

**RECORDATI**

# **FT Global Pharmaceutical Conference**

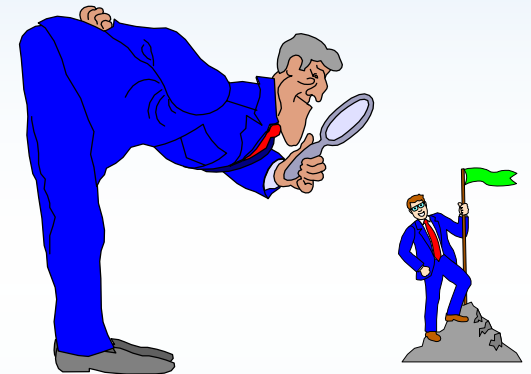
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Recordati S.p.A.- Italy**

# Mid Caps: A Growing Force in the Pharmaceutical Industry in an Environment of Considerable and Continuous Change

## Issues To Consider

1. Mid caps or Mid size
2. Common features and differentiating factors
3. Are mid size pharma just small scale big pharma, or a different animal altogether?
4. Is there a single winning formula for growth of mid size companies?



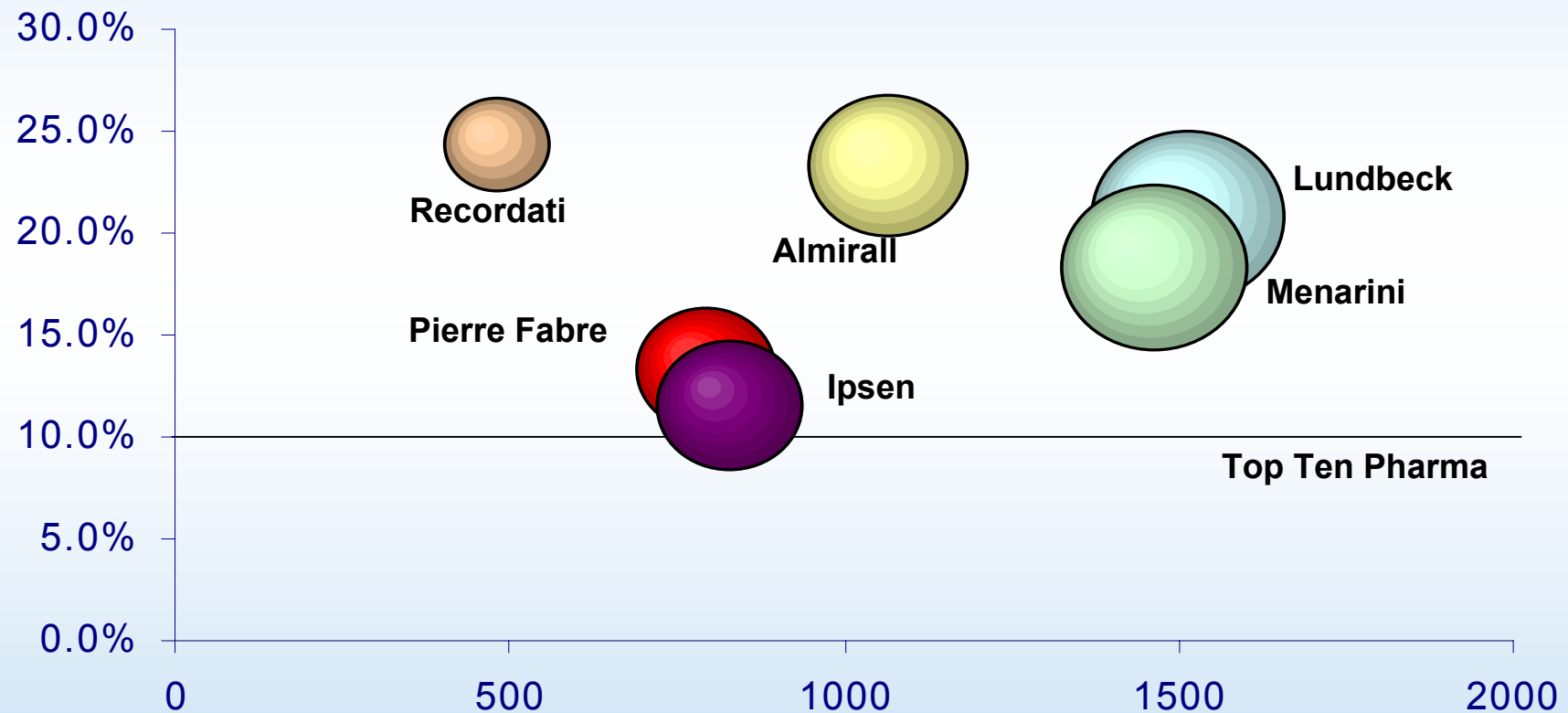
# Mid Size European Companies Are a Heterogeneous Group Coming From Different Backgrounds, Cultures and Management Styles



