Maurer's Healthcare Insight (132)

Pharma Companies in Japan

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First, some facts:

Number of pharma manufacturers (2008)

With NHI listed drugs	378
With more than 300 employees	126

Market share (IMS) in 2010

Top 10 Japanese firms	34.18%
Top 10 foreign firms	32.74%
Total of 20 firms	66.92%

Employment (2008) 351 companies

Total	160,532
R&D	26,741
MR	40,531

Top Tier Pharma Companies

As noted above the top 20 companies in Japan have a 67% market share. Each year the foreign company share is increasing so within two or three years their market share will equal the Japanese company share. However, foreign company market shares in Japan are generally lower than their shares in the global market.

If we drill down to the top 10 companies, five are foreign and five are Japanese. In a historical context this is a remarkable shift as it was not until Merck purchased Banyu in 1983 that a foreign company ranked in the top 10.

To rate as a top tier company sales in Japan are a key factor, but sales outside Japan must also be considered. By applying this criteria Mitsubishi Tanabe falls out of the top tier because less than seven percent of their sales are outside Japan. Otsuka then moves into the top tier because of their larger revenue "footprint" outside Japan. The other four include Takeda, Astellas, Daiichi Sankyo and Eisai. These companies also rank highest in terms of market capitalization.

The top tier companies are focused on growing outside Japan, primarily in the US followed by Europe, and then in certain emerging markets. They are also acquisitive in terms of new product candidates to fill their pipelines. Do not expect acquisitions or mergers in Japan by these firms.

Mid Tier Companies

Of the 10 companies ranked as mid tier five are foreign. The five Japanese firms are Mitsubishi Tanabe, Dainippon Sumitomo, Kyowa Hakko Kirin, Shionogi and Ono. Because these companies are confined to Japan their growth is anemic.

These companies are prime candidates to participate in further consolidation of Japanese companies. They will, with the exception of Ono, also look for ways to enter the US market. They have the financial resources to succeed but much will depend on the vision of their respective managements.

Small Cap Companies

These companies, and there are too many to mention, are at great risk but generally act as though all is right with the world. Their pipelines are empty and their product portfolios are heavy with long listed drugs that will most certainly suffer large reimbursement price reductions in 2012.

To generate revenue growth they turned to generics, believing their reputation for quality and access to distribution channels will give them competitive advantage. They are called hybrids.

The word hybrid has positive connotations as in hybrid vigor, but the generic business is very different from the branded product business. Operating both under the same roof is not a recipe for success. The hybrids will be killed by the pure generic players, both local and multinational.

That leaves the small caps without a clear picture or strategy as to how they will independently survive. For most there is a "wait-and-see" attitude, although a few are moving into niche markets. Those with an attitude of "This too will pass," are living a process akin to going broke, i.e. slowly, slowly then all of a sudden. We are not yet at the all of a sudden stage but it is coming.

Emerging Companies

This category includes both foreign and Japanese venture companies although currently there are more of the former. These companies have products that satisfy unmet medical needs thus favored by patient groups, doctors and regulators.

Rather than licensing out the fruits of their research, many are establishing their own integrated operations in Japan. By doing so they capture more of the value added, get closer to customers, and control their own future.

Conglomerates

Companies like Teijin, Toray, Asahi Chemical, Ajinomoto and FUJIFILM are determined to play a bigger role in healthcare. Given this commitment, and allocation of resources which they have in abundance, they will be proactive in acquiring assets both outside and inside Japan. Expect them to acquire smaller mid cap companies who have no idea what to do.

Pure Play Generic Companies

Among Japanese generic companies, there are a few major or top tier players like Sawai, Nichi-Iko and Towa then many, many small firms localized in Toyama and Yamagata.

The latter companies are primarily manufacturers who own product registrations, a very valuable asset. But they depend on larger firms for marketing. Confined to this supplier role they will survive only as long as their customers permit. A surprise free forecast is to expect consolidation.

A second group are multinational generic firms like Teva, Mylan and Sandoz, plus a bunch of Indian firms with a presence primarily to sell active pharmaceutical ingredients. The multinationals have a huge cost advantage over the local generic firms. Furthermore they have the financial resources to acquire assets. Teva's acquisition of Taiyo is a "game changer" that others will try to emulate.

Final Thoughts

Japan is both the world's second largest single market and very dynamic. In other words, it is changing and change is good for proactive outsiders and bad for complacent insiders.

Think of these two facts. First, Japanese companies have eight products in the list of the 50 largest pharma products in the world. Second, 12 of the 50 largest products in Japan are sold by foreign companies without local partners. Thirty years ago neither condition existed. There were no Japanese origin blockbusters, and all multinational products were sold through Japanese distributors.

P. Reed Maurer resists the urge to look back because the future is more interesting.