



CASE STUDY

Innovation at its Core

PROCAPS: Encapsulating High Quality, Safety and Trust in Softgel Medications that Reach People in Over 50 Countries

FEBRUARY 2019

ABOUT IFC

IFC—a sister organization of the World Bank and member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work with more than 2,000 businesses worldwide, using our capital, expertise, and influence to create markets and opportunities in the toughest areas of the world. In FY18, we delivered more than \$23 billion in long-term financing for developing countries, leveraging the power of the private sector to help end poverty and boost shared prosperity

ABOUT THE CASE STUDY

Expanding access to quality and affordable healthcare is a central element to eliminating extreme poverty and promoting shared prosperity. The World Bank Group has a goal to end preventable deaths and disability through Universal Health Coverage (UHC). In many developing countries, governments do not have the capacity to serve the entire population and private healthcare providers often play a critical role in meeting societal needs. IFC is developing case studies that demonstrate the ability of the private sector toward achieving global and national healthcare goals. Through a focus on efficiency and innovation, certain business models can provide better outcomes at a lower overall cost to society.

WRITTEN BY

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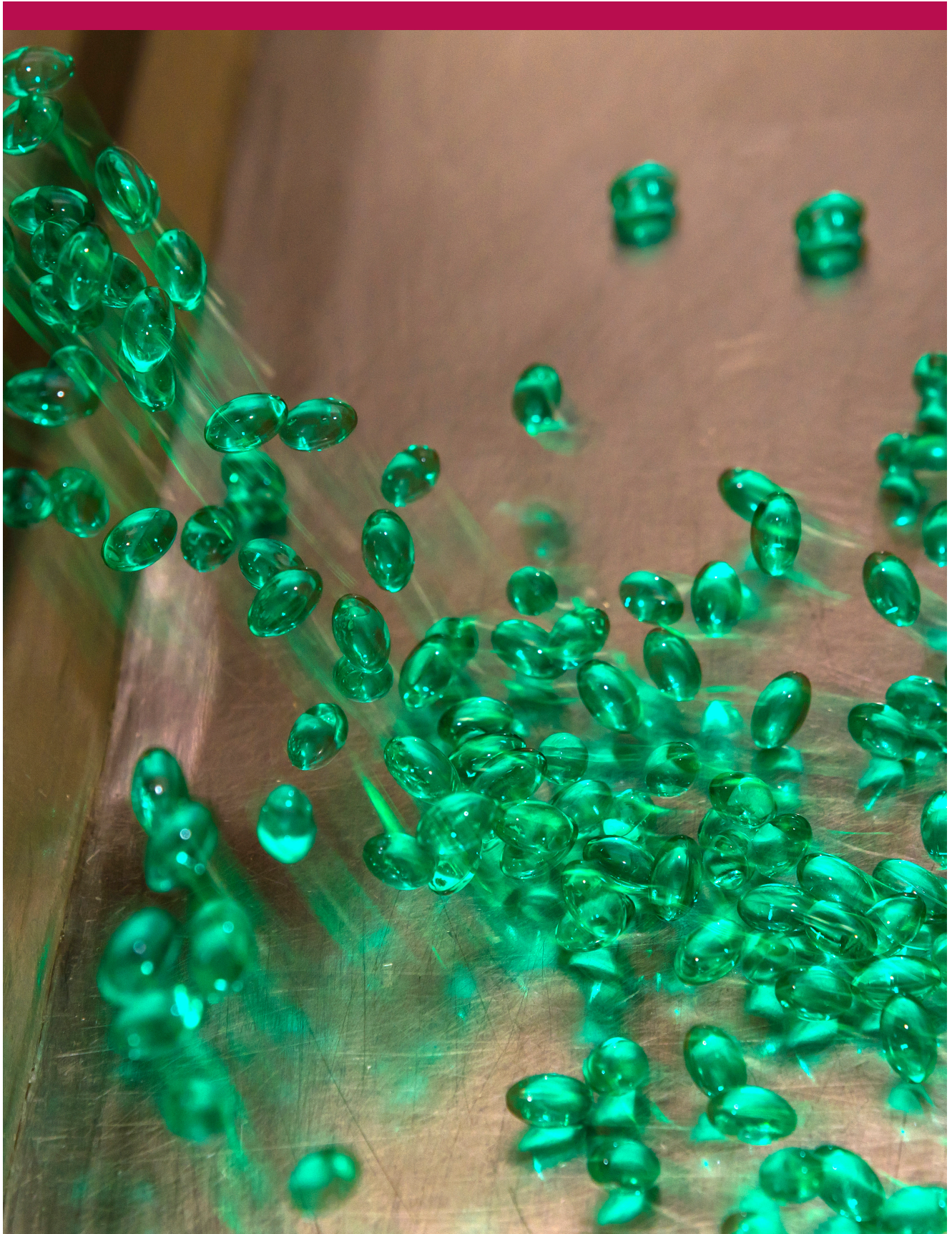
PHOTOS

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PROCAPS holds the patent for inserting Non-Steroidal Anti-Inflammatory Drugs (NSAID) into softgels and it is the exclusive manufacturer of Pfizer's Advil Liqui-Gels in Latin America.

Bringing Advanced Medicine Delivery Systems to Latin America

Ruben Minski was excited when he first thought about the potential of a humble, soft gelatin (softgel) capsule. It was 1975, and Ruben was visiting a client in the U.K. who was interested in purchasing gelatin from his family's factory in Barranquilla, Colombia.