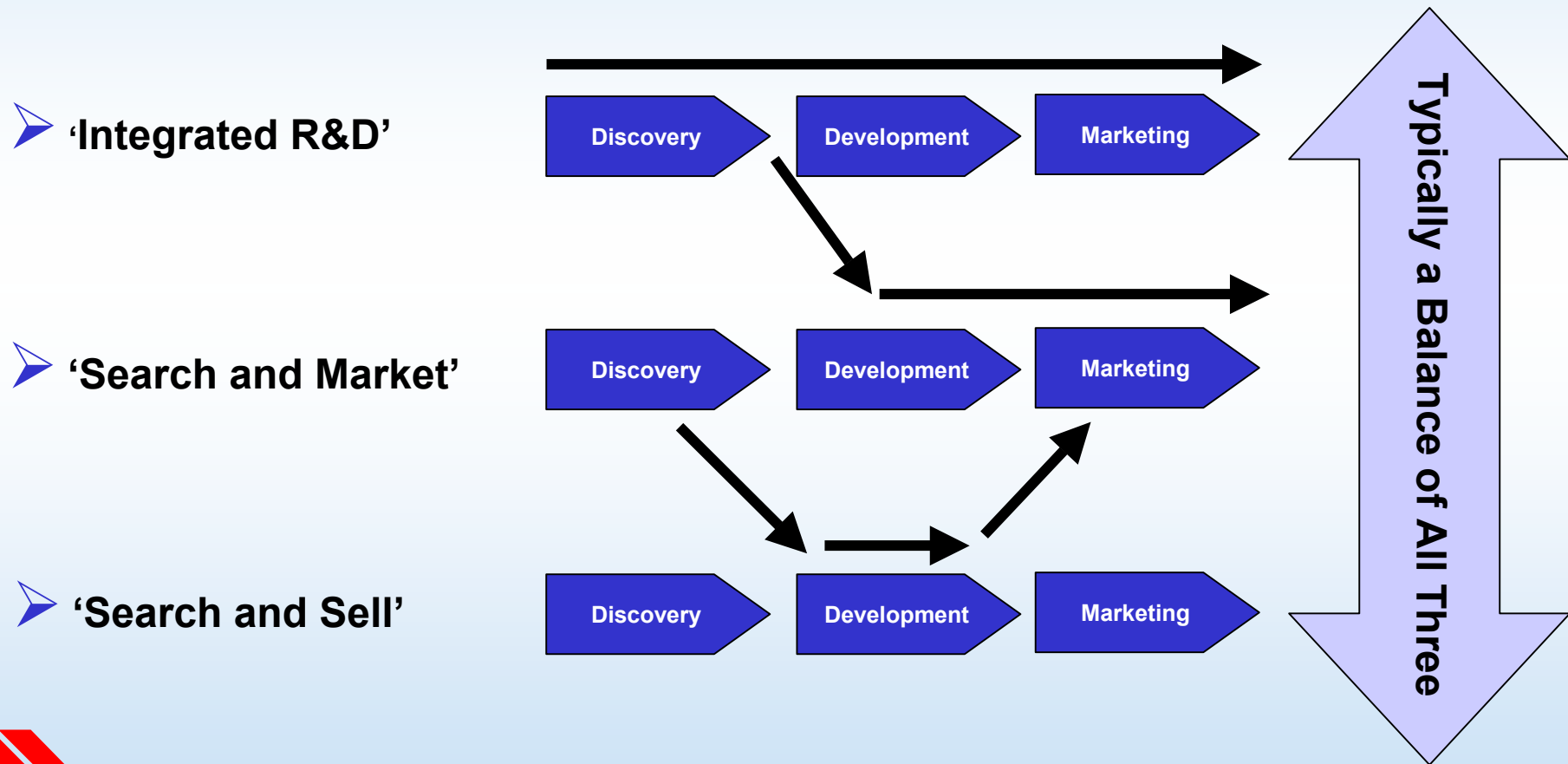
# Mid-Size Companies are Characterized by Unique Culture Smaller Management Teams, Lean Decision Making Processes and Flexible Strategic Goals Meaning They Can React Quickly to Market Changes



