

CASE STUDY

Neolpharma



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Introduction

In the pharmaceutical industry around the world, a noteworthy kind of company is stepping onto the global stage. These are energetic, innovative family businesses launched in emerging economies. They often begin as manufacturers of low-cost medications and build their capabilities until they can expand beyond their home countries. One such company, well known in Mexico, is Grupo Neolpharma. It began as a maker of low-cost, generic medications for central nervous system (CNS) ailments, such as Parkinson's disease, epilepsy, migraines, schizophrenia, depression, and anxiety. Its primary customer at first was Mexico's public health system, which gave it a solid revenue stream. Then it branched out into different forms of manufacturing, including the manufacturing of active pharmaceutical ingredients (APIs) used by other pharmaceutical companies. Now it is competing through process and product innovation and geographic expansion.

Companies like this tend to practice what former General Electric CEO Jack Welch once called "planful opportunism." They follow long-term goals in a determined but flexible way, and take advantage of chances to grow wherever they find them. Another such company is [Granules of India](#), whose [IFC case study](#) told the story of expansion into U.S. manufacturing. Neolpharma is on a similar growth path, with a more multifaceted approach. It is expanding into other countries, upgrading its manufacturing processes, innovating its practices, introducing new medications, and potentially moving into providing vaccines for COVID-19 and other widespread diseases.

The company's financing with IFC, which took place in 2021 as a \$30 million loan package including \$15 million concessional financing from the Canada-IFC Blended Climate Finance Program, is structured to build a long-term working relationship. The \$30 million investment includes a climate change mitigation component, setting a best-practice standard for the Mexican pharmaceutical market. There were facilities' projects involved, such as a new plant for making injectable products like vaccines. But there was also a recognition of the need for sustainable, flexible financing. For example, Neolpharma is partnering with local research institutions such as [Autonomous University of Queretaro](#) to explore possibilities in patenting new products. It is also developing forms of industrial manufacturing with a low carbon footprint. Both of these endeavors, and others, could require sudden needs for financing that are not always possible to foresee. Both Neolpharma and IFC are interested in demonstrating that a small, family-owned company can become technologically sophisticated enough to compete meaningfully in the complex global life sciences industry.

Mexico is considered an upper-middle-income country, but it has wide disparities in standards of living, an aging population, and an increasing incidence of chronic diseases. This has motivated Neolpharma to build a business model focused on the development and manufacturing of high-quality, low-cost medicines for the low- to middle-income population. The company is engaged in



different segments across the pharma value chain, with companies such as NeolSyM for the production of APIs, and Neolpharma, [Psicofarma](#), and Alharma for the manufacturing of finished formulations in high-specialty areas such as the central nervous system and cardiology. With the exception of BioGenTec, each segment has its own manufacturing facilities that are integrated together in common management. The family that owns Neolpharma, the Ocampos of Mexico City, is now entering its second generation of executive leadership. Efrén Ocampo López acquired the company in 1991 when it was still a small producer of mental health-oriented prescription products. He has overseen an expansion to a US\$200 million company with more than 2,400 employees. His three children are executives in the organization.

The Ocampos share a dedication to innovation and to the ongoing discipline required in fostering patient safety coupled with a certain modesty when it comes to marketing and promotion. Though the Neolpharma companies devote much of their resources to various forms of social responsibility, they do not turn it into a sales pitch. They run a website [Contigo en Mente](#), or “With You in Mind,” that offers general advice on a wide range of health issues, such as migraines, anxiety, insomnia, and depression. A second sponsored site, called [“Mentalizarte,”](#) is produced by the Ramón de la Fuente Muñiz National Institute of Psychiatry. Illustrated with cartoons and friendly to adolescents, it addresses serious mental health-related challenges people face, such as managing eating disorders or being locked down with a family during Covid-19.

The goal of both sites is to reduce patient risk better information about conditions and treatments, and to provide necessary mental health resources. This type of social responsibility fits into the company’s broader goal of growing an international, sustainable business, while contributing meaningfully to people’s abilities to survive and thrive despite the stresses of this very challenging time in history.

We Interviewed Three Company Leaders and One IFC Investment Officer



Efrén Ocampo López is the Founder and CEO of Grupo Neolpharma and Director General of its subsidiaries.



