English translation

Interview Severin Schwan – Finanz und Wirtschaft – 19 September 2009

“Mixing cultures is exactly what we don’t want to do”

Roche CEO Severin Schwan on the takeover of Genentech, challenges in the pharmaceutical sector and dividend policy

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Severin Schwan was appointed Roche CEO in Spring 2008. The most important event in his first and half years as CEO has been the full takeover of Genentech. Recently Schwan has also made organisational and management changes in the Group’s Executive Committee.

by Andreas Meier

Recent months have seen you intensively involved in integrating Genentech and changing the management structure. How are you setting about “mixing” the two corporate cultures?

Mixing cultures is exactly what we don’t want to do. Quite the opposite: The integration of Genentech is on course because we’re making a very conscious effort to maintain its specific culture. That’s also why we’ll be continuing to run Genentech’s Research and Early Development as an independent centre. Innovation has a lot to do with the fact that we allow a diversity of approaches. At the same time, we’re merging late stage development, production and global marketing of our products in order to exploit Roche’s scale in these areas.

But diversity implies a trade-off in reduced efficiency. Do you accept this?

In research we not only accept diversity, we actually encourage it. If you’re forever telling people what to do, you shouldn’t be surprised if you don’t get innovation. Whenever I ask successful scientists about the crucial factors in their success, I always get the same answer: “My boss let me get on with it; I had the freedom I needed.”

Can you really call it innovation when an expensive drug like Tamiflu shortens flu by just 2 days?

Studies with Tamiflu have shown that it can massively decrease mortality in both normal flu and swine flu. We’ve just published new data showing that Tamiflu reduces mortality in high-risk patients with severe seasonal flu by 37% compared to untreated patients. So it’s not a matter of 2 days’ less flu but of saving human lives.

Are we getting our money’s worth with cancer drugs like Avastin that prolong life by a few months?

This raises a fundamental question, and one that can’t be reduced to figures: what’s a year of life worth? That’s a question that can only be answered on an individual

basis, not objectively. When a patient has a serious illness carrying the prospect of dying soon, and the doctor can prolong life by one year thanks to a drug, that year takes on a special value for the patient. An extra year of life has a completely different meaning, on the other hand, for a 20-year-old whose doctor advises him to exercise regularly if he wants to live longer. Our contribution is to develop drugs that prolong life and significantly enhance its quality. What that's worth to society, only society can decide.

But Roche has to negotiate that value with society, with politicians, when it comes to setting the price of such a drug.

Absolutely. If a drug prolongs life and significantly enhances the quality of life, then such benefits will also be reflected in a corresponding price. For us it's clear that we have to focus on developing drugs that really help patients – which brings us back to innovation.

But use of the life-prolonging cancer drug Avastin is precisely what the British National Health Service is refusing to approve. The NHS won't pay for Avastin treatments. How high a price tag can innovation have?

We're disappointed that the UK can't see its way to paying for Avastin. This is not in the patients' interests. But the decision is a political one. The British are out on a limb with this decision. Every other country in the world has decided otherwise. Innovation is not for free.

It's an exemplary conflict for the industry. Could the British example spawn imitators?

The British system is incredibly arithmetical and rigid. I can't see it setting a trend in its present form. I can illustrate this for you with the example of Herceptin. This medicine wasn't initially reimbursed for end-stage breast cancer patients in the UK, even though it was already becoming apparent that it could prolong life by years in early-stage patients. The authorities only gave way when patients took to the streets to demonstrate for the health funds to pay for their treatment.

Back to Genentech: What do you like about the company and what can Roche learn from it?

It was a very pleasant surprise for me to discover how closely attuned the two companies are in their strategy and orientation. But there are differences and we can learn a lot from each other. One feature of Genentech that has struck me in a very positive way is their clearly defined accountabilities. Once someone in the organisation knows they're responsible for a certain thing, they don't have to keep asking their boss – they can make decisions on their own. I like that a lot. Genentech also attaches great importance to increasing the number of women in management – we still have some ground to make up at Roche in this area. For their part, the Genentech colleagues, who've only had to compete in the US market until now, can benefit from Roche's international experience. Ever since it was founded Roche has had a global orientation and has enormous expertise in the registration and marketing of products in a whole range of markets. It's extremely exciting for Genentech people to now find themselves collaborating with colleagues in countries such as China, South Africa or Peru.

