

the pharma letter

* Up to date news for the Pharmaceutical and Biotechnology industries

Exclusive: Japan Pharma entering a new era

30-03-2016 P REED MAURER

If you believe you know all there is to know about Japan's pharma market, it is time for a refresher course. If you are convinced the Japan pharma market never changes, you are about to be labelled hopelessly out of date, says P Reed Maurer, long-time Japanese industry watcher and president of International Alliances Limited.

The signs of change are coming from multiple sources. Here are a few of the most obvious ones:

- * Late last year a high ranking official in the Ministry of Health stated companies who are not developing innovative products should consider getting out of the pharma business. This is remarkable because for the past 50 years the Ministry was a staunch advocate of supporting and encouraging all companies irrespective of size or new drug development capacity. The analogy was to a convoy of ships. Big ships, small ships, fast ships, slow ships - all moved at the same speed in the same direction.
- * During the discussions leading up to the April 2016 price revisions, the Ministry of Health finally caved in to pressure from the Finance Ministry to cut the reimbursement prices of so called long listed drugs. These old drugs provide a stable source of revenue and profit to firms who lack a portfolio of new drugs. Furthermore, incentives to prescribe and dispense generic drugs are beginning to pay off in higher market shares at the expense of older drugs.
- * The infamous drug lag in terms of regulatory review and approval has been eliminated, thus prompting companies to develop and launch their drugs in Japan simultaneously with other major markets. These actions reward innovation while penalizing old technology. Other actions by the government are increasing the odds of new drug ideas getting through the risky phases of early development.
- * Japan's population is aging faster than any other society in history, and at the same time declining. These demographics put enormous pressure on the health care system to become more efficient in allocating limited resources to changing needs.

It seems clear Japan must reenergize its decades long propensity to adopt new technology versus providing incentives for old technology. Also to enhance the diffusion of what is new versus shoring up what is old.

Changes coming for the pharma industry

As noted earlier, it is no longer realistic to generalize about the Japanese pharma industry. There are now different types of players with radically different prospects for the future. Let's look at the lineup.

- * Large scale companies that owe their current structures to a previous wave of consolidation. These companies have streamlined their Japan operations, refocused their research interests, and are now concentrating on growing their operations outside Japan, primarily in the USA and South East Asia.

* Mid to small scale companies confined to Japan, often closely held by family interests, a product mix heavily weighted by long listed drugs, and recently getting revenue growth through sales of generics. There are a few exceptions who are finding a profitable niche in specialty drug areas.

* Pharma divisions of large conglomerates include names like Teijin, Toray, Asahi Chemical, Japan Tobacco and Ajinomoto. The latter recently exited the pharma business by transferring its products into a joint venture controlled by Eisai.

* Various sizes of generic companies many for whom are basically contract manufacturers. Less than five of these are fully integrated and as of now all conduct business only in Japan. Expansion outside Japan will run into competitors with lower cost structures, a necessity in the generic business.

* There are only a few start-up companies in Japan although various initiatives are unfolding to increase their number. There are ideas for new drugs in Japan and the infrastructure exists on which to build emerging companies but the risks are high.

Implications of change

The most obvious impact of change will be on the mid to small scale companies that have not developed a niche position, and whose product mix is heavily weighted toward old drugs. Consolidation of these companies will not yield synergies. Essentially the only viable option is to come under the wing of a larger company with an attractive pipeline of new products.

How this plays out and how it will alter the ranking of pharma companies in Japan is certain to provide opportunities unavailable in the past for companies wishing to enter Japan via acquisition.