Interview with Rene Geohrum, the Chairman and CEO of BioSyent

Description

Run time – 21:34 (Transcript below)
**

Transcript

David Kretzmann: David Kretzmann here with *Hidden Gems Canada*. I'm joined today by a very special guest, Rene Geohrum, the chairman and CEO of *Hidden Gems Canada* recommendation BioSyent.

Rene, thanks so much for taking the time to talk to the Fool today. I figure we can jump right into it and you can walk you us through what led you to join BioSyent?

Rene Goehrum: Thanks for the invitation, David. My association with BioSyent started a number of years ago as an investor. We were actually known by a different name and we were in a different business. We were in the agtech business. I came as an investor to the company originally.

David Kretzmann: Got it. What's been the evolution of the company since you joined? You joined the company in the '90's and over that time period, to today, you've shifted beyond that legacy insecticide product and now focused more on the pharmaceutical side of the business. Maybe you can just explain what led to that evolution in the strategy and approach of the company.

Rene Goehrum: Sure. We were a very small R&D business, focused on agricultural technology, primarily in non-chemical insecticides used in post-harvest grain. We were doing R&D in a couple of locations in Canada. Cooperating with the Canadian government, we had developed a couple of products and had started commercializing, but most of our money was going into R&D.

The company just wasn't well enough, capitalized, to be in the R&D business. After coming to the company as an investor, I joined the company after assisting with a round of financing, and then, eventually, the board asked me to assume responsibility as CEO.

After reviewing the strategy and looking at our prospects, I determined that we would have better effect to focus on commercialization. I thought there were better opportunities for us in the pharmaceuticals. I had done some work in that area in a previous business and also looking at investment opportunities and thought that we would be better served redirecting the focus of the company, if you will, a pivot, to the pharmaceutical industry.

We went human health. We did a little in diagnostics and then, eventually to pharmaceuticals.

David Kretzmann: Maybe it'd be helpful if you explained a little bit of what do you look for in new products, as far as, potential market opportunity, particular categories or focuses within the pharmaceutical or healthcare space. What do you look for and how do you source those deals?

Rene Goehrum: Sure. We focus on a particular niche, in terms of size of product opportunities, not so much a therapeutic area. Some companies focus in a narrow band of therapeutic areas. We find, that for a market like Canada, that would limit opportunities too much. Obviously, we're on a smaller population base here, so it's a high value pharmaceutical market globally, in terms of where it's ranked. I think it's ranked top ten.

We look for products that are going to be less interesting to the multinational subsidiaries … The Canadian subsidiaries of multinational pharmaceutical companies. We are looking at innovative products. We're kind of staying out of the path of the generic players as well, whether they're Canadian or multinational.

We look for products that would, at our estimation, be at peak penetration revenue of, say, 20 million or less. We just do this to stay focused from a business development perspective. As I say, we're not focused on one specific therapeutic area. We'll look at … Primarily we're looking for products that are unique and differentiated, that provide a value add, either to the patient or the healthcare professional that treats those patients or, ideally, both. It competes well with what's available in the marketplace today.

We like focus on products that have been successfully developed. We're not looking at many opportunities that are not approved somewhere. We source deal primarily from the U.S. and from Europe, western Europe. Although, we are working on something with a Japanese company at the moment, so it's not exclusively U.S. and western Europe.

We look for these products that have never made their way to Canada, for one reason or another, that we think will serve the market well, that are unique and differentiated, and will fit within our financial parameters once we take them to market.

David Kretzmann: And when you're talking about international growth, is that taking the products that you've brought to or developed in Canada and then selling those international? Or are you actually acquiring products that are just being sold outside of Canada?

Rene Goehrum: Yeah. It's kind of a two pronged … One is, where we have rights to products outside of Canada, we'll commercialize them outside of Canada. Today, we only have two such products, both of them under the Fairmax brand. We sell a couple of … I guess three different Fairmax products to … Right now, it's six international markets.

We do, however, engage … In our work to expand our portfolio for the Canadian market, we do come across certain situations and product opportunities where the rights to products maybe available, not just for Canada, but for outside of Canada. We have not yet in-licensed such a deal or done such a transaction, but we have looked at a few and we would do so in the future.

David Kretzmann: One of the things that immediately stuck out to me and our team at Hidden Gems Canada was the company's approach to capital allocation. It would be great just to hear more about your background, when it comes to capital allocation or, really, what drives your philosophy when it comes to capital allocation. The company has been debt free for, I think, over 15 years now. You haven't issued equity in just about the same amount of time. You have a healthy balance sheet with debt, over 21 million dollars in cash. Cash flow is consistently ticking up. Maybe you can just walk us through what your philosophy and approach is to capital allocation and what led to that strategy.

