



The Subcommittee on Commodity Exchanges, Energy, and Credit
Examining Opportunities for Growth and Investment in Rural America

Date: June 15, 2021

Time: 11:00 AM

Location: 1300 Longworth House Office Building

Submitted by:

Phanesh Koneru, Ph.D., J.D., LL.M., President & CEO, Exela Pharma Sciences

TESTIMONY

Respected Chair Delgado and Ranking Member Fishbach,

My name is Phanesh Koneru. I am the founder, President & CEO of Exela Pharma Sciences. I was a pharmacist by training. I have a PhD in Biomedical Chemistry from the University of Southern California, a J. D., from the University of San Diego, and an LL.M. from Columbia University School of Law. It is my privilege and honor to present my Testimony here today.

Exela is a fast growing pharmaceutical manufacturer of sterile injectable products. We have now almost 400 employees. We began building our manufacturing in Lenoir, Caldwell County, North Carolina, in 2008. The unemployment rate was about 17%, many jobs were lost to outsourcing of the furniture industry to China. The average wage in the county was around \$28,000 per year.

Exela is a fine example of how a USDA B&I loan program can help a small company to build advanced pharmaceutical manufacturing facilities of national strategic importance in a rural community and create hundreds of high paying jobs. We started with the purchase of a small moth-balled building. We converted that into an FDA cGMP building in two years initially with personal funds, local/state grants and private equity investment. Since then our growth was funded primarily by private lenders (about \$150 million), and several USDA B&I guaranteed loans (about \$90 million). Exela may be the largest borrower under the USDA B&I loan program.

Over the years, Exela has become a strong contributor to the local economy. We are a pride to the City of Lenoir and the Caldwell County. Exela has won awards from our customers, the local city, county, and the state governments. I have listed them in my resume which is attached. The county unemployment prior to COVID-19 was around 4.5%. Exela played a significant role in that turnaround. The average wage in the county today is around \$41,000, that is almost a 50% increase in about 13 years. The average salary at Exela is about \$59,000, which is very competitive in most markets. Based on the strength of our employment base, several nationally known companies moved into Lenoir in the past few years – Chick-fil-A, Hampton Inn, Starbucks, MDI Trucking, etc. Today, Lenoir and Caldwell County are thriving.

We realized long ago that large scale modern pharmaceutical manufacturing infrastructure within the United States is of national strategic importance. That was the impetus for us to begin building such infrastructure at Exela since 2008. We invested over \$400 million since we started – every dollar borrowed and/or earned was invested and reinvested in the company. Because of the investments, Exela is now in a position to make an impact in the nations' fight against the COVID-19. Exela is collaborating with a leading COVID-19 vaccine manufacturer and is just a few weeks away from producing first commercial batches of the vaccine. Exela expects to manufacture anywhere between 100 to 300 million doses in the next 12 months for both the

US and international markets. I strongly believe that at least some of the vaccine Exela manufactures will be used to fulfil President Biden's pledge, announced on June 10, 2021, to donate several hundred millions of doses to lower income countries. This remarkable feat has been achieved with practically no government grants or loans designated to combat the pandemic.

While Exela thus far has been successful, its journey has been anything but easy. There was practically no pharmaceutical cGMP manufacturing talent available in Lenoir. Even today, we are struggling to find talent. We are willing to hire with no experience and train them. We factor in the first six months of a new employee as all training, with no meaningful returns to Exela. Still, it is a struggle. Often we are using headhunters and paying above-the-norm salaries and incentives to relocate talent. This is a significant issue for Exela's growth.

One recommendation I would like to make is that the USDA aggressively create a college and high-school scholarship program to encourage students to remain in or come-back to the rural area upon graduation. Such scholarship program may entail cancellation of a certain portion (10-25%) of their student loans if the students work in a rural area for five years after graduation. These savings will allow students to start their careers and families with lower debt burden and hopefully enable them to settle down and raise families, thereby raising the overall standard of living for the entire community.

