

KEYNOTE INTERVIEW

Pharmaceuticals: Where home advantage counts



Covid has highlighted the importance of growing national and regional pharmaceutical champions, says partner and head of healthcare at Nordic Capital Dr Raj Shah

Q What are the key trends you are seeing within the pharmaceuticals sector at this point in time?

One of the most significant trends that we are seeing is a recognition from national governments that they need to revisit their ability to deliver pharmaceutical products within the constraints of their own country, region or trading bloc. Some elements of globalisation within pharma will continue, certainly. But the emphasis placed on local delivery is only going to increase in the wake of the pandemic. Covid has underlined the fact that pharmaceuticals are essential products and that is going

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to lead to some important shifts within the industry.

Q Which subsectors within pharmaceuticals do you believe offer the most exciting opportunities given those underlying changes?

We focus on three areas: speciality pharma, whether that specialisation refers to drug delivery technologies or intellectual property; the branded generics space, as well as OTC medicine.

Nordic Capital has invested significantly around those trends historically and in the current portfolio.

Leo Pharma, for example, is a dermatology company with an innovative pipeline of products tackling atopic dermatitis, eczema and psoriasis, as well as an established branded portfolio of prescription medications addressing a host of dermatological needs.

Meanwhile, another of Nordic Capital's portfolio companies, Acino, is focused on providing Western quality branded products to emerging markets and Advanz Pharmaceuticals is focused on Western markets.

Q Are emerging markets the most interesting geographical play at the moment, then?

Certainly, emerging markets continue to offer high growth potential, particularly for branded speciality pharmaceuticals, and we are seeing that with Acino. But, depending on the product mix, Western Europe remains a really interesting area as well.

Q How competitive is the market, particularly in light of covid and its impact on this sector, and others?

There is no doubt that competition in this sector is heating up. We have seen that in some of the recent pharmaceuticals deals that have been completed, for instance Apax sale of Neuraxpharm to Permira last year, which according to media reports represented approximately \$1.9 billion and a high-teens multiple of core earnings. We have seen a great deal of excitement and activity around pharmaceutical platforms as well as OTC businesses.

Q How do you avoid the most hotly contested situations and the risk of overpaying?

It's certainly a competitive market and difficult to get deals done. However, what I would say is that Nordic Capital has been investing in pharmaceuticals since 1989 and we have been operating in this space for a long time and built up a strong know how and network in the industry. Some of Nordic Capital's first pharma investments were made in Meda, Biovitrum, Nycomed and in Biovitrum.

This track record allows us to benefit from longstanding networks with industry executives, and also provides us with early read on opportunities, be that product, company or pipeline. In that way, we are able to develop an investment thesis in advance of



Q What do you think the future holds for investment opportunities in the pharmaceuticals sector?

I think an interesting development will be this need to create local or regional champions in the industry, not just to deliver high impact, innovative therapies, but also to ensure the availability of very ordinary products. Cast your mind back to the beginning of the pandemic, and there were real concerns around access to basic medication and countries risked shortages because the manufacturing of those products had been entirely outsourced to low-cost countries.

Globalisation has been the dominant theme in recent years, and while I don't think the pendulum will swing away from global supply chains, national self-sufficiency will be prioritised. We are already seeing some of those discussions emerge in the context of vaccine rollouts. As a result, the pharmaceuticals industry will increasingly be deemed as strategically important.

competitive situations, or to try and secure deals outside of auction processes.

Acino and Advanz were both take-private transactions, while with Leo Pharma, there were a limited number of parties involved. In short, we try to leverage our network and Nordic Capital's longstanding position in the industry to avoid competitive situations.

Q Business transformation and value creation initiatives are obviously another way to mitigate high entry prices. What are some of the common levers that you employ in this sector?

It depends on which area of pharmaceuticals you are operating in, but typically there will be a degree of rationalisation of the product mix, both in terms of SKU rationalisation but also cost take-out in terms of moving to a contracted manufacturing model and sales force.

Evolving the go-to-market strategy is another way to add value in some cases. Nordic Capital also looks to invest behind innovation, as we are currently doing with Leo Pharma. Finally, an additional value creation lever involves accretive M&A – bringing in new products and expanding the strategy and scope of the business that you have bought.

Q What role is digitisation playing in this sector?

Digitisation is impacting both the back and front end of pharmaceutical companies. In terms of the back end, it is impacting the way that the portfolio company manages its contract manufacturers and supply chain. But it is also impacting the front end in terms of how it deals with our physician customers and patients, through digital marketing and sales channels.

Q The pharmaceuticals sales model seems to have been upended, evolving from an army of sales reps to a more nuanced KOL (key opinion leader) model. How has that influenced your portfolio companies?

Certainly, the time that sales reps have with healthcare professionals and prescribers has gone down significantly. That isn't simply because of covid – although obviously lockdowns and social distancing measures didn't help – but rather because sales strategies have become more nuanced, and data driven. Nordic Capital's pharma companies have responded to this change by upgrading their go-to-market and sales teams, as well as leveraging digital tools to access KOLs with the latest relevant information, be that research, data or the positioning of their products in relation to the competition.

Q Are there any other challenges you would associate with investment in pharmaceuticals when compared to other sectors?

One of the challenges with investment in pharmaceuticals is deciding how much clinical trial risk that you are willing to take. Improving go-to-market strategies and cost management strategies are a well-trodden path for private equity. Value creation strategies are something else that the asset class

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knows well. But clinical risk is an area which when correctly balanced in a portfolio of products can lead to huge rewards if you get it right. It can be hard to judge, and it requires a highly specialised approach and experience to assessing that risk which not every private equity firm is geared up for.

At Nordic Capital, we don't take binary clinical risk, but we are willing to look at clinical risk within the context of a broader cash generative product portfolio. For example, Leo Pharma has a large, established pharmaceutical portfolio that is underpinned by a strong brand and cash generation. Layered on top of that, however, there is

some clinical risk based upon a more innovative portfolio as well. Having a mix of profiles is a good way to mitigate clinical risk while still being exposed to some of the potential upside in these high growth areas.

Q How would you describe the exit environment, in terms of private equity, strategic and public market appetite and the subsequent returns that are on offer?

The exit environment appears to be robust right now. The strategic route continues to mature, and we are seeing strong appetite from private equity, as well as non-traditional capital providers such as family offices and sovereign wealth funds. We are also seeing a constructive capital market for public listings.

Q What other areas of healthcare do you deem to be particularly interesting?

Outside of pharmaceuticals, we consider healthcare technology to be of real interest. Nordic Capital has invested heavily in that space through ERT, which provides patient data collection solutions for use in clinical drug development; end-to-end drug development platform Aris Global and Cytel, a global provider of clinical trial design SaaS software, biometric services and advanced analytics, focused on optimising clinical trials and helping pharma companies unlock the full potential of their clinical and real-world data. In fact, the digitisation of clinical trials in all its forms is an area we believe has high growth potential.

We also continue to see interesting opportunities around healthcare services, particularly those focused on niche areas. Finally, I would add that there are areas within medical devices that provide high growth opportunities, particularly those focused on chronic care. ■