



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

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**Time:** 11:00 AM

**Location:** 1300 Longworth House Office Building

**Submitted by:**

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## 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.