Pharmaceutical industry offers some of the highest value long term manufacturing jobs. As the recent pandemic events made it evident, such manufacturing is of national strategic importance. To attract such jobs to the rural communities, aggressive investment by the USDA is essential. Pharmaceutical manufacturing is a capital-intensive industry with investments typically range into tens if not hundreds of millions of dollars. The returns are not immediate – typical lag time from breaking ground to commercialization is about 4-5 years due to the long lead times for the equipment and FDA approval requirements. Private equity or private lending are the only realistic vehicles because traditional bank loans are impossible to get during the startup through growth phase. Even today, Exela cannot obtain traditional bank loans.

The current limitation of USDA B&I guaranteed loans is \$25 million. While this amount will benefit smaller companies, a fast-growing mid-size company would need a larger loan. In our case, we have to invest in modern high-speed equipment, modern manufacturing clean rooms, and hire and train hundreds of employees. It could not be done with smaller loans. We had to get private loans with very high interest rate to support the growth. It would be extremely beneficial and most immediately impactful to raise the loan amount for the Fiscal Year 2022 to at least \$50 million and even to \$100 million. At minimum, this would help save millions of dollars in interest alone that is otherwise paid to private lenders at rates as high as 15%.

During the recent pandemic hundreds of billions of tax payers' money was provided to many companies. However, other than the PPP loan through the CARES Act, which Exela used in its entirety to cover payroll expenses only, Exela was unable to obtain any funding from

governmental sources. It could not even refinance its current millions of dollars of private loans with high-interest (almost 15%) rate due to the rigid, unrealistic lending rules as existed in the Main Street Lending Programs. The specific needs of high growth-phase businesses in general and those in the rural areas in particular, were ignored by Congress. In addition, COVID-19 did impact Exela's and other rural businesses, in a disproportionate way. For example, due to the rapidly expanding lead times and increasing costs, Exela has to invest in holding more inventory (almost double the usual) and purchase the inventory at almost twice the cost in some cases. Yet, Exela was unable to receive any governmental relief. This was disappointing. Exela hopes sincerely that this Committee will take notice and persuade Congress to make changes.

In summary, the USDA should invest more aggressively in rural communities to bring high-paying sustainable high-quality manufacturing jobs such as pharmaceutical manufacturing. Such investment should include incentives to high-school and/or college students to find employment in the rural communities for a certain time. Additionally, the USDA should invest with small companies to fuel their growth with less debt burden by way of low interest loans with less restrictive underwriting criteria. USDA should increase the B&I loan limit to at least \$50 million or even to \$100 million effective with the Fiscal Year 2022 plan. Exela's success story proves that a lot more success is achievable if these changes are made. We at Exela are willing to do more.

Thank you for listening to my Testimony.

Truth in Testimony Disclosure Form

In accordance with Rule XI, clause 2(g)(5)* of the *Rules of the House of Representatives*, witnesses are asked to disclose the following information. Please complete this form electronically by filling in the provided blanks.

Committee: Agriculture

Subcommittee: Commodity Exchanges, Energy, and Credit

Hearing Date: 06/15/2021

Hearing Title :

"Examining Opportunities for Growth and Investment in Rural America"

Witness Name: Phanesh Koneru, Ph.D., LL.M.

Position/Title: President & CEO

Witness Type: Governmental Non-governmental

Are you representing yourself or an organization? Self Organization

If you are representing an organization, please list what entity or entities you are representing:

Exela Pharma Sciences, LLC and its affiliates

FOR WITNESSES APPEARING IN A NON-GOVERNMENTAL CAPACITY

Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.

Are you a fiduciary—including, but not limited to, a director, officer, advisor, or resident agent—of any organization or entity that has an interest in the subject matter of the hearing? If so, please list the name of the organization(s) or entities.

Exela Pharma Sciences, LLC and its affiliates

Please list any federal grants or contracts (including subgrants or subcontracts) related to the hearing's subject matter that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the source and amount of each grant or contract.

PPP Loan, \$4,266,100

Please list any contracts, grants, or payments originating with a foreign government and related to the hearing's subject that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the amount and country of origin of each contract or payment.

None

Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.

- I have attached a written statement of proposed testimony.
- I have attached my curriculum vitae or biography.