Ruben remembers that eventful meeting, when a little vitamin pill changed the course of his family's business, "I fell in love with these softgels—the shape, the color, the transparency, the taste, and the capabilities." Ruben was a young entrepreneur with a vision. "I believed that this would be the future of oral drug delivery systems because the dosage was very precise, and it provides an enjoyable experience for consumers. Importantly, because the manufacturing process is complex, it is very hard to counterfeit and offers greater security for patients."

In the mid-seventies, there were no softgel capsules in South America. In the U.S. and U.K., they were used for nutritional supplements, such as lecithin and cod liver oil. Ruben, who had recently returned to Colombia from studying chemical engineering in the United States, had been thinking about ways to integrate his family's business product, gelatin, into a new value chain. He had finally found it. "Soon after that trip, we entered into a partnership with P. Leiner & Sons (the U.K. client), and they shared some basic know-how with us," he added.

In the 1930's, Ruben Minski's father, Abraham, fled Nazi Germany and resettled in Barranquilla, Colombia, where Abraham's uncle, Enrique, lived. Together they founded a tannery (leather production) business, continuing a long-standing family tradition. Ruben's father wanted to find a way to extract value from the gelatinous substance that was found in a layer beneath the skin of the hide. For the tannery, this was a by-product. By the 1960's, the Minski family had found use for it and established a gelatin plant.

Fifteen years later, the partnership with P. Leiner & Sons opened the door to a new chapter in the family business. The gelatin became the main ingredient in softgel capsules. Having the gelatin facility ensured that it would reap the benefits of vertical integration from its start.

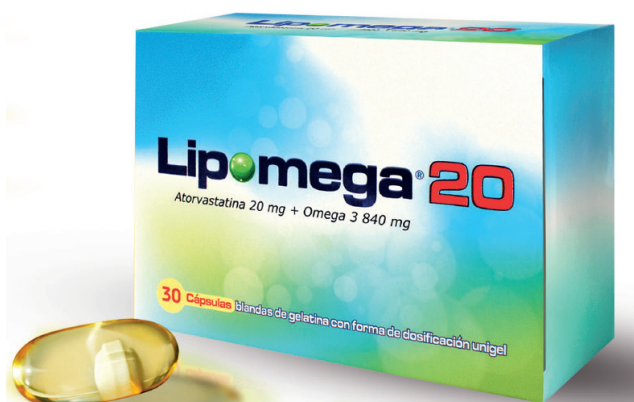
In 1976, Ruben founded PROCAPS with the belief that he could capitalize on an untapped business opportunity. PROCAPS was the first pharmaceutical in the world to incorporate prescription drugs into softgel capsules. It developed the concept, integrated the formulation, manufactured, marketed and commercialized the new technology. Ruben said, "Our first order was for 200 bottles of Tetracycline soft gelatin capsules, a generic antibiotic in Colombia. For our first order, I was actively involved in the entire process from conceptualization to manually packaging the capsules."



PROCAPS was the first pharmaceutical in the world to incorporate prescription drugs into softgel capsules.

Ruben Minski
Founder and CEO, PROCAPS

Ruben's innovation was a major step forward for patient safety. At the time of this innovation, twenty percent of prescription drugs sold in tablet form in Latin American was counterfeit. Since softgel capsules require a high level of technology and sophisticated equipment, the manufacturing process is very difficult to reproduce. This was an important selling point for doctors who wanted to be sure that their patients were not taking fake drugs. As a result, the sales of PROCAPS prescription softgel capsules grew quickly.



Many of PROCAP's prescription medications are treatments serving aging people. Its products treat widespread chronic and life-threatening diseases.

Today, PROCAPS, a brand owned by UNIMED Pharmaceuticals Ltd., is a privately held global pharmaceutical group with over 35 subsidiaries. It is the largest emerging-markets-based softgel capsule manufacturer in the world, and the fourth-largest producer by capacity. It can manufacture 11 billion softgel capsules per year and produces for some of the world's largest pharmaceutical companies and for private retail labels. It has an extensive portfolio of its own brands.

PROCAPS develops, manufactures and sells prescription drugs and over-the-counter products that are

differentiated by their combinations and pharmaceutical forms, as well as nutritional supplements, such as omega 3 fish oils and high-potency clinical compounds. It has a portfolio of over 1,300 finished formulations, representing more than 2,100 SKUs in 12 different pharmaceutical forms¹. About 42 percent of all PROCAPS products are softgel capsules.

PROCAPS' products are developed to improve the consumer experience. Since the outer shell is pliable, softgels are easier to swallow than tablets, and this is especially helpful to older consumers who often struggle taking tablets. As a result, many of PROCAP's prescription medications are treatments serving aging people. Its products treat widespread chronic and life-threatening diseases. PROCAPS medications cover nine therapeutic areas and address about 67 different disease profiles including cardiology, dermatology, gastroenterology, endocrinology, neurology, oncology, ophthalmology, respiratory and women's health.

In addition to convenience, high-quality has been a priority for the company. In 2009, PROCAPS became the first Latin American pharmaceutical company to have a drug approved by the U.S. Food and Drug Administration (FDA). The high-quality endorsement opened the door for its products to be exported to the US market and led to contracts with major pharmaceutical companies.

