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Beat Berger (BB) and Dr Uwe Schmelzer (US) of Swiss API distributor DCS Pharma discuss growth segments in the global generics market, international hotspots, and the benefits of being based in Switzerland.

As an API distributor, what segments of the global generics market do you see the most growth potential in?

BB: I'm confident all segments of the generics market will be growing in almost every market. Of course, when you discuss 'growth potential' you must look at more than an issue of potential demand and drugs which are about to lose exclusivity; these are the areas everyone goes and competition is immense.

For DCS Pharma, our portfolio is built almost exclusively of niche products which receive significantly less attention. Our focus areas are primarily oncology, muscle relaxants, controlled drugs, steroids and hormones. There are a lot of products in these areas which were developed back in the 50s and 60s which are undergoing a revival of sorts; if you look at corticosteroids like prednisone and prednisolone which have not been significantly improved upon in at least 30 or 40 years, there is strong growth in the market yet relatively few suppliers. These are the types of products where we see growth potential for a company with our business model, working with

products that are difficult to produce and source; it is not our goal to work with 100 suppliers, but rather a few we can bring significant value to.

US: Despite fierce competition, oncology is a perhaps higher profile segment where we do have strong potential, as we already have a good position in the oncology market. These compounds can be challenging to deal with from both a logistics and regulatory perspective due to their potency, and we have extensive experience in handling such ingredients.

From a business development perspective, it can be quite difficult to find and select products where there isn't too much existing competition already. This process is much the same for us as it is for our customers, and we put great effort into finding the right products in the right niches coming from the right suppliers, which can be of great value to our clients.

It seems that DCS Pharma is much more than a typical distributor or API trader: how would you describe your business model?

US: As DCS Pharma, our business model is to really create value for both our suppliers and our clients by bridging the gaps between what each side needs and offers.

Imagine a client in Argentina or Brazil for example, or say Spain; they are looking to develop a product, but are under significant cost pressure from the authorities and the local market. As such, sourcing an API from China or India is a very attractive proposition. However, to do that on their own a business development or purchasing manager will have to dedicate significant time to finding suppliers who offer the API in question, travel to China to establish contacts and find the few suppliers who seem to be relatively reliable and high quality. This is a process of many months, and at the end it will be difficult to make a deal because in all likelihood the supplier will want payment upfront while the purchaser will want at least 120 days for payment. Left on their own, the chances of doing business are quite low – and if they do it's likely that additional time and money might have to be invested to ensure the supplier had the right documentation to prove their quality and regulatory compliance.

This is where we come in. We take on the cost and burden of finding reliable suppliers, and bridge the gap between clients by providing commercial services including stockholding and pre-financing.

You mentioned business in Latin America: which geographies does DCS Pharma do the most business in today?

BB: Europe still accounts for about 50 percent of our activity, and we have dedicated sales professionals handling Germany, Spain, Italy, Poland and a few other markets. The other 50 percent is spread across the US, where we are relatively new, as well as Latin America in Brazil, Mexico, and Argentina, Egypt and Turkey in the MENAT region for instance, and a strong presence East and Southeast Asia. All together, we do business in over 70 countries; perhaps too many, but at least we are well diversified in terms of our exposure to geo-political risks.

A few years ago, regulatory barriers were rising across Europe and volume growth had slowed, so we pushed outwards to expand into new markets like Mexico and Egypt for example. Of course working in such markets brings other challenges – payment collection problems for instance – and building up a new business takes time; we started our Mexican affiliate six years ago and it has only been in the last year or two that we have started to see our investments bear real fruit.

However, dynamics have changed. Growth in emerging markets has slowed and risk increased, with Brazil and Turkey being examples, while at least the pharma market in Europe is growing to a certain extent – so this is where our focus is today. When the situation changes again, hopefully we will be in a position to capture the growth wherever it is via our strong international network.

How do you create value by reducing risk for your clients and suppliers respectively?

BB: From our client's standpoint, we take on the risk of the supply side and guarantee delivery – the products they buy from us may be made in China or India, but they are buying them from a Swiss company. In that sense, it is well known in the market that we always fulfil our agreements, and if we sell a product we know exactly what we are selling and that it meets the specifications it is supposed to.

We are only able to make these guarantees because we do not just source from any API supplier in China or India. We have a very strong network we have built over the years of very reliable companies with whom we have built strong personal relationships. Moreover, we have our own sourcing office in China to ensure close contact with our suppliers there, and our network in India is very robust. Any new supplier is vetted through an extremely thorough evaluation process, and we ensure that their operations are kept up to date with changing regulatory requirements; where there are gaps and changes need to be made, we actively help our suppliers to meet the technical

requirements and get the necessary documentation for our clients' markets.

