EMPEA
Emerging Markets Private Equity Association

Case Study: **Sanitas Group (CEE)**

Sanitas Group's Story

Sanitas was established in 1922 as a chemical pharmaceutical laboratory in Kaunas, Lithuania. Following the Soviet Union's occupation of Lithuania in 1940, Sanitas was nationalized and the company remained under state control until Lithuanian independence in the early 1990s. When Sanitas was listed on the Lithuanian Stock Exchange in 1994, the company was the country's largest drug producer.

In 2003, Lithuanian investment firm Invalda acquired a controlling stake in Sanitas and the company began considering growth beyond Lithuania. In late 2005, Sanitas identified a potential acquisition of a Polish state-controlled pharmaceutical manufacturer undergoing privatization. Established in southwestern Poland in 1945, Jelfa, S.A. manufactured over 100 drug formulations and boasted a significant sales presence in Poland, Russia and Ukraine. While the company's product portfolio was in need of modernization, Jelfa's production facilities were highly regarded and included one of the largest ointment plants in Europe.

At the time of its privatization, Jelfa was several times larger than Sanitas, and in order to finance its acquisition, Sanitas needed to raise additional capital. Jelfa's sale process was being conducted on a rigid timeline. As a result, the company sought capital from a private equity sponsor for execution speed and deal certainty. Having worked with Invalda already, Sanitas was familiar with financial investors and valued the expertise and management support offered by private equity partners.

In April 2006, Sanitas raised equity from a private equity consortium led by CVCI Private Equity. The consortium also included Amber Trust, a Baltic-focused private equity fund, and the controlling shareholder, Invalda, also participated in the share issue.

In the years that followed, Sanitas and Jelfa integrated their operations to form the Sanitas Group, which then further expanded its sales footprint and eventually reached Latvia, Hungary, Bulgaria, the Czech Republic and Slovakia. In 2008, CVCI Private Equity added EUR30 million (US$42.3 million) to its investment in Sanitas Group by acquiring a portion of Invalda's stake, thereby becoming the largest shareholder. By 2011, Sanitas Group was a fully integrated specialty pharmaceutical company with over 1,100 employees located throughout the CEE region. From its manufacturing sites in Lithuania and Poland, Sanitas Group produces a portfolio of primarily branded generic products in the dermatology, hospital injectables, metabolic, ophthalmology, urology and OTC segments.

The Role Played by Private Equity

When CVCI Private Equity met the management team of Sanitas in late 2005, it had recently made the strategic decision to focus on the generic pharmaceutical sector in emerging markets. With a surge of patent expirations expected, rising disposable incomes in emerging markets, and high regulatory and technical barriers to entry, the sector was attractive for investment. Moreover, CVCI Private Equity had recently successfully partnered with similar companies in Jordan and India, and was in advanced stages of due diligence on other generic pharmaceutical transactions in Turkey and Egypt.

As Sanitas's integration of Jelfa began, CVCI Private Equity and their consortium partners identified several high priority areas for value creation. These included rationalizing the company's promotional spending, cross-selling of products, expanding into new geographies, using reasonable levels of leverage to promote financial discipline, and incentivizing management with equity-linked compensation schemes.

To promote long-term growth, CVCI Private Equity also emphasized expanding the company's product development efforts and research and development expenditure. This allowed it to shift away from contract manufacturing toward its own pipeline of branded generic products. As a result, the company increased its new product launches from 1–2 per year in 2006 and prior to 5–10 per year today.

The Company

SANITAS GROUP

Essentials

Company: Sanitas Group (www.sanitasgroup.com)

Country: Lithuania, Poland and broader Central and Eastern Europe (CEE)

Sector: Pharmaceuticals

Business focus: Prescription and over-the-counter (OTC) branded generic products

Size: Revenue of LTL333 million (US$125 million, year ended Dec. 31, 2011), 1,121 employees (January 2011)

Private Equity Fund: Citi Venture Capital International ("CVCI Private Equity"), an international private equity firm focused on emerging markets

Date of investment: April 2006

Investment: EUR20 million (US$26.4 million) in 2006 and EUR30 million (US$42.3 million) in 2008

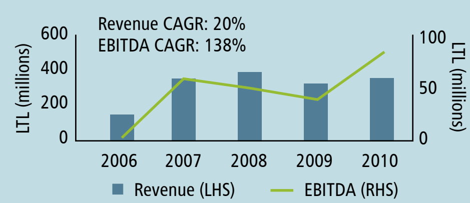
Impact Highlights

CVCI Private Equity's investment in Sanitas Group allowed the company to complete its acquisition of Polish drug maker Jelfa, S.A., adding more than 100 formulations to Sanitas's product offering and giving the company a significant presence in Poland, Russia and Ukraine