PROCAPS skills in research and development positioned it to secure the U.S. patent for incorporating Non-Steroidal Anti-Inflammatory Drugs (NSAID) into softgels, and it is the exclusive manufacturer of Pfizer's Advil (Ibuprofen) Liqui-Gel product line for the Latin American market. It holds 25 patents and has filed 52 patent applications around the world, giving PROCAPS a global reputation as an innovator.

Over the course of 40 years, PROCAPS has manufactured over 150 billion softgel capsules. The products it produces for multinational pharmaceutical companies reach people in over 50 countries. For its own branded products, it has

¹ The different pharmaceutical forms include tablets, hard capsules, syrups, suspensions, chewables, gummies, creams, ointments, drops, emulsions, injectables and powders.



Since the outer shell is pliable, softgels are easier to swallow than tablets and this is especially helpful to older consumers who often struggle taking tablets.

grown to have a regional presence in 13 countries in Latin America. The company has six production facilities in Colombia, Brazil, and El Salvador.

To deliver on its quality of service promise, PROCAPS relies on over 5,000 employees across 15 countries to develop, manufacture and distribute its products. It employs high-skilled personnel. Its in-house research and development department has more than 70 scientists and technicians, of which more than 25 percent have master's degrees and PhDs. Fifty percent of its staff are women, including the Vice President for Corporate Affairs and the Vice President of Compliance.

PROCAPS estimates that in 2018, it earned about US\$400 million in gross revenues. Over the last five years, revenues experienced a Compounded Annual Growth Rate (CAGR) of approximately 10 percent while the EBITDA margin grew at a CAGR of 16.6 percent. Key

growth drivers include the development of innovative health solutions that have responded to the needs of an aging population, an increase in communicable diseases, an increased awareness in health and wellbeing in society and growing universal health coverage.

In September 2017, IFC played a catalytic role in its growth with a US\$90 million equity investment to increase production capacity, invest in new softgel technologies, and continue to broaden its portfolio of products. Relief is greatly needed in a region, where, according to "The Big Pharma Project," more than 700,000 people die each year in Latin America due to the lack of access to affordable medicines. Quality generics are often difficult to access or are unavailable in the region, and inefficient supply chains drive up costs for both patented and generic products. IFC's investment aims to address this problem.



PROCAPS products respond to doctor's needs, and 50 percent of sales in Colombia are generated by physicians.

Convenience Sells— The PROCAPS Business Model

DIFFERENTIATION

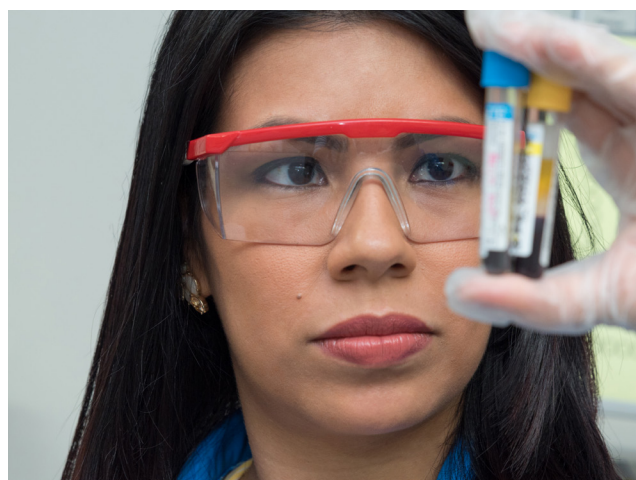
In the early days, PROCAPS began innovating by taking top-selling drugs that were in tablet form, developing a new formulation, and transforming the medicine into a new softgel capsule format. PROCAPS approached multinational companies to breathe new life into products with plateauing sales. At that time, it was not easy to convince big pharma companies to outsource to an emerging provider in Colombia, but when Ruben highlighted the important benefits of this innovative oral delivery system, it caught their attention. Ultimately, the newly differentiated technology proved that patients would buy products that offered greater convenience.

MARKET SEGMENTATION

As the business grew, PROCAPS created five Strategic Business Units (SBUs), each of which has a specialized product portfolio that caters to the needs of different client segments and distribution channels. Today, the product mix is about 470 products for third parties, and about 850 products for PROCAPS' brands.

1. The *Softigel SBU* provides specialized Contract Drug Development and Manufacturing (CDMO) services. PROCAPS is the largest CDMO in Latin America and does business with 12 out of the top 20 global pharmaceutical companies. It helps clients bring products to their markets faster by providing a range of services from product development to final product delivery. About 70 percent of this SBU's products are softgel capsules.
2. The *"Farma" SBU* offers formulation differentiated products for doctors under PROCAPS own brands, and about 40 percent of the prescription drug portfolio in this SBU are in softgel format. The overall drug portfolio targets the 9 fastest growing

therapeutic areas but in Colombia, PROCAPS has gained significant market share in five of the nine therapeutic areas at the expense of multinationals. PROCAPS representatives visit over 25,000 doctors a month in the 13 countries where it has a presence.



PROCAPS is very good at identifying what doctors, patients and consumers want, and they are highly skilled at creating innovative new products that meet those needs and can generate demand.

