Staffan Schüberg – CEO, Esteve



Spain has an extraordinary talent base from which to choose, as well as state-of-the-art universities

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Esteve's CEO outlines the transformation journey of the Spanish company after taking over in 2018, commenting on how the divestment of its generics business has helped the company lay the foundation of a specialty pharma player in CNS, oncology and ophthalmology. Staffan Schüberg, former EVP and Chief Commercial Officer at Lundbeck, explains why consolidation in Europe's top markets must precede a pivot to the United States market, and why revenue growth means little to a mid-cap with grand ambitions without a healthy EBITDA that allows it to invest in innovation and take care of shareholders and employees.

Staffan, you have been leading Esteve since 2018 and joined the company after occupying top level positions at Lundbeck. Reflecting back, how would you describe the transformation of Esteve during your tenure?

What attracted me, and the whole management team, to Esteve is that the company is on a transformation journey. Esteve was coming from a predominantly Spanish heritage and, over the past few years, has become an international player. Being part of that growth journey, expanding the organization's boundaries, was a great selling point.

So far, we have implemented substantial changes, selling the generics business, acquiring new companies and products, and changing the R&D engine to create a setup that allows us to be more flexible when going after new opportunities, for instance, by collaborating with biotech companies

or academic organizations.

The last time we interviewed you, in 2019, you explained that the company would divest from generics to focus instead on CNS and gene therapy. Has that strategy changed?

Actually, there has been a slight correction of that strategy. When we met back in 2019, Esteve was very much about CNS and gene therapy, which remains true for our pipeline, but strategically we are more focused on CNS, oncology and ophthalmology; those are the three key therapeutic areas where we are looking for growth and opportunities.

Our gene-therapy platform is being developed under a public-private partnership together with the academia. We are currently looking for a partner to accelerate project development.

In October we received notification from the U.S. Food and Drug Administration of the approval of Seglentis®, the first drug developed entirely by Esteve's R&D team to reach the U.S. market. It is an innovative drug for the treatment of acute pain in adults, and it is also currently under review by several European regulatory agencies.

Why has Esteve chosen CNS and oncology as two of its three therapeutic areas of focus? Will the company's size allow it to supply the healthcare systems with innovation?

There are several reasons for that. First, we predict that both CNS and oncology are strong growth areas due to the unfortunate high unmet medical needs and our ability to make a difference. Second, both areas have plenty of niche indications where smaller specialty pharma players can make a difference; we cannot go after proton-pump inhibitors (PPIs), for example, because we do not have the right size. However, we can stay focused on specific needs in diseases like Alzheimer's or Parkinson's.

For companies of the size of Esteve, with net revenues of EUR 500-600 million, the only way to do truly innovative R&D is by sharing risk; this business is about risk management as much as anything else because it takes a decade and costs about a billion dollars, not to mention the many failures along the way. We cannot wait that long and spend one billion hoping for the best, we need to take more shots on goal which entails the sharing of opportunities.

Besides competing in specialty pharma, along with legacy products for broader therapeutic areas, Esteve owns an important API business. How do the two businesses complement each other?

It is important to differentiate between Esteve's two businesses, one is the classic pharma business, and the other is the API business where we manufacture substances for many pharma companies, including all the top players across Asia, Europe and the Americas. While we will try to grow both of them, strategically, if we say that our goal is to become much more international, proprietary and a specialty pharma player, the goal should be to lean on the pharma business while maintaining a healthy API base.

Your company grew its footprint in Germany with the acquisition of Riemser in 2020. Can you explain how the investment plays into the strategy you have outlined?

The acquisition of Riemser in Germany and its affiliates in UK and France, is about making Esteve more international, having our own products and being a better specialty pharma player. This acquisition fulfils all of those ambitions; it makes us more international, gives us a proprietary business and a specialty pharma company with a significant hospital and niche business. We are leveraging this new product portfolio to venture into new geographies. We have just inaugurated our Portugal affiliate and are expecting to do the same in Italy very soon.

While Esteve now has a direct presence in Spain, Germany, France, the UK and Portugal, it had to partner with Kowa Pharmaceuticals to license its novel acute pain product in the United States. Does the move reflect a need to build your own team on the ground to cover the largest market in the world?