Diego Antonio Ocampo Gutiérrez de Velasco is the Director of Innovation at Neolpharma.



Luz Astrea Ocampo Gutiérrez de Velasco is Vice President for commercial strategy and new business at Neolpharma. As a lawyer, she also oversees the legal and regulatory departments.



Alonso Gomez is an investment officer at IFC, based in Bogota, Colombia. He covers the health and education sectors in Colombia, Central America, and the Caribbean.



Lessons from Neolpharma's Story



Orient the family business around long-term growth: Develop practices and capabilities that can carry you forward indefinitely.



Support long-term growth by focusing on product quality: Compete not just on price, but on the reliability, safety, and efficacy of your products.



Build a practice of continuous innovation: Grow through careful R&D investment and well-coordinated alliances.



Align product lines with public service: Focus on the welfare of your customers and patients.



Embed flexibility in the company's culture: Use the family culture's informality and can-do attitude to set a proactive pace of work.



Neolpharma at a Glance

Years in Business	Efrén Ocampo López acquired a small pharmaceuticals distribution company called Pego in 1988, and then Psicofarma, a manufacturer of drugs for the central nervous system, in 1990. He combined them and relaunched the company as Neolpharma in 2004.
Revenues	Around US\$5 million in 2018.
Business Model	Neolpharma is a pharmaceuticals manufacturing, distribution, and commercialization business, with 256 registered products in Mexico, more than 1,000 offerings, and more than 300 forms of dosage. It has operations across the value chain. About half of its revenues come from products sold to the Mexican public health system, for which it is the second-largest pharmaceutical supplier in terms of units sold. The other half comes from pharmaceuticals and ingredients sold in the private market. Its products are for middle- and low-income populations. As one of the main producers of medication for central nervous system diseases (CNS) and as a producer of low-cost, high-quality generic prescription drugs, Neolpharma holds a 25 percent market share in terms of volume sold for all CNS pharmaceuticals in Mexico.
Website	<p>The Grupo Neolpharma (www.neolpharma.com) overall website has sections related to products, services, production, and social responsibility.</p> <p>There are also individual websites for some branded subsidiaries: Alharma Laboratorios (www.laboratoriosalharma.com.mx) NeolSyM (www.neolsym.com.mx) Psicofarma (www.psicofarma.com.mx)</p>
Corporate Governance	Grupo Neolpharma is one of a few vertical integrated pharmaceutical companies in emerging markets, with subsidiary companies such as NeolSyM for production of APIs; Neolpharma, Psicofarma, and Alharma for production of finished formulations focused on branded and unbranded generics in high-specialty therapeutic areas; Pego for distribution; and the Mexico City pharmacy Pharma Club.
Investment History	One IFC loan package for \$30 million committed in 2021.
Social and Environmental Results	Neolpharma is actively engaged in climate change mitigation projects. All manufacturing facilities have water treatment plants and responsible treatment of hazardous waste. Ongoing are efforts to include waste heat recovery and cogeneration, rooftop solar photovoltaics, and green (ISO 14002) certification. The company actively supports education and mental health through scholarships, prizes, institutional donations, and recently, the provision of computer equipment for students during Covid-19 school lockdowns.
Workforce	2,400 employees, mostly in manufacturing. About 40 percent of the staff are women.
Geographic Footprint	With the headquarters in Mexico City, Neolpharma has seven manufacturing sites: five in the Mexico City metropolitan area, one in Toluca and one in Caguas, Puerto Rico. It also maintains four R&D sites in Mexico City. The company has expanded its sales to Belize, Chile, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Panama, Peru, and the United States (exports from Puerto Rico). It is also starting commercial development in Portugal and Spain.