3. The *Vital Care SBU* makes consumer healthcare products including OTCs, vitamins (including gummies for children), and nutritional supplements. It has an extensive portfolio of generic medicines. Consumers purchase these products directly at pharmacies and retail locations.
4. The *Clinical Specialties SBU* sells high-complexity therapeutic drugs and injectables used in critical care in hospitals and clinics. The portfolio of products includes oncology, anti-infectious drugs,



In 2009 PROCAPS became the first pharmaceutical in Latin America to receive US FDA approval for its softgel format Progesterone, a female reproductive hormone.

immunosuppressant drugs, anticoagulants, and high complexity analgesics. It also includes Baxter's fluid systems and Rymco's single use injectable products.

5. The *Diabetrics SBU* was launched in 2015 and provides a one-stop-shop for diabetes management including prescription drugs, insulin delivery systems, health supplements, glucose meters, and telemonitoring. The vision is to prevent the disease by monitoring and managing it. This SBU has grown rapidly since its launch and in 2018 it contributed about 5 percent of total revenues.

TARGET MARKET

The Softigel business unit caters to large multinational pharmaceutical companies, while all the other SBU's market and distribute PROCAPS branded products to doctors, hospitals and pharmacies across Latin America. Since the products respond to doctors' needs, 50 percent

of sales in Colombia are generated by physicians, while the balance is sold at the retail point of sale.

QUALITY

Since 1999, PROCAPS has sought to create a culture anchored in very high-quality standards. It obtained ISO 9001 and 14000 certifications as well as current Good Manufacturing Practices (cGMP) certifications from the Colombian National Institute of Food and Drug Monitoring, certifying the safety and efficacy of its products.

After a decade of preparations, in 2009, PROCAPS' facilities were inspected by the FDA and were found to be in compliance with cGMP. In 2012, PROCAPS became the first pharmaceutical company in Latin America to receive FDA approval for a new prescription drug, Progesterone, a female reproductive hormone, in softgel capsule format. This approval enabled PROCAPS to sell Progesterone in

the US market. Standards in Latin America at that time were lower than FDA requirements, thus this was a major accomplishment. No other Latin American pharmaceutical company had previously developed a drug for sale in the US market.

Obtaining FDA approval was a turning point for PROCAPS. This important endorsement by one of the world's premiere global certification bodies propelled growth. The FDA approval gave a high level of confidence to multinationals, doctors and patients that PROCAPS had very good quality products.

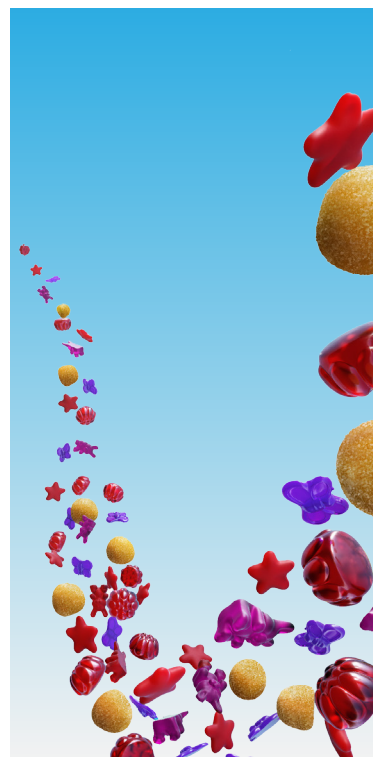
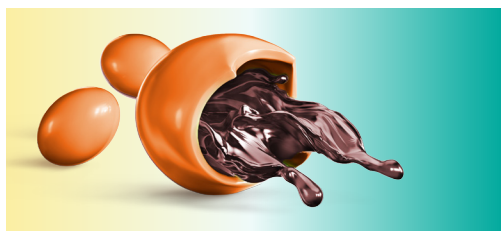
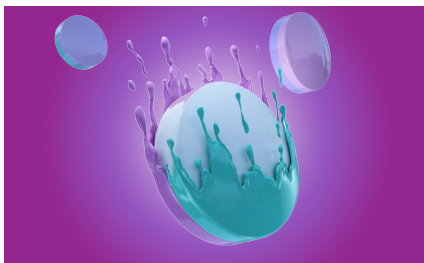
Following the FDA approval, PROCAPS experienced growth in long-term relationships with major multinational companies such as Abbott, Akorn, Bagó, Bayer, GlaxoSmithKline, Merck, Pfizer, Roemers, Sanofi-Aventis, Teva, Wellnext and Valeant. PROCAPS has since obtained (independently and with partners) five FDA

Abbreviated New Drug Application (ANDA) approvals for generic prescription drugs. A few examples of drugs manufactured by PROCAPS that are sold in the United States includes prescription medicines that address the effects of cancer chemotherapy (Dronabinol), drugs that prevent ischemic deficits (Nimodipine), and drugs that control severe psoriasis and cutaneous lymphoma through oral medication and photochemotherapy (Methoxsalen). PROCAPS went on to obtain quality approvals from other national bodies which today includes the European Union, Canada, Argentina, Brazil, Australia, Mexico, and the United Arab Emirates. It is also Halal certified.

INNOVATION

Since the early days, Ruben strived to make PROCAPS an innovative company. His drive to create new products and successfully commercialize them is a defining element of the company's culture and is key to its success.

PROCAPS brings innovation, differentiation and value to patients and doctors through its proprietary technology that includes eight advanced delivery systems.