* Rule XI, clause 2(g)(5), of the U.S. House of Representatives provides:

(5)(A) Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof.

(B) In the case of a witness appearing in a non-governmental capacity, a written statement of proposed testimony shall include— (i) a curriculum vitae; (ii) a disclosure of any Federal grants or contracts, or contracts, grants, or payments originating with a foreign government, received during the past 36 months by the witness or by an entity represented by the witness and related to the subject matter of the hearing; and (iii) a disclosure of whether the witness is a fiduciary (including, but not limited to, a director, officer, advisor, or resident agent) of any organization or entity that has an interest in the subject matter of the hearing.

(C) The disclosure referred to in subdivision (B)(iii) shall include— (i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and (ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.

(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form 24 hours before the witness appears to the extent practicable, but not later than one day after the witness appears.

PHANESH KONERU, PH.D., J.D., LL.M.
EXELA Holdings, Inc., Exela Pharma Sciences, LLC
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Founder, President & CEO (2005-present)

- Exela is a vertically integrated 380-employee fast-growing cGMP sterile pharmaceutical developer, manufacturer and marketer of ANDA and NDA products with over 500,000 sqft of operations covering state-of-the-art high-speed manufacturing and laboratories, in Lenoir, North Carolina.
- Exela is the recipient of the following awards:
 - a) Industry of the Year, Caldwell County, North Carolina – 2014
 - b) Horizons Award, by Premier, Inc., (the second largest GPO) – 2016
 - c) Manufacturing Leadership Award, Developing Markets, from Governor Roy Cooper through the North Carolina manufacturing Association – 2017
 - d) Borrower of the Year, by National Rural Lenders Association/USDA - 2017
 - e) Horizons Award, by Premier, Inc, 2018.
- Interviewed the Honorable President George W. Bush for over 60 minutes at Becker's Health Care Conference, Chicago, USA – April, 13, 2018.
- Named to PowerList 2021 by Business North Carolina Magazine (May 2021) (State's Most Influential Business Leaders in Life Sciences).

Vice President, Intellectual Property, Watson Pharma (Allergan/Teva) Corona, CA (3/2000-8/2004)

Associate Patent Attorney, Morrison & Foerster, Palo Alto (October 1998 - March 2000)

Associate Patent Attorney, Cooper & Dunham, New York, NY (May 1998 - October 1998)

Pharmacist-in-Charge, CVS (Albertsons)/Thrifty (Rite-Aid), Southern California, 1985-1997

Bar Memberships and Licensures

- Member, California Bar, # 196381, since 08/1998
- The United States Patent and Trademark Office, August 1995, Reg. No. 40,053
- Registered Pharmacist, California, September 1986-2000, License No. 40,486 (expired)

EDUCATION

- LL.M., Columbia University School of Law, 1998 (**Honors: Harlan Fisk Stone Scholar**)
- J.D., University of San Diego School of Law, 1996 (*Top 24%*) (while working as a full-time Pharmacist-in-Charge in Orange County, CA)
- Ph.D., Biomed Chemistry, University of Southern California School of Pharmacy, May 1992 (while working as a part-time/full-time Pharmacist in Los Angeles area)

Invited Presentations - Several

Law Review/ Journal Experience

- Associate Editor, *Columbia Journal of Transnational Law*, Columbia Univ School of Law, 1997-98
- Articles Editor, *Journal of Contemporary Legal Issues*, Univ San Diego School of Law, 1994-95

Publications in Law, Science and Patents - Several

Awards

- National Third Prize, Nathan Burkan Memorial Writing Competition in Copyright Law, 2000
- Special Service Award, American Drug Stores, June 1997 (for consistently exceeding management goals and expectations since 1990)
- Outstanding Customer Service Award, American Drug Stores, July 1996
- Outstanding Pharmacy Manager Award, Southwest Region, American Drug Stores, May 1993

Languages

- German (Mittelstufe II), in addition to two native languages of India (Telugu and Hindi)
- Goethe Institut Scholarship, Mittelstufe II Course, Hamburg, Germany