Rene Goehrum: Our approach is to think and act like owners. Although we are a team of professional managers, we put ourselves in the shoes of shareholders. Primarily, that's driven by the fact that we have a high insider ownership in the organization, myself included. We're not only managing the business for growth and for the long term, but we're thinking about the business as we are owners of the business.

One of those things would be to really think about growing the business on a per share basis, not simply growing a bigger business so that we can derive a greater compensation from that business, which, I think, it typical of companies that are professionally managed that don't have high insider ownership. I would say that's one fundamental piece about how we think about allocating capital.

We are in the pharmaceutical industry, so it takes a strong balance sheet to compete in this industry. We've been careful to shepherd our capital and put ourselves in a situation where we're beholden to others outside the organization, whether that be new sources of equity or debt, to continue to drive our strategy for growth.

I think that came from several near death experiences in other entrepreneurial ventures, including arriving at what is now known as BioSyent. It was a very, very small company. It was under capitalized when I took over as CEO. It had negative working capital, not much in sales. I just respect how hard it is to grow a strong balance sheet and I respect the cash position that we have and the value, over time, that we can derive by investing that capital wisely.

David Kretzmann: I know in the past you've mentioned a longer term goal of 20% annualized revenue growth. I was just curious, from higher level perspective, knowing that you might not be able to get into specifics, but on a rough high level view, how do you see that boiling down, in terms of organic growth with the existing products, acquisitions of new products and international expansion, say, over the next five years? How do those three different growth drivers contribute to that 20% revenue growth goal?

Rene Goehrum: Over time, we're interested in international markets, really, as a way to diversify our business somewhat. I wouldn't place it as a primary driver of growth. I think it's contributor to growth. We see continued growth in our existing portfolio of products for the Canadian market. We see growth with existing customers for international customers. We are working on, right now, adding additional new customers or new markets outside of Canada for existing products that we have.

Then there's two other elements. One is, products that we have in the portfolio, but are not yet introduced to the market. We've got a regulatory process that's underway. We think that there's significant growth to come from products that we have in-license but not yet launched.

Then, of course, there's the ongoing quest to expand our portfolio and diversify our business. In the pharma industry, that's called business development and that's an ongoing process. At any one time, we might have six active projects. Some of these would be significant if I would measure the opportunity size, relative to what we have in the market today. Most of what we're working on would be, probably, our second largest product overall.

We think that, over time, as we're growing the existing base, launching products that we have in-license, but have to get approved by Health Canada, and then, adding new products who, in licensing, we see an opportunity to get to that 20% growth rate. We had been there before when we were coming off a much lower base. We give ourselves a little bit of leeway and talking about plus or minus 20%. We think that that's achievable over time.

The last piece that we are now spending more time working on is acquisition of products that are already approved an in the market. That has not born any fruit for us yet. We find that assets are typically overpriced and that we can build more value for shareholders by executing on our in licensing strategy and growing products from scratch. Over time, we've just been more successful with that strategy.

We'll be opportunistic and if the right opportunity comes along and the valuation is good, then we would also acquire products that are already in the market and generating revenue.

David Kretzmann: I don't know if this is a fair analogy, but looking at baseball, someone initially might think that you're mainly going for singles and doubles. First of all, I don't know if that's a fair analogy. It would be interesting to hear your thoughts on that. If it is a somewhat apt analogy, how often does BioSyent think about potentially swinging for the fences and trying to hit home runs?

Rene Goehrum: I think it's a totally apt analogy. In fact, I've used that analogy in presenting our company to perspective investors in the past. I've been using that analogy as far back as 2012 or so, when we were a much smaller company.

I guess part of it is defining singles and doubles and defining home runs. I'm just gonna say, without you and I spending a lot of time talking about what is a home run, I'm gonna say we spend very little time talking about swinging for the fences. We are working on several new product opportunities that are significant and would give us fuel for very long term double digit revenue growth, but none of them take the shape of what feels like swinging for the fences.

We just believe that that's not the right approach. We have seen other Canadian specialty pharmaceutical companies take that approach and we've seen a number of train wrecks and value destruction scenarios. It just wouldn't be our approach. We're long term thinkers, we think with a longer term horizon, perhaps, than others. And because of that, we think solid doubles interspersed with a regular array of singles, to use the baseball analogy, maybe we'll pop a triple or two.