PROCAPS has created a participative culture aimed at discovering new markets, identifying unspoken needs, and generating new products that leverage its specialized technologies.



One popular UNIGEL pharmaceutical product that addresses cardiovascular disease integrates statins (prescription drugs that reduce fats in the blood) with High Concentration Omega 3s (prescription strength fish oils that help reduce blood pressure) in a single pill.

PROCAPS is very good at identifying what doctors, patients and consumers want, and they are highly skilled at creating innovative new products that meet those needs and can generate demand. PROCAPS has established close relationships with the medical, scientific and academic communities to complement its research and development processes and it also shares its knowledge with these groups. Adolfo Llinas, Chief Medical Officer of the Fundación Santa Fe de Bogotá explains, “The network of physicians in Colombia has built a trust relationship with PROCAPS aimed at jointly addressing health challenges by developing innovative products.”

Having identified the needs, PROCAPS leverages its in-house human capital and its specialized technology to create new and differentiated products that are targeted to different market segments. It invests in its people and in continuously expanding its knowledge. It also learns from the market.

Because of the company's focus on innovation, PROCAPS has earned a reputation as an innovator that actively contributes to solving health challenges. Recently, the National Association of Colombian Industry recognized PROCAPS as the third most innovative company in the country. It highlighted PROCAPS' dynamic processes to identify innovative opportunities, its capacity to commercialize new and comprehensive health solutions, and its work in fostering a culture of continuous learning. This type of public recognition continues to motivate PROCAPS in its mission to achieve a healthier world.

RESEARCH AND DEVELOPMENT

Softgel capsule production requires special machinery, technical expertise and know-how in designing and producing medication. Ruben explains, “One thing is to make a softgel capsule, but it is far more difficult to make an excellent delivery system.” Today, PROCAPS brings innovation, differentiation and value to patients and doctors in more sophisticated ways by offering proprietary technology that includes eight advanced delivery systems.

In addition to softgel capsules, PROCAPS has developed other patented technologies. “G-TABS” is a technology that coats hard tablets with a colored gelatin cover that protects the pill from tampering and aids with swallowing.

UNIGEL

In 2011, PROCAPS pioneered a breakthrough development for fixed dose combinations. It developed, patented and was the first to market “UNIGEL,” a unique polypill technology—a pill containing several medicines that all treat the same condition. UNIGEL that incorporates other delivery systems such as tablets, smaller soft gelatin capsules, microgranules, or pellets into a single, larger softgel capsule. It can also incorporate slow release medications on different schedules. The technology allows for multiple ingredients, some of which are not chemically compatible in other formats, to co-exist inside one capsule.

One popular UNIGEL pharmaceutical product that addresses cardiovascular disease integrates statins (prescription drugs that reduce fats in the blood) with High Concentration Omega 3s (prescription strength fish oils that help reduce blood pressure) in a single pill. UNIGEL technology promotes greater convenience and avoids mistakes. It helps patients, particularly older ones, who may forget if they have taken a second pill or mistakenly take an extra dose. As consumers find convenience, they have started to develop loyalty towards the product. The single dose promotes greater patient compliance, especially for regimens that include multi-therapy combinations, which pleases doctors. Another important benefit is that prescription UNIGELS can be sold at prices 30 percent less than other prescription polypill competitors.

UNIGEL has many applications including nutritional supplements, such as prenatal vitamins for expectant

mothers. These pills support the healthy development of babies and protect them from birth defects.

The UNIGEL technology is the most important recent patent for PROCAPS and is expected to have the greatest impact. The technology is already patented in Colombia, the United States, the European Union, Japan and Korea and it is pending approval in 13 additional countries.

Products associated with this patented technology are already being commercialized in Colombia, Australia and the United States. By 2022, PROCAPS estimates that 10 percent of total sales and 15 percent of the Company's revenues will come from the commercialization of the products associated with UNIGEL technology.