CVCI Private Equity supported Sanitas in its post-merger integration of Jelfa and helped the new company increase cross-selling, expand into five new CEE countries and more than double its rate of new product launches

During Sanitas's partnership with CVCI Private Equity, the company grew its workforce of skilled workers, improved its drug safety standards and increased its development of complex products for which patients have few affordable alternatives

Financial Performance



The Company View

"CVCI Private Equity stood apart from the other private equity investors through its vital role in integrating the Jelfa acquisition with Sanitas. With CVCI Private Equity's help, we integrated Jelfa into the Sanitas Group and transformed the company from a production-oriented drug maker to a market-oriented integrated pharmaceutical company. As a result, the company is more focused than ever on improving the health and well-being of its patients."

"From the first step to the last, I found CVCI Private Equity to be an extremely supportive and very involved shareholder. Together we built a modernized and highly attractive specialty pharmaceutical company."
Saulius Jurgelenas,
Chief Executive Officer,
Sanitas Group

"Sanitas was a successful transaction for CVCI Private Equity. We backed a strong management team in acquiring a company several times larger. We identified Jelfa's potential while also understanding the challenge of turning it into a modern sales-focused organization. The management had to face a number of challenges over the time of our investment but they coped admirably and the company was transformed in a very positive way, which resulted in the acquisition by Valeant and a very healthy return for the investors."
Sunil Nair, Managing Partner, CVCI Private Equity

Reflecting on his partnership with CVCI Private Equity, Saulius Jurgelenas, Sanitas's CEO until 2011, credited the firm with help in defining the specialty therapeutic focus of the company and initiating discussions with potential partners for in-licensing in order to boost the pipeline.

CVCI Private Equity and their partners were also key in driving a number of other important initiatives, including the harmonization of drug dossiers in line with EU requirements, completed in 2008; the 2008 acquisition of Homeofarm, a niche Polish dermatology company; the completion of a new state-of-the-art manufacturing facility in Kaunas, Lithuania, in 2008; and the divestment of a manufacturing facility in Martin, Slovakia that simplified the corporate structure and reduced involvement in low-value-added contract manufacturing.

During CVCI Private Equity's partnership with Sanitas Group, the company's EBITDA margin increased from 17% in 2005 to 31% in 2010, with topline revenue growth of 16% annually over the same period. Additionally, through its acquisition, restructuring and integration of Jelfa, Sanitas Group became a regional player with a strong presence throughout CEE. This was achieved in spite of a difficult macroeconomic backdrop in the region and liquidity challenges during the global financial crisis.

CVCI Private Equity was also instrumental in the sale of the company and drove its strategic positioning for a trade sale rather than targeting financial sponsors. CVCI Private Equity and their consortium partners were hands-on with all aspects of executing the sale, from advisor selection through to the final negotiations with buyers.

After five years, CVCI Private Equity formally concluded its partnership with Sanitas Group in May 2011, when the shareholders received an offer of EUR365 million (US$443 million) from Canada's Valeant Pharmaceuticals. CVCI Private Equity returned a total of approximately US$145.0 million to its investors from its combined 2006 and 2008 investments.

Beyond the Bottom Line

As a generic pharmaceutical maker, Sanitas Group offers its patients less expensive therapeutic alternatives to the original, patented drugs. Because the region's healthcare expenditure is largely based on "out-of-pocket" payments by patients, these cheaper therapies allow for greater access to treatment.

Additionally, Sanitas's shift towards its own portfolio offered greater employment opportunities to the region's skilled workers. Between 2006 and 2008, total headcount increased from 1,461 to 1,545 employees, with reductions in production employees more than offset by increases in medical reps, regulatory, and R&D departments. Subsequently, the company's total employment declined as it divested its contract manufacturing business, although it continued to grow in its expansion regions. In Russia, for example, headcount increased from 17 in 2006 to 46 by 2010. New sales organizations were also added in Hungary, Bulgaria, Czech Republic and Slovakia—increasing headcount in these countries to over 45 employees—and a new hub for regulatory affairs was created in Prague with 16 highly-skilled specialists.

The period under private equity ownership also coincided with the construction of the new Lithuanian facility offering complex capabilities in hard-to-produce specialized pharmaceutical forms, such as lyophilized injectable products, sterile ointments and eye drops. These are relatively scarce capabilities in Central and Eastern Europe and the new site provides access to these products at relatively low cost to patients in the region.

Lastly, one of the first steps undertaken by Sanitas after its acquisition of Jelfa was ending its product-testing on animals.

The Emerging Markets Private Equity Association (EMPEA) is an independent, global membership association whose mission is to catalyze private equity and venture capital investment in emerging markets. EMPEA's 300 members include the leading institutional investors and private equity and venture capital fund managers across developing and developed markets.
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