Lesson 1: Orient the Family Business Around Long-Term Growth

Neolpharma has exhibited steady, profitable growth since its start. This was established through a number of strategic decisions, starting with the expansion of the product line beyond central nervous system-related medications. Founder Efrén Ocampo López was committed to creating a business that would survive into future generations and that would meet the changing needs of consumers in his country. As an economist and demographer by training, he saw that the country's population would get older on average, leading to a growing need for drugs to treat chronic illnesses. This far-sighted way of setting goals comes across in quotes from Efrén and his daughter, vice president Luz Astrea Ocampo Gutiérrez de Velasco:

► **Efrén:** *I had been thinking a long time about becoming an entrepreneur. I wasn't in medicine; I was working in the university and for the government, as an analyst and demographic researcher. I saw that the pharmaceutical industry would be an attractive place to build a business.*

Soon after we combined with Psicofarma, a distributor explained how we could expand our volume by selling to private healthcare companies. This added volume was very important, and it reassured our government customers that our production capacity would continue.

Each time we needed to expand, we found a way to do it. Then, after about 10 years, we began to introduce new production technologies, and then to expand internationally. For example, we thought it would be good to open a business in the United States. At an industry meeting in Europe, I heard that Pfizer was selling some factories in Puerto Rico. Our negotiations took about two years, and Pfizer helped the plant

succeed by becoming a customer for contract manufacturing. For us, this was a very big jump.

► **Astrea:** *(My father is) a very persistent and remarkable man; he doesn't get tired. It's in the way he educated us and brought us up. To keep growing, and for us to find new goals, we needed to continually build. We did this first in terms of improving the technology in our facilities. Now we are focusing on new healthcare solutions, including electronic apps, that can help patients improve their quality of life. We also hope to build our business in highly regulated markets like the U.S., Canada, and Europe.*

From the perspective of an investment organization like IFC, the long-term ambition of a family business gives the company credibility. It also allows for the kind of ongoing relationship where funders like IFC and operational companies like Neolpharma can develop new capabilities together. IFC's Alonso Gomez explains:

► **Alonso:** *We are very excited about partnering with companies like Neolpharma. They don't just look for financing. They see IFC as a long-term strategic partner that can help the company in its internationalization process, in establishing a solid corporate governance, in bringing best practices in environmental and social, among other strategic matters, with the aim to have a sustainable, high social impact in the population that they serve.*

This is also a family-owned company that has grown very fast—from just a few people at the start to more than 2,000 in the last few years. Now it wants to scale up across Latin America and in other markets. And they see IFC as a good partner to help them.

Lesson 2: Support Long-Term Growth by Focusing on Product Quality

Like many companies in emerging economies, Neolpharma found itself competing not just on price, but on the reliability, safety, and efficacy of its products. In pharmaceuticals and life sciences products, quality is particularly critical. This meant upgrading and improving its facilities, and seeking higher-quality suppliers.

One further move toward quality production occurred after Neolpharma acquired the factories in Puerto Rico and had to meet manufacturing quality standards for the U.S. Food and Drug Administration. This served as a forcing function; the company brought the same production standards back to its Mexico facilities. Continuous improvement and technological advances became a way of life.

Luz Astrea Ocampo Gutiérrez de Velasco and Diego Ocampo Gutiérrez de Velasco describe the effect this had on the company's practices:

▶ **Astrea:** *From the beginning, we had a pursuit for excellence at the highest quality standards. But we had to build this from scratch. It involved finding the correct ways and the correct alliances. Even now, every single day, you find new practices. You never achieve perfect quality because you're always looking for more.*

▶ **Diego:** *When the company started, regulatory standards were not as well developed as they are today. The type of testing required back then was minimal. They basically required us to declare the*

general formula of the product and to state that the product was complying with quality.

Gradually, the Mexican government also made its regulations stricter. For example, in 2001, the Mexican Food and Drug Administration became a separate agency. Our approach to quality evolved along with the government's.

We have had a constant renewal of our capacities in all aspects. We had to hire people with stronger backgrounds in science. We needed to acquire more technology for analytical testing and had to go to third-party organizations to conduct bioequivalence and clinical studies done in people. As we grew, we had to implement international quality standards as well.

All of this emboldened us to expand further. In 2013, we opened our Puerto Rico facility, which required an upgrade in manufacturing processes. Instead of trying to expand in Latin America only, we would try to reach into more highly regulated markets as well.

We still needed to keep costs low to remain competitive. But we were now looking at where we wanted to be next. It was complicated, because quality manufacturing depends on having rigorous, process-oriented operations. We began to transform our corporate culture so that our mindset would align with high standards, and our people would live by the necessary procedures.



