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Local Companies Want to Buy

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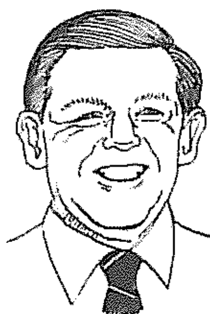

I am finishing a round of one-on-one discussions with the senior executives of 20 local pharma/healthcare companies. This is an exercise similar in scope to meetings held in 2005. But the differences in six years are striking and reflect a mature self-confidence that is certain to propel many Japan pharma companies onto the world stage.

My purpose in meeting was to ask three questions, i.e.

1. Is your company interested in acquiring assets outside Japan? If yes,

2. What type of assets? There are platform technology assets usually found in emerging bioventures. There are product assets in various stages of development. There are company assets with a development and commercial presence in one or many markets. And there are comparative lower cost manufacturing assets. Acquisition of assets can be accomplished via licensing and/or M&A activities.

3. In what country or area of the world would you like to acquire assets? The questions are simple but very direct. Yet no one hesitated to give a frank answer in a forthright manner. In other words, the executives had a clear, well reasoned strategy for the responses given. There was no hesitation, no hedging, and suffice it to say no one said they were not interested in acquiring assets outside Japan. The combination of simple questions and rapid fire answers combined to make my typical meeting time less than 30 minutes.

Six years ago the meetings were at least twice as long with one third the content. People did not have a clear idea of what they wanted and from where, except the age-old desire to license in products, preferably at a late stage of development when the risks were mostly assumed by the licensor. Senior licensing guys usually joined the meetings in 2005. This year licensing in was not the highest priority in most companies.

Acquisition was definitely the preferred method of expanding outside Japan. Not one company mentioned a joint venture. Minority equity interests were OK as long as it was clear from the beginning that these were the first steps toward majority or 100 percent control.

The question, "How much money are you willing to invest?" was not as important as a proper "fit" with the target in terms of therapeutic expertise and management culture.

Which reminds me to report that in discussing product technology acquisitions each company had a clear focus in a limited number of disease areas. Years ago people would say they were interested in any good product. An answer that evoked smiles but reflected a lack of substance.

It should also be mentioned that none of the companies had aspirations to acquire assets related to a generic business. There was interest in medical devices, OTC products, and diagnostics but not generics or so called bio-similars. Of course we did not talk with Sawai or Nichi-Iko.

The executives appreciated the pluses and minuses of buying a company. A key negative or challenge is the post acquisition integration activity. This takes time to get everyone on board and pulling in the same direction. In other words, the real work starts after the acquisition. Doing the deal is the easiest part.

However, the alternative of building through organic growth takes more time. Achieving critical mass is expedited by an acquisition particularly since many Japanese companies do not yet have a cadre of managers with experience living and working outside Japan.

In the early to mid 2000's the highest priority country of interest outside Japan by senior executives was the US. Every other country or region was a distant second. Today the interest is more geographically diversified although the US is still viewed as a primary source of innovation and is obviously the largest drug market. For some, there is already a presence in the US, for others countries in Asia are less daunting than an all-out effort to get into the US.

Europe continues to be a mystery for most of the executives I talked with. Too many countries, too many languages, economic issues across southern Europe, and price controls all over Europe.

On the other hand India and to a lesser extent China are very much on the radar screen. India appears more user friendly with many bilateral relations. Suspicions abound with China, from IP protection to the structure of business relationships. For some India is seen as a manufacturing base for markets in Southeast Asia. Other advantages include the English language, familiarity with FDA regulations, and a large and growing middle class. Japanese executives view the rush into China by US and European companies as premature. India is a safer or less risky bet.

In short, here are the differences between local companies now and six years ago:

* Executives today have a much clearer focus on what assets they would like to acquire outside Japan and where they want to place their bets.

* Today there is a much higher level of confidence in moving off shore. Companies know what they want and are not hesitant about asking for advice as to how to get it.

* For some Asia is a more comfortable first step outside Japan but the US remains the big elephant in the room.

* Money is not a priority issue for several reasons, i.e. the yen is strong so assets outside Japan look cheap; most companies are loaded with cash; and if not, the cost of borrowed money is as close to "free" as you can get.

* The executives today do not suck air through their collective teeth in attempting to articulate their objectives. Very little time is wasted with chit chat. In essence they are saying "Here are our objectives. If you can help with a good idea as to how we can accomplish our objectives you are welcome at any time. If not, we have better things to do with our time."

P. Reed Maurer is partial to clear, concise questions and answers that are truthful.