Interview: Eugene Zaika – General Director Ukraine & CIS, Acino Pharma Start



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Eugene Zaika, general director Ukraine and CIS of Pharma Start, a company acquired in October 2015 by Swiss-headquartered Acino Group and one of the leading players in Ukraine, provides insights into the group's countercyclical investments in Ukraine, while Pharma Start's ongoing successes prove that the risk taken is actually paying off. He also documents the cultural and operational transformation that he has been bolstering since taking over the helm of the company, as well as his ambitions to establish Pharma Start as a top 5 company in Ukraine within the upcoming years.

When we met with you in 2011, you were director of Nycomed Takeda in Ukraine. Could you briefly explain how Acino acquired a local company in Ukraine, and how you became its general director?

Following the acquisition of Nycomed by Takeda in September 2011, I was appointed as the head of a regional cluster encompassing Ukraine, Belorussia, Moldavia, and Israel. Two year later, Nycomed's former owners, the private equity funds Nordic Capital Funds and New York-based Avista Capital Partners, acquired the Swiss-headquartered Acino Group, with the global vision to rapidly introduce a portfolio of advanced generics into emerging, fast-growing markets – namely the CIS region, Middle East and Africa, as well as Central and Latin America.

Acino Group’s new owners, who I’ve known since my time working at Nycomed time, then started to look for acquiring promising assets in the region in order to ramp up the advancement of the group’s international strategy. Pharma Start – Ukraine’s ninth largest domestic company at the time and a proud pioneer in terms of quality certifications, caught their attention. This company actually was the first domestic pharmaceutical manufacturer to receive Ukraine’s GMP certification, while its manufacturing facility served as the “show plant” supporting Ukraine’s entry into PIC/S in 2011.

Nevertheless, the opening of the negotiations between Acino Group and Pharma Start’s previous owner coincided with the triggering of our country’s geopolitical and economic crisis, which tremendously delayed the completion of the process. The acquisition was ultimately closed on October 1 2015 and I stepped in as general manager of Pharma Start a few weeks later, while Kiev became the new regional hub of the Acino Group.

After having headed Nycomed-Takeda’s footprint in the region for almost five years, taking other the helm of Pharma Start – a leading, generic focused, domestic manufacturer – must have marked quite a change from a personal standpoint?

Absolutely! Actually, I had never been directly involved in the management of a manufacturing plant prior to joining Pharma Start. Furthermore, our company’s manufacturing and sales organizations are not split into two different entities, as it is commonly the case in Western Europe. As a result, I was personally supervising our manufacturing plant for more than a year, before I was able to find an experienced plant manager.

What is your first assessment of the first six quarters as the head of Pharma Start?

It has been a very exciting and successful journey! In 2016 alone, we created more than 160 new jobs, while we intend to hire 100 more employees in 2017. Additionally, we have already invested more than USD4 million to upgrade our manufacturing plant, and we plan to release another USD3.4 million investment plan in 2017. Over the past 18 years, our manufacturing plant has gone through a tremendous evolution that was barely imaginable at the moment of the acquisition, and it now holds the most advanced and modern equipment, with automatized processes taking over manual labor all together. Looking forward, we are now working on the implementation of a top-notch laboratory management system.

Furthermore, we successfully passed the stringent due diligence process of the European Bank for Reconstruction and Development (EBRD), which will provide us with an additional loan of up to USD3.36 million that will cover our working capital needs, the purchasing of equipment (including

the most advanced capsule filler machines), and the implementation of energy efficiency measures.

In the meantime, we have been able to remarkably improve Pharma Start's market share, moving from the ninth to the seventh market position (among domestic companies) since the acquisition. This achievement particularly stresses the great work that our teams have been doing over the past six quarters, as we managed to completely restructure our manufacturing plant while simultaneously upgrading our commercial capacity – within a very limited amount of time. As a matter of fact, in 2016, we were the fastest growing domestic company in Ukraine among the industry's top 20, with growths rate of 26 percent in US dollars and 52 percent in local currency. Overall, Pharma Start moved from the 23rd to the 16th highest selling company in Ukraine in 2016 between 2015 and 2016.

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Given the rapid growth of our sales, our manufacturing plant is now almost running at full capacity. Fortunately, we still hold spare space, which will allow us to swiftly expand our manufacturing footprint. Although the timelines to obtain required permits remain incredibly lengthy in Ukraine, our expansion project is now about to be fully approved by relevant authorities, which means Pharma Start will soon double its manufacturing capacity, in parallel to the building of a new warehouse and office complex.

What have been the main drivers to these impressive growth rates?

I cannot pinpoint any specific area, as we have been really improving the organization as well as its internal and external processes in all ways possible. Beside the stepping up of our manufacturing efficiency, our improvement efforts have also related to the strengthening of our marketing and sales capacity, which I want to bring to the best international practices when it comes to sales force motivation and incentives. When we took over Pharma Start, we quickly realized its sales forecasts and targets were extremely conservative, which didn't motivate our teams to go the extra mile.