Lesson 3: Build a Practice of Continuous Innovation

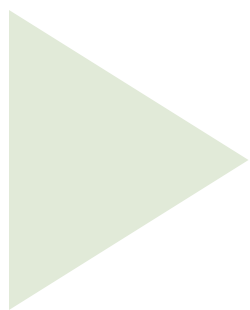
Neolpharma is one of a few emerging-economy companies that have made innovation their core strategy. With their laboratories and process refinements, they have steadily increased the range of products they make, including injectables. This enables them to produce vaccines in Latin America. They have become more skilled at innovation through partnership with university pharmaceutical research departments and with other companies. This allows Neolpharma to make the most out of its talent and external relationships and to develop a level of consistent innovation that is very unusual, particularly in Latin America.

Innovation is not just a matter of new products and process improvement. It also involves organizational practices like marketing and customer service. Efrén Ocampo López explains the importance of innovation to Neolpharma's purpose.

► **Efrén:** *I've been studying Mexican epidemiology and demographics. The percentage of 50-year-olds and older is growing very fast. We need more medications for chronic degenerative diseases, cardiometabolic conditions, pain, and oncology. We are putting in a serious effort to modernize our offerings, including importing drugs from South Korea and Europe.*

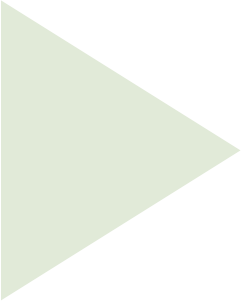
We have always been innovative, but this level of innovation requires administrative and infrastructural changes: new governance, new forms of testing, and new research efforts. We already have one patent, related to oncology. We are working with researchers on nanoparticles to introduce potential brain-oriented molecules. We are also looking for new ways to produce active pharmaceutical ingredients. We are looking to the future.

► **Alonso:** *APIs are the critical raw ingredients needed to manufacture effective and safe essential medicines, and their production is highly concentrated in a few countries, including China, India, and Italy. The rest of the world depends on imports. The API landscape has been undergoing significant changes in the last three years, mainly driven by China due to (i) a shift in the country's focus from APIs to very high-value biopharma medicines, and (ii) shutting down of API capacities due to incremental investment required to meet the revised environmental guidelines (estimated 150 manufacturers closed). This led to further shortages of key APIs and a resultant substantial increase in API prices, ranging from 20 to 400 percent in U.S. dollar terms across various therapeutic areas, thus increasing the*



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—Efrén Ocampo López




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—Efrén Ocampo López

burden of healthcare cost. This situation also demonstrates the vulnerabilities caused by highly concentrated supply chains for key medical products. So, it is very important to develop API production capacity in other countries, especially in emerging markets. We are helping Neolpharma identify which APIs make sense to produce in Mexico, to bring to export to other markets, and also which to sell in Mexico. And they’re very interested in getting support from us. So, I think it’s a great story of a partnership and a strategic long-term relationship.

The planful opportunism of Neolpharma’s innovation strategy involves multifaceted investment, including alliances with academic researchers. In their pursuit of peer-reviewed publications or patents, university-based scientists don’t always recognize the potential commercial value of their work and don’t always have the resources to conduct clinical trials. Neolpharma can help in these ways. Director of Innovation Diego Ocampo Gutiérrez de Velasco talks in more depth about the rationale:



Diego: *We ask ourselves, what’s the worst that could happen if a project fails to yield a profitable product? We still learn a lot. We develop more*

capabilities, which we may need for future pandemics and outbreaks. You never know when the next one is coming.

Neolpharma is not the size of Big Pharma, so we are trying to capitalize on knowledge that already exists, working with academic researchers to help bring their ideas to market.

Our first patent, Transkrip, is a novel combination of two molecules: hydralazine and magnesium valproate. The researchers saw, first with animal experiments, that they could reduce tumors. We helped with clinical trials and bringing it to the market.

We are also refining our capability to develop and manufacture vaccines. Right now, we could produce between 400,000 and 800,000 vaccines per month, depending on the dose. We allow vaccine researchers to work with our equipment and collaborate with our people in biotech and regulatory affairs. This is not just about health; it’s also a national security issue.

We’re also testing new possibilities for CNS illnesses. We’re trying to make the best of the capabilities in our company and the country at large.

