

ASIA IS A BUSINESS IMPERATIVE... NOW MORE THAN EVER

ASIAN HEALTH NEWSLETTER

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INTRODUCTION

We hope that you find the *Asian Health Newsletter* informative. In this issue we look at the pharmaceutical sector in Japan and profile three companies that are responding well to the changing competitive environment. In India we see several new online ventures targeting the B2B segment for pharmaceutical exchange and distribution.

BDA is a corporate finance advisory firm which helps multinational clients to identify and to execute acquisitions and JVs in Asia. We focus on the healthcare sector and are well placed to help Western companies structure mutually beneficial transactions with local partners.

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CHINA/HK

Beijing Wanhui Pharmaceutical (Wanhui), a subsidiary of China's **Beijing Medicines Group Corporation (BMGC)**, has acquired **Beijing Pharmaceutical Plant**. After the merger, Wanhui will replace Beijing Pharmaceutical Plant as the largest shareholder of **Beijing Double Crane Pharmaceutical Co Ltd**. BMGC produces a range of pharmaceutical products, including traditional Chinese medicine ("TCM"), chemical formulations and nutritional supplements. It had revenues of RMB816m (US\$99m) in 1999. (August 28, 2000)

Kobayashi Pharmaceutical of Japan, a manufacturer and marketer for OTC drugs, deodorants, oral and other hygiene products, will invest ¥250m (US\$2.3m) to expand its facilities in Shanghai, China. The company also plans to expand its facilities in Europe and the US. (September 13, 2000)

Shanghai Fuxing Industrial Co Ltd of China will acquire a 24% stake in **Shanghai Leiyunshang Pharmaceutical North Area Co Ltd (SLPNA)** for RMB25m (US\$3m). Leiyunshang Pharmaceutical operates 60 pharmaceutical chain stores and also operates the **Leiyunshang Traditional Chinese Medicine Factory**. It achieved 1999 revenues of RMB484m (US\$58m). After the acquisition, Shanghai Fuxing will become the second largest shareholder of SLPNA. (September 20, 2000)

Shanghai Industrial United Pharmaceutical Co Ltd, a subsidiary of **Shanghai Industrial United Holdings Co Ltd**, has acquired a 42% stake in **Changzhou Pharmaceutical Co Ltd** to become its largest shareholder. (September 7, 2000)

Shanghai Zhongxi Pharmaceutical Co Ltd of China will sell its 50% stake in **Shanghai Zhongxi Xinshengli Biology Engineering Co Ltd**, a nucleic acid healthcare product manufacturer, to **Shenzhen Zhongke Chuagye (Group) Co Ltd**. Zhongxi Pharmaceutical holds a 90% equity stake in Zhongxi Xinshengli. (September 22, 2000)

Wuhan Pharmaceutical Technological and Industrial Park has started construction of the first pharmaceutical industrial center in Wuhan, Hubei Province. **Wuhan Zhongbai Group** and **Zhonglian Pharma**, who together own 70% of the US\$18m entity, are the two major investors. **Wuhan State Assets Group** and **Miaoshan Development Zone**, own the remaining 30%. The park will produce biochemical drugs, chemical drugs and natural medicinal drugs once it becomes operational in 2001. The owners predict that the park will generate revenues of US\$120m within 5 years. (September 8, 2000)

Xi'an Lijun Pharmaceutical Co Ltd has been established on the site of the former **Xi'an Pharmaceutical Factory**. The US\$60m company will produce bulk drugs, medicine preparations and food preservatives. It claims a comprehensive distribution network containing eight sales companies and 180 regional sales agents. It recorded 1999 revenues of US\$82m and expects revenues to exceed US\$120m within two years. (September 8, 2000)