For instance, before DCS Pharma was created through the merger of Dolder Pharma and ChemSwiss, ChemSwiss worked with one of the very first Chinese companies to produce corticosteroids and helped them to come to get their CEP – the Certificate of Suitability to the European Pharmacopeia. Prior to that, almost all manufacturers were buying from European and American suppliers; today as much as 80 percent of customers now buy from our Chinese partner.

US: Our relationships with our suppliers are really quite unique. Not only do we go to great lengths to help them develop their business such that they can start exporting their products to new markets, but we also provide them with clear and transparent reports regarding where their supplies are being shipped too; customers and countries. Other API traders do not do this – they try to hide or obscure where they are shipping an API to so their suppliers can't go around them. We on the other hand work transparently and our suppliers could cut us out of the sales equation if they wanted to – but then again, companies that would try this would not be the right partners for us. In general, we've done a good job selecting our suppliers and this has very rarely happened.

As you mentioned, DCS Pharma is a new company, being the product of a recent merger between Dolder Pharma and ChemSwiss. How did this merger come to pass?

BB: Regulations in the pharma industry are steadily growing and becoming more complex, not just in Europe and the US, but worldwide. Thus for our business, Quality Assurance and Regulatory Affairs have become much more burdensome processes.

I have had contact with Mr. Dolder, chairman of Dolder which is still active in plastics and specialty chemical distribution, for many years and we were aware of potential synergies between ChemSwiss and Dolder's Pharma business. We both had to fulfill many of the same functions and obligations and were both seeing the 'regulatory barriers' we had to overcome steadily growing. After looking at areas where we could potentially cooperate, it became clear it would make more sense to just merge the companies to ensure fair treatment. When we looked at a potential merger in detail, we were very pleased to find that we had no overlap in products, and only two or three shared customers and suppliers. Thus, seeing that our companies would complement each other well and a merger would generate significant synergies, we orchestrated a merger and in January of this year (2016) we launched DCS Pharma, DCS standing for DolderChemSwiss, as the new combined company.

What would you highlight as the most significant synergies unlocked by this merger?

US: The merger has been an important step as it has really helped us to reach a critical size. Both of the businesses, being based in Switzerland, were really offering the premium service in our respective markets. This means working with suppliers and customers on QA and RA issues, being able to support customers with insights into specific markets, patent situations, etc; all of these activities require significant resources, and a larger organization is able to provide the necessary resources more efficiently.

BB: Perhaps most importantly, we have been able to reorganize our sales teams such that individual sales professionals can focus on a more focused geography; this is essential as it helps them be closer to their customers, which is essential in our business.

Additionally, as ChemSwiss had a strong footprint in Latin America ran out of our Barcelona office, while Dolder had a strong presence in Asia and Turkey, but less so in Latin America. ChemSwiss's portfolio focused on hormones and steroids, while Dolder's spanned oncology, muscle relaxants and controlled substances. So the combined business now has greater global reach, and customers now have access to a larger portfolio of APIs from a single contact person.

Is being based in Switzerland a distinct advantage for DCS Pharma?

BB: We definitely benefit from being based in Switzerland because Switzerland is very much associated with reliability, and premium quality goods and services. Thus, potential clients are willing to extend at least a limited degree of trust that we will do as we say based on the fact that they are dealing with a Swiss company. Of course, sometimes this creates some pressure for us in the rare cases where things don't work out perfectly as everyone knows the Swiss are always on time to the very second, just like our trains which never run late!

Of course premium services come at a price, even more so when you're based in Switzerland and having to pay many costs in Swiss francs. The upside is that being based in Basel, one of the biggest pharma hubs in the world, we also have access to a huge pool of skilled and talented professionals who operate very efficiently and effectively; as such we're able to minimize the cost-difference between us and our competition while offering the most professional and highest quality of service.

US: From a management culture perspective, we have also been able to develop a corporate culture that is very entrepreneurial, where every employee has the responsibility and independence to take decisions themselves. Even in Europe, some countries are somewhat more hierarchical or bureaucratic, which can slow things down. The key point is that without the right talent pool, you can't run this type of high performance high efficiency organization, and there is a huge supply of talented experienced pharma professionals across Switzerland.

In a similar vein, we are very proud to have signed a Work Smart initiative, which is a national program aiming to give employees the freedom to work in the way which best suits them and their customers. This has been an important step for pushing DCS Pharma forward as a modern company which prioritizes the happiness and motivation of our team. Of course, this isn't new; we're very proud to point out that despite our recent merger we've had almost no fluctuation amongst our staff, and all of the key individuals from both organizations have stayed. This really shows that our employees are loyal and committed to the company, which is certainly something our customers and suppliers notice!

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