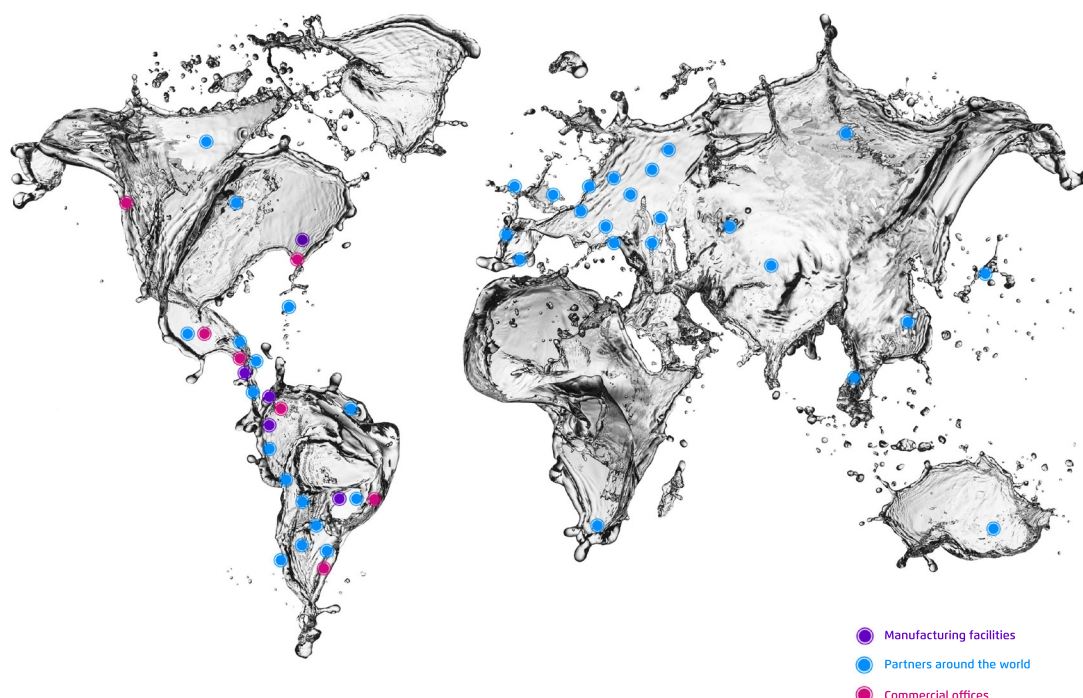
FUTURE OF DRUGS

It is estimated that about 60 percent of new drugs that are in the development pipelines of large multinational companies worldwide are highly insoluble drugs. Because

In addition to raising the quality standards in acquired plants, PROCAPS tripled capacity and expanded the product line. The increased quality standards will position it to export to new markets such as Mexico.



FIGURE 1: PROCAPS GLOBAL FOOTPRINT



the ingredients do not easily dissolve, manufacturers will need to choose between a liquid or a softgel capsule. Since softgel capsules are hermetically sealed, they provide multiple advantages including safety (tamperproof), accuracy of fill ingredients and precise dosages, greater stability of active ingredients, sanitation to protect against commonly found environmental contaminants such as bacteria, yeast or mold, and drug effectiveness. PROCAPS is poised to get a share of the new drugs under development by innovators.

INTERNATIONAL EXPANSION AND GROWTH

PROCAPS has adopted a multi-pronged approach to growth that includes accessing global distribution across more than 50 countries through its CDMO business. It also achieved growth organically, particularly for distribution in Latin America and through acquisitions that have increased its capacity and broadened the portfolio of products. The map above shows the reach of PROCAPS's global footprint.

ORGANIC GROWTH

While organic growth started in Colombia, in 1991 Ruben was approached with a partnership opportunity to sell its products in the Dominican Republic. This first foray abroad proved that consumers were accepting product innovation and was successful. The positive experience led the company to open its own marketing and distribution offices and expand to other nearby countries in South America.

One country at a time, Ruben identified a local partner and established a presence. PROCAPS grew by creating networks of distribution platforms for its own branded products. It began to generate its own demand through retailers, doctors and hospitals. Where it was not efficient to have its own logistics, it outsourced to distributors, but most of the distribution platforms belong to PROCAPS. Today sales of PROCAPS brands encompass Colombia and 12 other countries in Latin America, and combined it represents about 88 percent of revenues.

In 1997, PROCAPS entered into a partnership to organically establish Softcaps, another CDMO softgel capsule manufacturing plant in Brazil, the largest market in South America. Softcaps increased capacity, introduced new technology and specialized capabilities in controlled release dosage forms and high potency products. In 2007, PROCAPS acquired 100 percent interest in Softcaps.

ACQUISITIONS

In 2014, PROCAPS embarked on a strategy of growth through acquisitions. In Central America, PROCAPS already had distribution networks, but the acquisitions of Laboratorios Lopez (2014), an important OTC manufacturer, and Biokemical (2015) in El Salvador brought instant market access. Laboratorios Lopez added a portfolio of leading brands for about 100 products including OTC tablets, creams, syrups, and hard-shell gelatin capsules and treatments for chronic conditions such as kidney failure and hemodynamic disorders. Through the Laboratorios Lopez salesforce, PROCAPS was able to launch many more of its own products in El Salvador, Guatemala, Nicaragua, and Honduras. The deals generated healthy revenues.

Before the acquisition, Biokemical was purchasing internationally large amounts of finished softgel products for its portfolio of about 15 softshell gelatin products. PROCAPS shifted this supply to Colombia to leverage economies of scale. It consolidated the administration, closed product lines that were not economically viable and increased production in Colombia for the Central American market.

Laboratorios Lopez was in compliance with the Central American Technical Regulation for the pharmaceutical industry, but PROCAPS wanted to raise the bar. It implemented international manufacturing, such as ISO 9001 and cGMP. In addition to raising the quality standards, PROCAPS tripled capacity and expanded the product line. The increased quality standards will position it to export to new markets, such as Mexico. The merger created a launchpad for expanding the product line and cross selling products across Central America, with greater scale driving higher efficiency.



PROCAPS' vertical integration and end-to-end solutions helps clients get their products to market quickly and cost efficiently.

The Central American market is a main growth driver for the Farma and Vital Care business units. In 2011, less than 3 percent of PROCAPS sales came from Central America; however, by 2018, it was more than 20 percent and is expected to grow further in the future.

EXPANSION SUCCESS FACTORS

Key success factors included (1) ripe markets, (2) a national registration process that allowed PROCAPS to register and launch products cost effectively, (3) successfully obtaining the buy-in of local doctors and the broader medical community, and (4) ability to exert influence given its strong reputation and strategic location in the region.

