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Japanese pharma companies set to go global - by P Reed Maurer

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In a short time much can change in Japan. A striking example is the move by Japanese pharmaceutical companies to acquire assets outside Japan. Not too long ago Western observers considered local companies as very provincial, protected and strong in Japan but non-competitors in the rest of the world. Today, four Japanese firms realize over 50% of their revenue outside Japan.

Reed Maurer recently met face to face with the senior executives of 20 Japanese pharma/health care companies, much like similar meetings in 2005. The purpose was to ask three questions, namely:

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.

Six years ago 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. This year licensing in was not the highest priority in most companies.

Acquisition preferred way of expanding outside Japan

Acquisition is now the preferred method of expanding outside Japan. Not one company mentioned a joint venture. Minority equity interests were acceptable as long as it was clear from the beginning these were the first steps toward majority or 100% 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. 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.

The executives appreciated the plusses and minuses of buying a company. A key challenge is the post acquisition integration activity. It 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.

Geographic interest widened

In 2005 the highest priority country of interest outside Japan was the USA. Every other country or region was a distant second. Today, the interest is more geographically diversified although the USA is still viewed as a primary source of innovation and is obviously the largest drug market. Some already have a presence in the USA. Others believe countries in Asia are less daunting than the all out effort required to get into the USA. Europe continues to be a mystery for most of the executives. 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 now on the radar screen. India appears more user friendly as there are many bilateral relations with Japan. Suspicions abound with China, from intellectual property (IP) protection to the structure of business relationships. Some consider India as a manufacturing base for markets in Southeast Asia. Other advantages include the English language, familiarity with Food and Drug Administration 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, the differences between local companies now and six years ago are:

• 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 seeking advice as to how to get it.

• For some, Asia is a more comfortable first step outside Japan but the USA remains the big elephant in the room.

• Money is not a priority issue for several reasons, ie, 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 waste time with idle chit chat. In essence, they say: "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."

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