

Reforming governance in pursuit of growth: the case of Adenia and Opham

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Adenia Partners is closely involved in the day-to-day management of its investees. In particular, it has partnered Opham, a Malagasy pharmaceutical products distributor, and recast its corporate governance structure in pursuit of enhanced growth.

PS&D

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Corporate governance

Adenia Partners is a private equity fund manager that has invested 23 times over more than 15 years in African private companies working in different sectors. As well as investing in equity, the Fund also seeks to improve its investees' underlying fundamentals by sitting on - and sometimes reorganising - their management and governance bodies.

Adenia Partners pursues a business development plan to create value but it also focuses on "institutional" aspects by deploying robust management systems and governance structures. This is made easier by its strategy of acquiring majority stakes and it was as part of this approach that Adenia and its fellow shareholders acquired Madagascar's leading pharmaceutical products distributor Opham in 2016.

Need to rebuild governance

Before being acquired by Adenia, Opham was family-owned. Family members held key positions within the business and all strategic and operational decisions were made by four people. This family-based management helped the company to grow quickly thanks to a number of successful ventures, however the company had outgrown its existing governance processes and a new structure was needed to ensure long-term survival and drive a new cycle of growth.

Adenia recast Opham's governance processes, mainly by focusing on three key aspects. First, the composition of the new Board of Directors needed to be streamlined in order to devise a fresh corporate strategy. Next, a solid management team was needed to deploy this strategy. Finally, key stakeholders in the Malagasy pharmaceutical market needed to be brought into the company's decision-making process.

A new modus operandi for the Board of Directors

Adenia and its co-shareholders entered into a shareholders' agreement covering the missions of the Board, its composition, the procedures for convening meetings, preparing the minutes, voting arrangements and the documents to be submitted to the General Shareholders Meeting. The functions of legal secretary were outsourced to external consultants to reduce compliance risk.



The shareholders entrusted the Board with devising and overseeing corporate strategy in the hope that it would work in an independent and flexible manner. An independent director - an expert in generic drug distribution - was appointed to the Board to provide input for an appropriate strategy. He helped Opham to select suppliers in what remains an underdeveloped sector in Madagascar and his contribution has helped to boost Opham's growth in its market.

While the Board only meets three or four times a year, Adenia liaises between this decision-making body and operational management, in particular through daily contact with the Chief Executive Officer (CEO). Adenia also provides management support, especially at the company's monthly Executive Committee meetings. This helps to speed up decision-making as Board members are able to follow and understand what is going on in Opham without actually being involved day to day. The exchanges between Adenia and the CEO are facilitated by the Adenia team's familiarity with Opham: two Adenia consultants are actually former CEOs of the company.

Rebuilding executive management

When the shareholders' agreement was being prepared, the shareholders stressed their attachment to the principle of segregating the roles of CEO and director. The Board itself defined the duties and responsibilities of the Chief Executive Officer who is tasked with implementing strategy. The new CEO, Philippe Egraz, was recruited with this in mind and especially for his expertise in the African pharmaceutical distribution sector. He is renowned for developing businesses and was previously CEO of African subsidiaries of the Eurapharma Group, one of Africa's biggest pharmaceutical

wholesalers. His experience together with his entrepreneurial mindset made him an ideal partner for Adenia. Philippe Egraz also agreed to become CEO because he was able to acquire a stake in the company's equity.

The CEO also overhauled executive management in order to make senior executives more accountable for strategy implementation. Setting up a genuinely accountable management team helps drive productivity while limiting dependence on the CEO's office. Senior executive management meets once a month in Executive Committee and Adenia participates in an advisory role. A Chief Financial Officer was appointed and an ERP¹ system set up to enable monthly consolidated financial reporting. Senior managers have better access to information: they track the performance of their departments, share any problems encountered and are able to see the bigger operating picture. This means better cross-functional cooperation and more autonomous managers. The company becomes more flexible and durable: for example, operational teams will find it easier to adapt to a new CEO.

Certification and working in phase with the pharmaceutical market

International best practices in pharmaceutical distribution and the demands of pharma labs gradually drove Opham to go beyond local Madagascar regulations. For example, in 2015 Opham was the first pharmaceutical distributor in the Indian Ocean to be certified ISO 9001. Opham is also regularly cited as a reference by the major international labs who perform on-site audits lasting several weeks.

As well as certification, giving key market stakeholders seats on governance bodies is a good way of enhancing the value proposition, gaining credibility and consolidating market position.

Opham, the Malagasy government and pharma labs have common interests such as increasing the number of drugs available in Madagascar, combating the sale of unauthorised drugs and promoting best practices for distributing medicines. Adenia has chosen the path of cooperation and incorporated these actors into Opham's governance structure, notably by redefining the duties and responsibilities of the company's Chief Pharmacist. S/he sits on the Executive Committee and is the point person between the public authorities, the labs and Opham's management and governance bodies.

Indeed, the company's Chief Pharmacist is responsible for reconciling the company's interests with those of public health in general. S/he liaises with the health authorities concerning the import, export, transport, distribution, storage, monitoring and recalling of drugs. Thanks to the links that the Chief Pharmacist has forged and their familiarity with national and public health imperatives, the company is able to select the new molecules to be launched on the Madagascar market and understand the quality requirements of - and cooperate with - the health authorities, for example in tackling the black market for medicines.

A new phase

Adenia has exercised its responsibility as Opham's majority shareholder to the full by enhancing its governance processes. Capital and outside expertise are easier to attract and information circulates more easily, thus fostering initiative among stakeholders and cooperation with key market actors. These processes help Opham to sustain its market leadership position and participate in the economic development of Madagascar. The company's founders created a national leader with a family-owned governance structure; Adenia has enabled it to make the transition to a shareholder governance model tailored to a group of this size.

Footnote:

1 Enterprise Resource Planning (ERP) is integrated software used to manage a company through a common database.