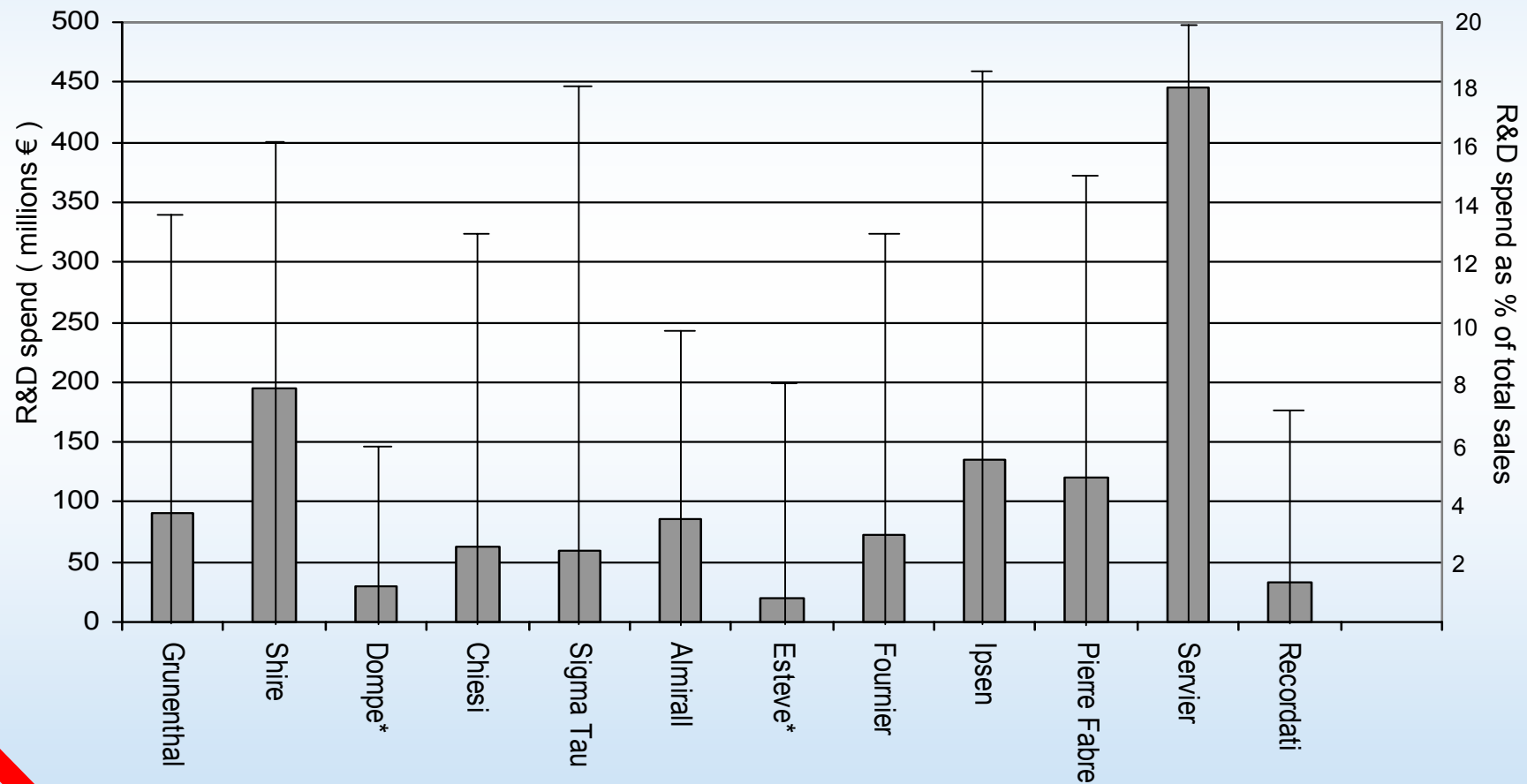
# In 2003 the European Pharmaceutical Market Was Worth \$120 Bn. Private Mid Size Companies Accounted for Some 8-10 % of Sales and Some Showed Growth in Excess of That of the Top 10 Pharmaceutical Companies



