

## Maurer's Healthcare Insight (120)

## Who Would Have Thought?

P. Reed Maurer

Did you ever look at a married couple and just know they were meant for each other? This type of marital bliss is easy to understand. More difficult is the happy couple who appear to have nothing in common. That is when you step back and ask, "Who would have thought two such people could live together?"

There are events in our business life that defy reason or were not predicted before they occurred. When this happens our only response is to say, "Who would have thought?" What follows is my own list of such events. Those of you who are never surprised by anything can skip the rest of this piece.

Let's start a long time ago in 1867 when the Shogun left his castle in Tokyo and the emperor Meiji was restored. After 200 years of isolation Japan opened its doors to the world and an Imperial Proclamation stated: "Wisdom and knowledge shall be sought after in all parts of the world to establish firmly the foundations of the Empire."

Missions were sent out to many countries, but as far as medicine was concerned, the German system was the overwhelming choice. In the ensuing decades all aspects of German medicine flowed into Japan. It was said, "There has never been an instance in history where a country not under colonial domination so completely adopted an outside system." Who would have thought?

Jump ahead 79 years to the end of WWII. Japan is in ruins and one observer at the time suggested the best Japan could hope to achieve in the future is a sustainable agrarian society. Who would have thought?

During the post-war period foreign pharma firms were invited to establish wholly owned businesses in Japan with one caveat, they could not take their profits out of Japan. These were so-called yen based companies. Only one pharma company took the plunge, Roche of Switzerland. All others stayed out and sold their products to Japan through local distributors.

Some years later the regulations were changed to allow remittances out of Japan, but if you wanted to come in ownership was restricted to no more than 50%. Not until 1975 were these ownership restrictions removed. In retrospect the best time to enter Japan was when you could not remit money. Who would have thought?



By the mid-1950s Japan began to attract interest as a promising pharma market. Because of ownership restrictions JVs sprouted like weeds. Each JV was born with great expectations for an enduring partnership. However, 30 years later all the partnerships unraveled in favor of 100% ownership by the foreign partners. The cost of divorce was high. Too bad there were very few prenuptial agreements for orderly exits. Who would have thought?

In the 1980s research in Japan moved from small step innovation, that is second and third generation drugs, to breakthrough discovery, that is first generation drugs. The balance between licensing in and licensing out began to shift toward the latter. Japan joined the US and Europe as a source of new chemical entities. Who would have thought?

By the turn of the century wholesalers in Japan had coalesced into four groups. At the same time there were large scale mergers among foreign pharma firms, thus widening the gap between themselves and the large Japan pharma firms. But then the Japanese firms followed suit and merged. Who would have thought?

Around the same time bioventures began to emerge in Japan. Drug "seeds" came out of university labs and investors had deep pockets. Something like 600 bioventures were formed, all with adequate funding.

Today the story is quite different. Most of the seeds did not germinate. Investors watched the valuations of companies go South. The bioventures ran out of cash. The promise of a viable biotech sector in Japan is a dream not yet realized. Who would have thought?

How many times were you subjected to a lecture on Japanese business practices that prohibit hostile takeovers? Why? Because this barbaric Western custom treats employees like fish being sold in the Tsukiji market. How often were you advised not to talk about the "A" word in M&A as acquisition? Better to use the word alliance.

Then you wake up to news that Astellas is making a hostile bid for a US company. Or the frequent news of acquisitions versus partnerships. Is this a case of situational ethics? Who would have thought?

Because new drugs are discovered in Japan many foreign companies established research centers here. Now they are all gone except Boehringer Ingelheim. Many went to China where new drugs are not discovered (yet). Who would have thought?

It appears the new drug premium price policy will mostly benefit foreign firms because they have a greater number of products without generic competition. Those of you who believe the Japanese government has a bias against foreign firms must be scratching your heads and saying who would have thought?

**The Future**

What events will occur in the future that defy our current expectations? No one knows but we can be certain there will be some. Common wisdom is so often wrong that it should be called common ignorance. Here are a few thoughts to ponder. Will they become a reality in the future?

\* Bioventures will not succeed in Japan because the culture does not encourage or reward taking risks.

\* Growth of the pharma market value will be in the low single digits.

\* The drug lag is going to persist because the infrastructure is not supportive of cost effective and timely clinical development.

\* The consolidation of large pharma companies in Japan is over.

\* Generic sales volume will continue to expand rapidly and will exceed the 30% level promoted by the government.



In the mid-1980s I was of the opinion Japan's pharma market as measured in dollar terms would soon exceed the US market. This forecast was firmly based on comparative growth rates and appreciation of the yen. In actual fact the Japan share of the world market declined. Who would have thought?

*P. Reed Maurer has written many opinion pieces, some of which he would like to forget.*