In this regard, the ongoing restructuring of Pharma Start goes beyond the basic acquisition of an Ukrainian asset by a foreign company: our objective is to implement Acino's DNA, which relies on the most stringent Swiss standards, in order to sublimate Pharma Start's local expertise and manufacturing experience – and ensure this new entity fully leverages this unique competitive advantage.

When it comes to completing such a comprehensive turnaround, holding the right people is absolutely paramount. As general manager, it means finding the right balance between historical employees, which holds a deep manufacturing or market expertise, and new talents, which will bring on board the updated perspective we have been striving to instill since the acquisition. In this regard, I replaced a substantial share of our staff across the organization and brought in business leaders that hold a deep experience honed among leading multinational companies; but I also kept historical employees – even at key management positions. Overall, this mindset change cannot be completed overnight, but we have already made great progress, as confirmed by our promising sales performance. I can also guarantee that Swiss quality and compliance standards are now truly part of Pharma Start's processes – and this is absolutely unique among the domestic industry.

Is bringing Acino Group's portfolio to the Ukrainian market a priority to nurture the growth of the Ukrainian sales?

Not at the moment. Although we have already registered four Acino products in Ukraine, current industry dynamics and relative market saturation make us think that only a limited number of the Group's global products would actually hold interesting growth prospects in Ukraine. On the other hand, Pharma Start already holds a very interesting portfolio and a particularly promising product pipeline, on which we can fully rely in the short and mid terms. As a matter of fact, we launched two new products in 2016, while three new products will further enhance our portfolio in 2017.

Beside Pharma Start's portfolio, we will also put the emphasis on developing new commercial partnerships and strengthening inorganic growth strategies, which also stand as a new development approach for Pharma Start. While we already are the distribution partners of France's Laboratoires Gilbert in Ukraine, we are moreover negotiating 15 new commercial agreements, which are perfectly aligned with our company's core therapeutic areas: psychiatry and neurology, cardiovascular diseases, and OTC products. We very flexible and open to any opportunities in this regard, encompassing foreign companies without any commercial footprint in the country [*such as Laboratoires Gilbert, e.d.]*, leading multinationals operating in Ukraine or even companies that left the Ukrainian market because of the recent crisis. Some of these 15 partnerships in negotiations should be officially signed within the upcoming weeks, and we then expect to launch a significant number of products over the next 18 months.

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In terms of growth drivers, we are concentrating our efforts on both contract manufacturing and exports of finished products to other CIS countries, two activities that already make up around 20

percent of Pharma Start’s revenues. In this regard, we are overarching an aggressive international strategy with the recent or upcoming opening of local offices in Belorussia, Georgia, Armenia, Azerbaijan, and Uzbekistan.

Finally, I am particularly glad to announce that the importance of the Kiev office among the Group actually goes beyond commercial activities, as an increasing number of Acino’s global support functions have been transferred to Kiev over the past eighteen months. As a result, Ukraine is now Acino’s hub for global regulatory affairs, while we hold a substantial number of medical affairs, SAP, and electronic procurement experts that are bringing their expertise to the entire group from our 700-employee Kiev office.

Shall we expect Acino to conduct other acquisitions in Ukraine or in the region?

Acino is an ambitious group, which considers Ukraine and the CIS region as strategic markets in its growth strategy. Localizing is an important success factor in these markets to provide high quality medicines at affordable prices to patients. In this vein, we indeed continue to actively screen and evaluate new assets to acquire.

After such a promising start, what are the next challenges that lie ahead for you and Pharma Start?

From a marketing and sales standpoint, we need to maintain the pace of our growth and adapt our manufacturing capacity to our commercial ambitions. In the meantime, I do not consider we have yet fully merged Acino’s standards with Pharma Start’s operating culture. Moving from a Soviet era legacy to a Swiss minded approach is a long process, and we will continue to concentrate our efforts on continuously upgrading practices and processes over the upcoming years.

Because of geopolitical considerations, the Russian pharmaceutical market will very likely remain closed to Ukrainian products in the foreseeable future. In terms of exports, we then plan to bring our products to Middle Eastern and African markets, as well as to the EU. Building on the successful inspection of our manufacturing facility by the Irish regulatory authorities in 2010, we now want to ensure our manufacturing plant is approved by a larger number of European regulators. In this regards, we are already working hand-in-hand with external consultants to ensure our manufacturing plant will be EU GMP certified before the end of 2018.

After three years of negotiations, Acino ultimately completed the acquisition of Pharma Start at the height of the Ukrainian crisis. It now seems that the risk taken is paying off!

It was against all odds! Industry observers were extremely skeptical – to say the least – about Acino's decision to invest in a country at war, whose GDP experienced a 9.8 percent recession in 2015, while the local currency's value decreased threefold against the dollar over the past three years.

We unfortunately see that very few companies have followed our example – despite the bountiful opportunities our country has to offer and Acino's ongoing success.

What is your vision for Pharma Start and the Acino Group in Ukraine for the next five years?

We aim to become a top 5 domestic companies in Ukraine. Nevertheless, we do not know how our company will evolve over the upcoming years, as we are still actively looking at potential targets for acquisition. Since the acquisition, we have made very clear our fundamental objective to build ourselves as a cornerstone household brand in Ukraine and we are ready to further invest in the country to reach this objective.

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