MANUFACTURING

As a result of these expansion efforts, PROCAPS currently has six production facilities in four countries - Colombia (two in Barranquilla and two in Bogota), Brazil, and El Salvador. PROCAPS decided it was more efficient to manufacture softgel capsules in Colombia and Brazil, because the product development expertise and the high capex equipment were based there. It kept hard gelatin capsules, tablets, syrups, creams, and powders production in El Salvador, while also adding production in Colombia.



The engineering set up allows PROCAPS to produce three times the average volume in one production run while reducing gelatin wastage.

WHITE GLOVE, END-TO-END SERVICES

PROCAPS is a vertically integrated company that offers end-to-end solutions across the value chain for its clients. Its supply chain capabilities begin with the production of its own high-quality gelatin extracted from the raw material. This enables PROCAPS to consistently provide uniform quality gelatin that exceeds the most rigorous international quality requirements. Since it designs and builds its own equipment at the manufacturing plant, it can quickly adapt and re-tool the machinery to custom orders.

Its in-house Product Development Services (PDS) provides clients with a full range of services, including concept creation, early stage feasibility assessment, product development, pre-clinical and clinical trials, regulatory filings and support, manufacturing, packaging, labeling, sales and marketing, export, customs clearance and delivery of the final product to client warehouses across the globe. In addition, PROCAPS provides training for

product managers and sales teams, marketing outlines, dossiers for product marketing submission, and provides product samples. Some retail clients seeking to launch private label product lines use PROCAPS' sales and marketing infrastructure to launch and market products in Latin America.

Having control over the entire value chain ensures high levels of quality and innovation, promotes cost efficiency, and yields more flexibility compared with competitors. This white glove treatment allows PROCAPS to deliver a high-quality level of service to its clients.

COMPETITIVE ADVANTAGES

PROCAPS key strengths are its ability to develop innovative formulations that combine active ingredients in a softgel capsule. Over 40 years, PROCAPS gained deep knowledge of the gelatin itself, while competitors had limited experience with this product. Ruben explains, "We could design products using our know-how about

the gelatin, which was an important differentiating factor.” PROCAPS has strong capabilities in research, product development, project execution, and quality management.

Further, its nimbleness and speed to market are key success factors. If a major multinational comes to PROCAPS with an idea, decision making is very rapid, compared to larger organizations. In addition, it can retool machinery to convert a drawing concept to manufactured product very rapidly. Pushpinder Bindra, IFC’s Life Sciences Specialist figures “PROCAPS may have the shortest timeline from concept to market in the world.” There are only about three or four softgel capsule manufacturers in the world with the scale of PROCAPS. “Generally, for products in Latin America, PROCAPS can get an idea to shelf in about 12 months. For highly regulated markets, such as the U.S., the E.U., and Japan the timetable is about 18 months,” he added.

In the 1990’s, PROCAPS made improvements that significantly increased its production capacity. The engineering set up allows PROCAPS to produce three times the average volume in one production run while reducing gelatin waste. The manufacturing set-up has helped drive down costs, allowing the company to set prices in Latin America 10 to 15 percent lower than multinationals. Furthermore, operating costs in Colombia are lower than in the United States and Europe. There are many very good universities in Colombia and good quality, highly skilled labor is available. Since the cost of living is lower, labor is less expensive. PROCAPS can price products in Latin America competitively.

PRICING

PROCAPS pricing strategy varies by product. Generally, softgels are a differentiated product with a premium price positioning. For instance, for proven products that have been reformulated into a softgel capsule format to extend

In 2018, about 88 percent of revenues were from Latin America.



the life of the product, prices will usually be higher to reflect the added value. In contrast, generics average ten to 15 percent below the originator's price. While it could charge a premium over other branded and non-branded generics, PROCAPS normally prices below the originator's products.

PROCAPS sells to Colombian hospitals under the Universal Health Coverage Program, which generates regular demand. The government of Colombia has instituted price controls over drugs and production efficiencies help PROCAPS keep prices below those limits.

REVENUES

PROCAPS estimates it earned over US\$400 million in gross revenues in 2018 with an EBITDA margin of about 21 percent. Revenues are diversified across different subsidiaries, different regions and different classes of products. All the business units have contributed to healthy growth. All are estimated to have contributed to the revenues as follows; Farma, 35 percent, Softigel, 26 percent, Vital Care, 21 percent, Clinical Specialties, 13 percent and Diabetrics, five percent.

Specialty prescription drugs and OTC's were responsible for about US\$255 million in revenues. The top-selling products that were sold in the Latin American market by each business unit were Isoface for Farma, Advil Liqui-Gels for Softigel, Artibryon y Esomeprazol for Vital Care, Clenox for Clinical Specialties, and Glucoquick for Diabetrics. Diabetrics and vitamin gummies products have been growing most rapidly.

About 88 percent of revenues were from Latin America, and the balance was from the rest of the world. Colombia is the fourth largest economy in Latin America, and sales in its home market are an important driver of revenues for the company. PROCAPS estimates that the Colombian market accounted for about 45 percent of revenues in 2018, while the other Latin American countries accounted for about 43 percent of revenues. Softigel's CDMO business contracts are based in U.S. dollars, offering protection against currency risk and improving business stability.

“PROCAPS may have the shortest timeline from concept to market in the world. Generally, for products in Latin America, PROCAPS can get an idea to shelf in about 12 months. For highly regulated markets, such as the U.S., the E.U., and Japan the timetable is about 18 months.”