If we take a close look at the history of companies that are not US-based, we find that there is a price to pay to get into the United States, the largest pharma market in the world, it is a big undertaking.

In our case, Esteve wants to be realistic and this partnership with Kowa is the first step. Once we launch a product successfully, we will look at either doing a greenfield project or an acquisition to enter the US market; any global player must be there, but we must be realistic about how to enter.

Spain remains one of the top 5 European markets and one of the largest exporters of pharma products in the world. However, the country remains a few steps behind other European nations in terms of innovation output. How do you evaluate the advantages and disadvantages of being based in Spain?

After carefully considering all the circumstances, we are very pleased to be based in Spain. The country enjoys a strong historical relationship between academia, non-government institutions and publicly-funded organizations. There are many Spanish companies with bold collaborative projects with hospitals and universities which is extremely fruitful since they are in many cases the origins of breakthrough innovation. Spain has an extraordinary talent base from which to choose, as well as state-of-the-art universities.

On the flip side, the country still has some areas for improvement in terms of attracting international talent, for instance simplifying the tax set-up. Countries like Denmark or Portugal could be taken as an example of systems in which clear and aligned tax policies are leveraged to attract world-class knowledge.

In terms of Spain’s pharma market, having worked in different countries, I see it becoming much more European. Five or ten years ago the country had a unique profile but today it is more in line with markets in the region regarding reimbursement processes and regulations. Nevertheless, Spain is still lagging in approving innovation. I am optimistic but the ball, as they say, is in the authorities’ court.

In your vision, you stated a size target of EUR one billion. When do you foresee reaching this magnitude?

We are giving ourselves five years to reach that goal; the deciding factors will be our pipeline development and the inorganic opportunities we can come across. The EUR one billion mark is an aspiration, a direction, but not a strategy or an end in itself. It’s the reflection of the required scale to diversify our risks and be able to place strategic, diversified innovation bets while at the same time taking care of our shareholders, employees and the environment. But, for us, more important than the top line is the bottom line and the profitability: we want to achieve a 25 percent EBITDA margin (reaching around EUR 250 million in our vision), hence our continuous focus on profitable growth.

For me, the most important part has already been accomplished which is building a foundation from which to grow, divesting non-essential businesses and changing the entire internal structure; we are not a generics company anymore and know what we are good at. Looking at last year's numbers, we were coming in at around EUR 550 million in net revenue, but the most important thing is that we are now very close to 20 percent EBITDA margin. Our focus on profitable growth is paying off, and we are now closer to the financial sustainability we want in order to be an innovative company.

How large an impact did the COVID-19 pandemic have on Esteve's "change journey" and the overall industry?

The COVID-19 pandemic disrupted the pharma industry in three main areas. First, it hampered clinical trials because we could not go out and do site visits. Second, products that were about to be launched suffered significant setbacks because sales reps could not be in front of decision-makers. Third, many companies experienced severe disruptions in their manufacturing supply chains, struggling to receive raw materials from China and India, although Esteve was very fortunate and managed to not have a single day of delays.

However, there has been a rise in costs due to the increase in electricity and gas prices, and transportation costs. In order to avoid stopping our production, we had to switch from sea shipping to air cargo; we are talking about an increase of 20-30 percent of these items. However, making sure that we kept our commitments to our clients and patients (both in the Pharma and the API business) was our absolute priority, so that they all knew that, even in the toughest times, they can rely on Esteve.

More broadly, I think that the basis of the industry remains the same, it is a high-risk high-reward industry where you must go after innovation, taking chances on promising products that address unmet medical needs while knowing that a EUR 100 million investment can fail in phase III. You cannot go home and cry, you must get back up in the saddle. We will continue to see Big Pharma continuing to buy smaller pharma companies, and smaller players joining forces, sharing risk.

What has changed, however, is that both the public and authorities have a better appreciation for the role of our industry in helping the population be healthier. I still remember a time, when I was 12 years old when 9 out of 10 leukaemia patients would die; today, 9 out of 10 patients survive.

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