Lesson 4: Align Product Lines with Public Service

The ethic of service has been instilled in Grupo Neolpharma since its beginning. The company invests in patient outreach, is a leader in environmental practices, and supports employees through professional development. Luz Astrea Ocampo Gutiérrez de Velasco and Diego Ocampo Gutiérrez de Velasco explain how the public service ethic translates into everyday practice.

▶ **Astrea:** *Companies need to be mindful. Respect for the environment and for people are becoming more ingrained into the DNA of some companies, including this one. We have to allow people opportunities for professional development and time with their families. I now see the core purpose of Neolpharma as at least threefold. We provide health solutions at affordable prices. We provide individual employees with a path that develops them not only as professionals, but as human beings. And we provide society with the gains possible from our products.*

▶ **Diego:** *We're very low profile. We don't seek to brand ourselves as doing good. But we are devoted to social responsibility in terms of health, environmental impact, and education. This is as much related to the family as to the company.*

One of the things that brought us to IFC was the way the credit is structured, requiring us to invest in cleaner energy and reduce our CO2 emissions. This is also part of our core strategy. Every year, we have a reforestation day, in which employees and their families join us to plant trees. We're also trying to align ourselves with the 2030 UN goals for sustainability. This is not about getting

investor or public support; we're not in the stock exchange. It's more about the culture we want to create inside the company.

The leaders of Neolpharma have invested particular effort in outreach to people suffering depression and anxiety, which in many cultures is often covered up or ignored. In the aftermath of Covid-19, with many people suffering traumatic experiences including mass hospitalization and the loss of loved ones, the need for better public mental health resources is high among Neolpharma's priorities. Astrea explains:

▶ **Astrea:** *The need for mental health services has grown during the pandemic. People sometimes believe that they should have the right attitude and smile, and it will go away. But the suicide rate is growing. Many of the people affected are younger people. Moreover, here in Mexico, we don't have a very efficient government mental help hotline for people to call.*

So we started two websites on mental health information: [Contigo en Mente](#) and [Mentalizarte](#), which is a collaboration with the [National Institute of Psychiatry](#). We have tried to put forth the idea, on our websites and in conversations with community spokespeople, that there is hope. If people are depressed, it is not their fault. This is a disease for which a professional needs to take charge and the person needs to take treatment. This is not just a responsibility for the government. Companies need to be involved.

Lesson 5: Embed Flexibility in the Company's Culture

In management circles, vertical integration is often seen as expensive and difficult to implement in every part of the business. But Neolpharma has explicitly built a business around playing multiple roles. It's an importer of drugs, a distributor, a manufacturer of APIs and finished formulations, a marketer of branded products, and a developer of new products. Its suppliers and customers in one field may be its rivals in another.

This approach works because of Neolpharma's flexible culture, which underlies its strategic playful opportunism. Two family members provide their perspectives:

► **Diego:** *Being a family-owned company allows us to be resilient. For example, if you had asked me in January 2020 whether we would go into vaccines, I would have said no. Now we're here.*

The pandemic tested the resilience of our supply chain like never before. Usually, most products are cyclical. This year, patterns were off. Public hospitals were full with Covid-19 cases. People paid for medicines out of their own pockets. Many things changed rapidly.

We were able to respond because we have our own family's way of working. Things are understood: how to conduct yourself in business, how to negotiate a fair price in API, how to sell, and so on. In the past few years, we've been trying to translate this into more explicit policies, procedures, and codes of conduct. The family is still very active; we work hand in hand with the people we hire. Those who understand and like the way we work usually stay with us for a long time. At some point they become part of the extended family.

To expand, we also have to change ourselves. For example, when we brought the Puerto Rico acquisition into the group, we adopted aspects of their culture. We internalized their business ethics, and the expectations of their customers. We always emphasize this knowledge and cultural transfer, from both sides, always adopting best practices.

► **Efrén:** *It is a very deep question: How to keep the culture of a family business while growing around the world. We have a very strict culture, but it is humanistic. That will always be our future.*

► “We began to transform our corporate culture so that our mindset would align with high standards, and our people would live by the necessary procedures.”

—Diego Ocampo Gutiérrez de Velasco



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