We don't think we need more to deliver long term value to share holders and to build a strong, sustainable business.

David Kretzmann: Once you have in-licensed or acquired a product, what goes into scaling your sales and distribution, both in the Canadian market and abroad, in markets outside of Canada.

Rene Goehrum: I'll answer in reverse order. Abroad is simpler for us because we essentially do the reverse of what we do for the Canadian market. We look for local market and regional partners that know their market, that know the regulatory environment and how to get products approved, that know the distribution and pricing environment and the reimbursement environment. We out-license trademark or territory rights and then they take over full responsibility and in-market risk.

So, our international business doesn't have any feet on the street in those markets. We, essentially, transfer our knowledge and experience on that product our that therapeutic area of how we succeed with those products in Canada, we transfer that knowledge to our partner. Right now, we manage that business on a buy-sell basis and manage credit carefully.

In Canada, it's a little bit different. We started with one [inaudible 00:15:59] organization when we had fewer products. That same group handled all of our products. Now, we didn't have very many products, so they could stay focused.

About three and a half years ago, we split our Canadian go to market team into two teams; one focused on products that are consumed in the care of patients in hospitals and one team focused on products that are primarily for women's health and prescribed or recommended by community health doctors and specialists in the community, these would be products that would be dispensed at your local pharmacy. That's how we go to market today.

As we bring in new products and assess new product opportunities, we look to see how these new products will fit in that existing go to market approach. We are working on some products where we would actually form a third team that might be specialist focused. Our thinking there really is, an effective commercial team, right from sales force to marketing managers to leadership of that business unit, they need to wake up every day thinking about a small basket of products. If we give them ten or twelve products and expect that they're gonna do an adequate job with those twelve, I don't think they're going to succeed. It'd just be a matter of spreading themselves too thinly.

We think about the call points. Who are we calling on and who are we directing our promotional message to? Then we will cluster a sales team and a marketing team and leadership of that team around a smaller basket of products.

David Kretzmann: Got it. At the Motley Fool, whenever we recommend or a buy a company like BioSyent, we do so with a time horizon of at least three years. We're aiming to hold for at least three years and ideally, much longer. We're a community of investors helping fellow investors. I'm just curious, what metrics do you think investors should watch most closely to best gauge the underlying progress or health of BioSyent, say over the next five years?

Rene Goehrum: I would say the things to watch out for are continued revenue growth, continued expansion of our portfolio, so announcements around new products that have been in-licensed. The caution there is that these things take time to get ready to submit for regulatory approval and then get them out into the marketplace. But if you see a steady flow of news or information around portfolio expansion, somewhat steady, if you see a couple of announcements around new products coming, if you see continued double digit revenue growth, and I'd say a healthy profit margin.

We seek to grow profitably and we like to focus on delivering profitability through a growth curve. The ratios over time may change somewhat and that really depends on how many new products that we have in launch stage, because as a percentage of sales, new products consume more expense, relative to the sales they generate, then more mature products. It's a pretty obvious thing.

David Kretzmann: Got it. I know we've just about run up on our time for this conversation. Hopefully, this is the first of many conversations as we follow this story in the coming quarters and years. We've talked about a lot of different initiatives going on at BioSyent. I'm curious, what personally gets you most excited when you think about BioSyent over the next five years?

Rene Goehrum: It's been a journey for me personally. I take a lot of satisfaction about the really good things that we do for patients in Canada and now in other markets around the world. A lot of it ends up being anecdotal, stories that we get from the field. Doesn't matter if it's in urology or in women's health about how our products are actually helping people, helping patients, that gives me a lot of energy on a daily and weekly basis. I would also say that we've had many stories of how investing in our company has changed the lives of families. That gives me some measure of satisfaction.

We started this business, essentially, the pharmaceutical business from scratch. We've created a number of really excellent career opportunities for great people that were deemed to be, let's say, disposable, by multinational pharmaceutical companies. Not many people come to BioSyent for their first job. I would think all three of those things give me a great deal of satisfaction. I'm a builder. I like building things.

David Kretzmann: I think that's a great note to end on. Rene Goehrum, thank you so much for taking some time to talk to the Motley Fool at *Hidden Gems Canada* toady. Certainly, we'll be following closely in the quarters and years ahead. Look forward to talking again along the way of this journey with BioSyent. Thanks again for taking the time.

Rene Goehrum: Thanks very much. It's been a pleasure to be with you.

David Kretzmann: All right. Thanks for listening, Fools, and Fool on.

Date
2025/08/23
Date Created
2018/09/07
Author
tmfpencils