages of the progression of chemistry as technology evolved throughout the 20th century.

We had two close the two oldest buildings, as it would have been nearly impossible to effectively transition the facilities and teams to meet cGMP requirements. The two buildings which remain operational already had a strong GMP culture, and we have invested in technology and training to keep up with the evolving technical requirements.

In terms of our business model, the CHF 100 (USD 103) million investment was a precondition for us to become a serious player in the pharma custom synthesis business. This includes especially the need to offer scale up capabilities, so along with making significant improvements to our commercial scale manufacturing systems, this investment also went towards developing a professional lab and pilot plant.

Today, how is Rohner Chem positioned within the pharma development and manufacturing value chain?

First we are not generating new projects in the generic business, we are 100 percent in original business. It's not that we couldn't do generics in special niche cases where prices are stable, but in general generics vendors will go to lower cost partners.

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Our customer base is very much diversified from big pharma companies to start-up companies. Our strength clearly lies in our speed, flexibility and agility,. So, we look at mid-sized innovators and companies with different structures who often lack any internal manufacturing organization. We also seem to have a good fit with American companies, whose culture tends to align with ours quite well.

Today how much of your business is with the pharma sector?

Today over 80 percent of our revenue comes from clients in the pharma industry, about 70 percent for API synthesis and 30 for intermediates. We never intended for it to be 100 percent. The other 20 percent comes from custom synthesis of specialty chemicals for very dedicated applications, often very challenging synthesis steps for specialized applications, e.g. in the electronics industry where you can see prices equal to the pharma sector.

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We don't do any agrochemicals at the moment, and in general our scale is too low to be competitive. However, in a few cases we have seen agrochemical companies come to us to handle an efficient scale up, i.e. optimization of production costs. An efficient scale-up requires flexibility which clearly is one of our strength as an SME.

What does business differentiation mean for a custom synthesis partner like Rohner Chem?

When pharma companies start to look for custom synthesis they have a synthetic route defined and are essentially looking for a partner with the right technology to handle it. As such, you need to have a technical focus and specialized technologies to differentiate yourself; at the same time, you also need to have a sufficient range of technologies. Successful differentiation in effect means finding the right balance between specialization and range of capabilities, and offering strong experience and track record in handling these technologies

Having the right set of technologies gets you onto a potential client's shortlist but no further. From there, Rohner Chem always seeks to prove that we have the speed needed and are more competent than our competitors. We will never be the cheapest option, so we have to prove that

our competence is worth the price. You cannot convince customers with smart presentations but you have to demonstrate it in reality. Just with small development projects you can start build trust with fast, accurate and effective communication, and prove your agility in responding to client's questions and concerns.

Multiple global supply chain executives have recently commented in interviews that compared to other sectors there is a relatively large gap or distance between pharma companies and their suppliers. How can Rohner Chem work to be closer to clients?

In many cases, we supply the API as second supplier to the internal supply organization within our client's company. I would guess, that we're often more experienced, faster, agile and price competitive than the internal supplier. The only disadvantage we have is that we're an external partner, and there is always some concern that by outsourcing a project the innovator will lose some of the manufacturing know-how and become dependent on the external supplier.

Rohner Chem has no standard structure on how to collaborate and communicate with customers during the production campaign. Rather we design a custom-oriented process according to the specific needs of the product or the customer. Our response is that it is fully possible to build a close enough relationship that the client is able to keep as much of the know-how as they would if they handled the project internally. Not all of our clients require this, some just issue a PO and a delivery date and ask for nothing more – others like to have a weekly conference call and meet over team to ensure that they are up to date with all of the details, how the optimization process is proceeding and the most recent parameters. Whatever degree of communication our clients want we are happy to provide as part of our service, and I can honestly say that we have fulfilled the needs of every customer, despite the great difference what they require.

All of our clients can rely on the fact that we are very open, very reachable, and share everything they want or need to know. If something doesn't go the way it is expected, they will be informed immediately even if it is at a stage we do not know yet how to fix the issue.

For our established clients, we are working under master contracts which can accelerate processes greatly by eliminating the need to prepare request, proposals and then negotiate a service agreement before getting started on a project. With a master agreement which defines payment terms, how prices will be set and other parameters in place our clients can call us with a new project and we can get started with the first steps immediately; of course, we must then put a proper contract put in place before we reach a stage with significant financial risk.

Looking forward, what will you have to do to reach your business targets?

From a facility standpoint we don’t have any significant needs to expand, and strategically it seems that our technical setup is quite attractive to a sizeable range of customers.

Instead, our focus going forward will be on optimization and fine tuning. Every custom manufacturer faces variable demand through the year, and thus there will be period where significant capacity remains idle. So one strategic goal is to find and select a few small molecules we could produce when capacity utilization is lower, to help stabilize our capacity utilization throughout the year.

The second step is what I call production optimization, which involves improving the way in which we arrange our production schedules such that more production processes can be done in parallel. This requires an excellent fit of the different projects of our product portfolio. Efficiencies or synergies generated in this manner might be able to improve EBITDA margin by up to 5 percent, and at the same time effectively free up some capacity for additional projects.

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