Pushpinder Bindra
IFC’s Life Sciences Specialist





“Without access to public markets to finance additional growth, PROCAPS is competing on one leg. But a prerequisite to access public markets is to formalize its corporate governance, and IFC is helping.” Alejandro Weinstein, PROCAPS Shareholder

Increasing Competitiveness through Stronger Governance

Over four decades, the Minski family reinvested company proceeds to stimulate growth. To continue generating double-digit growth, the company needed to raise capital from others. Eventually, future growth may require access to public capital markets. Some of PROCAPS competitors in the US and Indian markets are public companies with solid access to finance. According to Alejandro Weinstein, a successful pharma entrepreneur, private investor and shareholder in the company, "without access to public markets to finance additional growth, PROCAPS is competing on one leg. But a prerequisite to access public markets is to formalize its corporate governance."

NEW BOARD

In 2018, PROCAPS sought to strengthen governance through development of its corporate structure. In late 2017, investments from IFC and Alejandro Weinstein shifted the ownership structure from a completely family-owned business to a family-controlled company. A formalized, seven-member board of directors was established in 2018 to comply with IFC requirements. Two of the directors are independent and have expertise relevant for the growth of the company.

As PROCAPS implements corporate governance policies and procedures, IFC is helping it increase transparency and establish controls. The company has developed consolidated financial statements at the holding company level. The board created oversight committees that report to it, including an audit and risk committee, an inter-party-related transaction committee, and a dividends committee. It is also preparing a compensation policy for executives. These measures are further integrating and institutionalizing the company, while laying the groundwork for an eventual Initial Public Offering (IPO).

SIMPLIFICATION

The governance process has triggered reflection about streamlining and simplifying the corporate structure, which includes more than 35 subsidiaries. Consolidation is challenging, because governments grant regulatory authorizations for both the drug that is being approved and the company submitting the application. Notwithstanding, consolidation would enhance the company's competitiveness which could promote greater efficiencies, optimize the cost structure, simplify processes, increase agility and transparency, and bring the company more in line with governance standards of larger corporations.

As PROCAPS reorganizes the corporate structure, it is also strengthening specific business lines and establishing management vice presidencies that will be responsible for product development, quality assurance and profitability.

Ruben reflects on IFC's help with adopting international standards for corporate governance and business management. "We have been learning a lot about compliance, governability, and the transition from family company to a structured company with an independent board of directors," he said. "It has been a huge learning process that has been extremely valuable."

Alejandro Weinstein adds, "IFC is also a pro-business institution that is not just a passive investor. It brings its expertise such as with corporate governance, to help to improve the areas that need strengthening and it celebrates the good things that the company is doing."



"The partnership with IFC will help PROCAPS expand our reach to even more patients in the region." Ruben Minski

The Role of IFC

As PROCAPS pondered alternatives for financing future growth, Ruben approached IFC through Roberto Albisetti, then the Country Director in Colombia. Ruben inquired about another IFC pharmaceutical investment in Colombia and wanted to learn more about IFC's value proposition and the dynamic of having IFC as a shareholder. The more they explored the possibilities, the more Ruben was sure IFC would be a good partner for PROCAPS.

Ruben reflects, "PROCAPS was interested in working with IFC because it is a multilateral institution that is respected around the world. The fact that IFC would think of us as partners and that it was the largest pharmaceutical equity investment that IFC has ever made in one company is a huge honor for us."

In September 2017, IFC took a US\$90 million-dollar equity stake in PROCAPS to help with international expansion and development of new businesses and investments. Ruben added, "This partnership with IFC will help us expand our reach to even more patients in the region."

IFC was interested in doing business with PROCAPS because the funding will help the company increase access to quality, affordable products. Funding will help PROCAPS increase production capacity and efficiency of its manufacturing plants, acquire new brands and increase its headroom for mergers and acquisitions.

The investment fits within IFC's broader strategy of improving the supply of high-quality medical products in developing countries by helping manufacturers and distributors grow and enter new markets. Further, the investment will help achieve the United Nations Sustainable Development Goals by reducing premature mortality from non-communicable diseases such as cardiovascular disease, cancer and diabetes, through prevention and treatment.



Ruben Minski's eventful visit to his client outside London forty-two years ago sparked an entrepreneurial vision that changed the way people take medicine.

Conclusion

Ruben Minski's eventful visit to his client outside London forty-two years ago sparked an entrepreneurial vision that changed the way people take medicine. As the first company to introduce the world to prescription medications in a soft gelatin capsule, it made medicine safer with a form that is more accurately filled, and less vulnerable to counterfeiting.

PROCAPS was the first pharmaceutical manufacturer to produce progesterone in gelcap form, a drug that was difficult to formulate. Its approval by the US FDA signaled to the world that PROCAPS was committed to quality. With its latest innovation, UNIGEL, and its research and development efforts on future gelatin delivery systems, patients can continue to reap the benefits of advanced technology that is easier to swallow, while promoting better compliance with the prescribed regime, at lower costs.

PROCAPS success comes from investments in talent and cultivation of a culture that encourages innovation and differentiation. Its products bring convenience to patients and consumers and creates loyalty that increases demand. As PROCAPS embarks upon the next chapter of its growth, it will continue to improve the quality of life for millions of people around the world, but especially for aging people in Latin America who have struggled to get good quality medications at affordable prices.



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