# The European 'Mid Size' Sector Is Heterogeneous in Its Approach to Portfolio Development. There Is No Single, Clear 'Winning Model' but the Most Successful Ones Underwent a Cultural Transformation



# 'In -House' R&D Establishes a Culture of Innovation and Value and Provides a Currency for Deal-making; Although Striking a Balance Between R&D and Business Development Is Critical for Survival and Growth



## **Deal Making Is a Critical Component of 'Mid Size' Pharma Strategy. Key Attributes Contribute to 'Added Value' Not Just Good Investor Relations!**

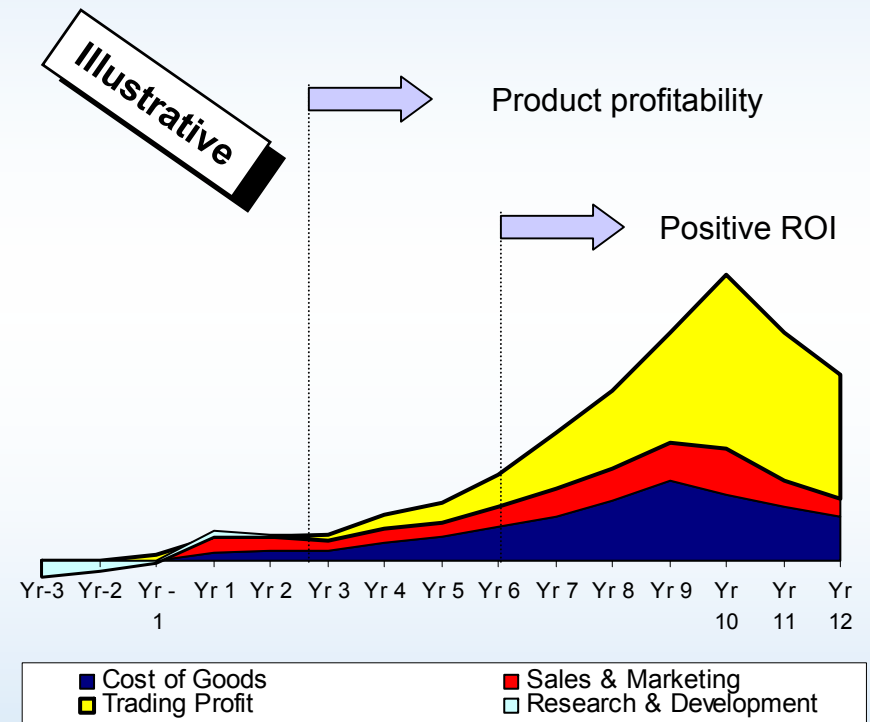
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- **Speed - less bureaucracy than Big Pharma, time equals money (or indeed survival)**
- **Flexibility in deal structure - may have more scope than Big Pharma to structure a deal that meets each partner's needs**
- **Commitment - less risk of internal products taking priority, greater commitment to the partner's product**
- **Product Size - not caught in the "blockbuster trap", can focus on products "below the radar" of Big Pharma, such opportunities are more numerous**
- **Partner Compatibility - small biotechs may find it less intimidating to deal with mid-sized company rather than Big Pharma, greater understanding of each other's needs**