Genentech is also more successful. Almost all Roche's major revenue drivers come from the American company's research laboratory. Meanwhile it's taken the Basel research department ten long years to again bring a drug candidate into the final phase of clinical development.

Important drugs such as Pegasys and Xenical originated in Basel. Apart from these, there are products we out-licensed some years ago in the process of reorienting research activities and that now bring in substantial licence revenues. Basel Research also has a number of promising projects on which it's collaborating with other Roche research sites and external partners.

The heads of Research and Early Development at Genentech and Roche will be reporting to you directly in future. What are their terms of reference? Will they be competing with each other?

The idea here is to focus even more strongly on innovation. Both units have the same aim: to get clinically differentiated therapies off the ground. The mutual exchange of know-how and technologies is very important in this process. However both organisations are working independently of one another and have different ways of doing things.

Earlier you mentioned your surprise at how closely attuned Roche and Genentech are strategically. But are there in fact major differences in strategy between drug companies? Doesn't it always come down to the same thing: developing new drugs?

Differences are indeed starting to emerge. A small number of companies – we're one of them – are clearly focused on innovation. We're concentrating on our two core businesses, Pharma and Diagnostics. The combination of these areas puts us into a unique position because we can better tailor drugs to particular patient groups. This increases the efficacy of therapies and minimises side effects. By contrast, many of our competitors are pursuing a strategy of diversification. They're going into areas such as over-the-counter drugs, medical devices and generics.

Why is this focus so important to you?

The best tennis players in the world aren't necessarily the best football players and vice versa. For top performance you have to concentrate on one thing alone, right down the line. That goes for us too – it's not enough to be average.

Roche has long been talking about bringing Pharma and Diagnostics closer together, but nothing much seems to be happening.

There are already some examples: we're now able to optimise use of the hepatitis drug Pegasys by genetically diagnosing the hepatitis virus and monitoring viral load. This has improved treatment enormously in recent years. Or the breast cancer drug Herceptin is only effective in tumours expressing a certain protein. Thanks to modern tumour tissue diagnostics, we treat only patients who actually benefit from the drug.

Many other drug companies do the same thing without being directly involved in diagnostics.

That’s true, but we retain a big competitive edge because we can work together inside the company without restrictions throughout the development period, starting from early research. We don’t have to worry about patent issues or data confidentiality. To advance in this increasingly complex area, you need a lot of molecular biology know-how. That’s why it helps for us to be world leader in both biotechnology and in-vitro diagnostics. No other company is better positioned to drive forward personalised healthcare. And since the takeover of Genentech, the researchers in San Francisco are now also benefiting from direct access to our diagnostics know-how.

The flip side to Roche’s great success is that its growth rate must almost inevitably fall because of the sheer size and dominance of the cancer drugs. In addition, new Avastin indications account for around half of all phase III projects.

We have one of the strongest pipelines in the industry. Avastin still has enormous potential. Today it’s already approved for five cancers. Its mechanism of action gives us reason to believe that it will also help in other cancers. Apart from important new oncology products, we’re also working on promising drugs in the areas of inflammatory disease and metabolism. We currently have ten completely new molecular entities in the late development phase – that’s unique in the industry. In early development we’re advancing into new territories. For example, we’re working on new approaches to the treatment of schizophrenia or Alzheimer’s.

What are the major challenges?

The biggest challenge is to continuously replenish our pipeline. That’s the key to long-term success. At the same time we have to keep a grip on our costs and continually adapt our structures and processes – pressure in the healthcare system is bound to increase.

Investor scepticism over pharmaceutical stocks is high. Market trends over the last ten years have been underwhelming, including for Roche. The sector benefited very little from the global economic boom between 2004 and mid-2007. Instead, political pressure is increasing on health costs, and hence on drug prices. Healthcare reform is the buzz word in the USA. What are the prospects for investors today?

Political pressure has increased. And as always when pressure increases, there will be companies succeeding and failing. As long as the pressure stays low, anyone gets on board. In the next few years the successful companies will be those that consistently focus on medical benefit for patients and innovation.

And Roche counts itself among the successful companies.

Yes, we have what it takes to stay at the top.

Roche has had to take on substantial debt to fund the full takeover of Genentech. What effect does that have on dividend policy for the next few years?

We said in early 2008 that we’ll be continuously increasing the payout ratio over the next three years. And we’ll be sticking to that.