RESTRUCTURING IN THE JAPANESE PHARMA INDUSTRY

By P Reed Maurer
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For years investment bankers had visions of mega fees flowing in from pharma company restructuring deals in Japan. It was never a question of "Will the deals come?" The only question was "When?" Today most of the deal makers have moved on to greener (as in money) pastures where the deal flow is robust (as in outbound investments).

Not much is going on in the Japan pharma industry, says P Reed Maurer, long time pharma industry watcher who is president of International Alliances Limited, in his regular exclusive insight for The Pharma Letter.

With hindsight let's review what did happen in Japan and what is inevitable, that is what will or must transpire while leaving aside the question of when.

What happened?

Beginning in the late 1980s Japan was approving more new drugs faster than anywhere else in the world. Companies with new drugs ramped up their sales quickly, taking advantage of the rapid diffusion of new technology in this small country where health insurance is universal and access to quality care is readily available nationwide.

Success at home led many companies to consider international expansion, particularly into the USA and Europe. Branch offices appeared in New Jersey (USA) and Germany as fast as weeds in a garden. But companies soon realized that resources required to build a fully integrated presence in a market as large as the USA required a different level of infrastructure at home in Japan. In other words, consolidation was required to create the critical mass necessary to compete abroad.

As an aside, readers are advised to remember that growth and sustainability in the pharma industry is directly correlated to the development and launch of new drugs. New drugs come from in-house research and outside sources through acquisition or licensing-in partnerships.

These restraints were soon appreciated by some companies. For example, beer companies with a pharma division either sold out their pharma business, ie, Suntory to Daiichi, Asahi to Japan Tobacco, or merged it into a pharma company, ie, Kirin to Kyowa Hakko. Another example was the large trading company Mitsui which divested its pharma business to German Schering, now part of Bayer.

The most significant response was a flurry of merger activity between some of the larger companies in the industry, ie, Fujisawa and Yamanouchi merged to become Astellas. Others were those who retained their names, ie, Sumitomo Dainippon, Daiichi Sankyo, and Tanabe Mitsubishi. All believed they required greater critical mass to compete outside Japan.

Others like Takeda, Eisai and Shionogi decided, at least until now, to grow organically thus shunning the urge to merge trend. Finally, Chugai decided to align itself with Roche and Banyu went to Merck & Co via a sale of 50% plus of their equity. Merck subsequently acquired 100% of Banyu and dumped the name.

All of the above examples are proof that restructuring, and change does occur in Japan, sometimes where you least expect it and at a pace not previously considered possible.

Current status

We can group the remaining companies into several arbitrary categories for the purpose of answering the question of what will happen. They are:

Generic companies. In this sector there are three types of companies, ie, larger, pure play companies like Sawai, Nichi-iko and Towa; scores of small companies; and the hybrids which are brand name companies that added generics to generate revenue growth as their older products declined in both price and volume.

Conglomerates. These are large enterprises with pharma divisions. Examples include Teijin, Ajinomoto, and Toray.

Middle sized brand companies. This large number of companies are very often family managed and owned. A few are trying to specialize or focus in a limited therapeutic area. An example is Maruho with a focus in dermatology, or Santen in eye care, others are trying to focus on orphan drugs.

At one time we were fond of comparing Japanese pharma companies to a convoy of ships. There were big companies, small companies, fast and slow companies, and those with new technology and those with old technology. All moved together at the same speed and were watched over and encouraged by the Ministry of Health.

This analogy is no longer true. The big, fast and technologically advanced companies have their growth sights set outside Japan while their positions in Japan are maintained. The small, slow, old technology companies are not keeping up, in fact they are losing ground because of inroads by generics and lower prices. The Ministry of Health is focusing on helping companies who innovate, have plans to expand internationally, and allocate their available resources to specific therapeutic areas with unmet medical needs.

What will happen?

Companies expanding or wanting to expand abroad will look for opportunities to acquire companies and or products that accelerate their growth. This is fertile ground for the deal makers who are aware of targets in the USA, Europe or Southeast Asia, prime areas of interest to Japanese firms.

There must be large scale consolidation of companies in the generic sector to optimize both their cost and distribution structures. The recent partnership between Takeda and Israel’s Teva Pharmaceutical Industries may jump start this process.

Some of the pharma divisions in conglomerates will be merged into pharma companies. Ajinomoto already put its pharma business into a company controlled by Eisai. Another option is to acquire a pharma company much like the Kyowa Hakko Kirin model. Those who retain their health care business will gravitate toward devices and diagnostics versus drugs.

Mid-sized, family companies have the most serious problems. Merging with a similar company will not be synergistic. They could sell, but to whom? An emerging foreign company with new products may be one answer acting as a “white knight.” Hostile takeovers simply will not work. Those who drift along will become what are known as “Zombie” companies.

In short

Various scenarios for restructuring are relatively easy to forecast, but when they will occur is a question that is open to pure speculation. Not a pleasant thought for those in the deal business. A clue relevant to the timing of decisions might come from a close look at Fiscal 2017 financial results coming soon.