# The Caveat Here is That Profit and Payback on Drugs Take Time! 'In House' Products Can Make an Earlier Positive Contribution to Earnings Which Can Be Invested in Growth of the Business

- The illustration opposite shows:
  - The lifecycle of a drug from 3 years before launch to decline in sales
  - Immediate sales contribution post-launch, however COGS and major investment in marketing mean that the product is not profitable for 3 years post launch.
  - Thereafter it is a further 3 years before ROI becomes positive
  - **Relatively unfavourable COGS (sometimes 40-50% !) of products plus royalty payments from licensing agreements can exacerbate the problem**



Source Wood Mackenzie

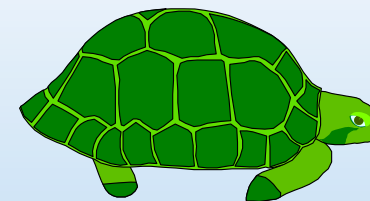
# The European Market Would Appear to Be Gloomy in Outlook ?

- Policymakers are implementing aggressive cost-containment measures and greater intervention in patient treatment that could put 25% of the pharmaceutical industry's sales in Europe at risk
  - Healthcare reforms
  - Pressure for affordable medicines from patients and politicians
- Growing strength of the generics companies
- Patent expiry of current blockbuster products
- Scarcity of new promising product
- Growing competition



# Europe's Deteriorating Competitiveness Threatens the Viability of Its Significant Mid Size Private Sector -

- The issues of competitiveness and innovation are of vital importance to all stakeholders in the European biopharmaceutical industry, including
  - Companies (e.g. research-based pharma, biotech, generics)
  - The European Commission
  - National governments and Health Ministries
  - Patients and their representatives
- Through a series of high-level initiatives, the European Union (EU) has responded to the apparent decline in the competitiveness of its pharmaceutical industry
  - In March 2001 the G10 Medicines Group was established by the European Commission
  - In May 2002 the G10 Medicines report was presented to the European Commission including a series of recommendations around the following broad themes
    - Benefits to patients
    - Developing a competitive European based industry
    - Strengthening the EU science base
    - Medicines in an enlarged Union
    - Member states learning from each other



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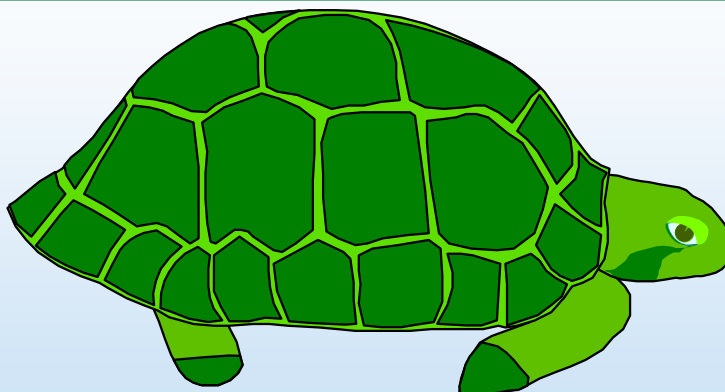
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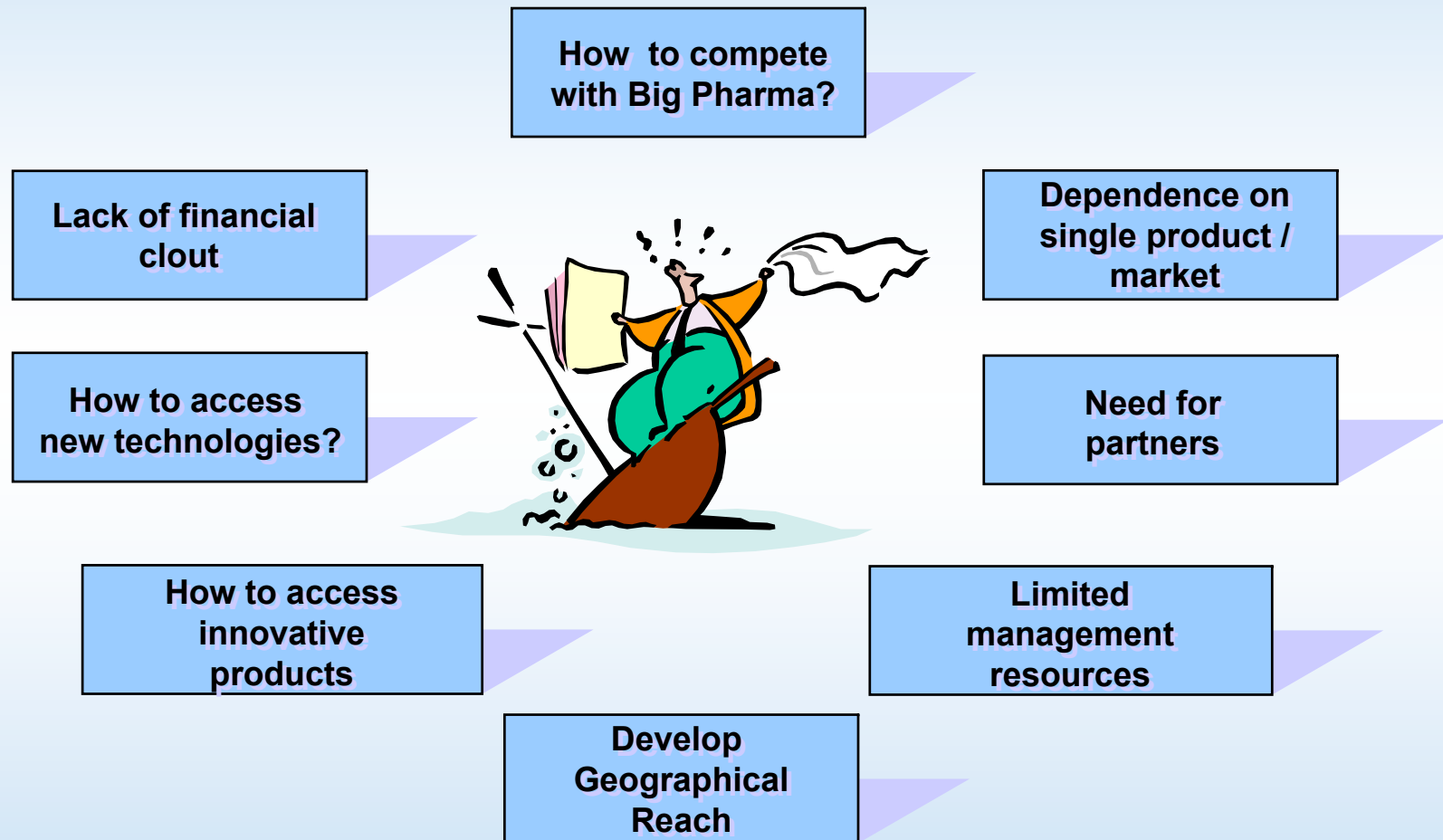
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- G10 Medicines Group established by the European Commission
- G10 Medicines Group makes recommendations around the following broad themes
  - Benefits to patients
  - Developing a competitive European based industry
  - Strengthening the EU science base
  - Medicines in an enlarged Union
  - Member states learning from each other

Issues of competitiveness and innovation are of vital importance to all stakeholders in the European biopharmaceutical industry



# It Is Clear That Mid Size Companies Face a Number of Challenges Based Around Scale and Financial Issues



# European Market - Potentially A Vibrant Sector for Mid Size Pharma !

- **Consolidation among Big Pharma provides increased opportunities for 'Mid Size' Pharma**
- **Does not need blockbusters to satisfy market**
- **Potential for significant growth with innovative products**
- **More strategic options than Big Pharma**
- **Provides a "home" for niche / specialty products**
- **Healthcare reforms make Europe a tough market place for those without 'local knowledge'**
- **Opportunities increasing from US companies who are deciding to wait on Europe**