INDIA

Bayer India, the Indian subsidiary of **Bayer AG** of Germany, has received approval to set up a wholly owned subsidiary, **Bayer Pharmaceuticals**, in India. Bayer India will continue to manufacture pharmaceuticals at its unit and supply to Bayer Pharmaceuticals under a toll manufacturing agreement. Bayer Group will invest Rup70m (US\$1.5m) in Bayer India and transfer marketing activities to Bayer Pharmaceuticals. More than 300 employees will be transferred from Bayer India to the new subsidiary. Revenues in the pharmaceutical segment accounted for 4% of Bayer group's total revenues in India, and 12% of Bayer India's revenues. (September 8, 2000)

Davabazaar Online Ltd of India has launched **davabazaar.com**, India's first B2B portal to distribute generic drugs. The main objective of the portal is to add value to the marketing and distribution efforts of pharmaceutical companies by helping them to reach their buyers directly. (September 20, 2000)

Dr. Reddy's Laboratories Ltd (DRL), one of the leading pharmaceutical companies in India, has acquired three brands, *Dinoripe Gel*, *Deviprost* and *PG Tab*, in the segments of women's health from **Dai-Ichi Karkaria Ltd**, a Mumbai based specialty chemicals company. Dai-Ichi Karkaria produces bulk pharmaceutical actives, pharmaceutical formulations as well as pharmaceutical intermediates and chemical products. DRL has also entered an exclusive manufacturing agreement with Dai-Ichi Karkaria, for the latter to continue manufacturing the three brands. (September 15, 2000)

Ferring Pharmaceuticals Inc of the US will set up a research and development facility for peptide-based drugs in India. The company established its Indian subsidiary in 1998 and set up manufacturing facilities recently. It recorded 1999 revenues of Rup100m (US\$2.2m). (September 20, 2000)

Glaxo SmithKline plc of the UK will merge its Indian subsidiaries following the merger of the parent companies, **Glaxo Wellcome plc** of the UK and **SmithKline Beecham** of the US. The four subsidiaries are **Glaxo India Ltd**, **Burroughs Wellcome**, **SmithKline Beecham Consumer Health Care** and **SmithKline Beecham Pharmaceuticals**. (September 1, 2000)

Medybiz.com of India, an Internet and telephone health service company, is to set up a LDSP network, which will enable trading in medicines, equipment and hospital-consumables. The company has also formed an alliance with six pathological laboratories, 60 doctors and outsourced customer relations company **Mobilink** for its call center facilities. (September 23, 2000)

PharmaChem Network Pvt Ltd (PNPL) of India has launched a portal, www.myPharmaChem.com that allows access to pharmaceutical industry and real time news. The portal is a membership-based online workplace that contains information about Indian phar-

maceutical manufacturers, dealers, exporters and potential buyers in the industry. (September 11, 2000)

Ranbaxy Laboratories Ltd of India has acquired the generics business of **Bayer AG** of Germany. The acquired products, under the brand name *Basics*, will be incorporated into a newly set up 100% owned subsidiary, **Basics GmbH**, by Ranbaxy. Ranbaxy plans to add new products of its own to the portfolio and expects its revenues in Germany to be US\$5m. The company will manufacture the products in its facilities in India and Ireland and through licensed companies in Germany. Ranbaxy also plans to acquire small to medium sized companies in France and Spain in a move to double its revenues in Europe by 2004. (September 18, 2000)

Shantha Biotechnics Pvt Ltd of India has invested Rup45m (US\$1m) in **ABL Biotech** of India. Shantha expects to develop marine biotechnology, beta carotene and blood-clotting agents from seaweed and other marine materials through the acquisition. Shantha has also acquired a 51% stake in **East West Laboratories** of the US. Shantha recorded revenues of Rup330m (US\$7.2m) in 1999 and is expected to increase revenues to Rup600m (US\$13m) by March 2001. (September 13, 2000)

Strides Arcolab Ltd of India and **Bombay Drugs and Pharmas Ltd** of India have agreed to merge. Strides Arcolab is a contract research organization and toll manufacturer for leading pharmaceutical companies. It manufactures pharmaceuticals and nutritional supplement range from all dosage forms to therapeutic categories. The company recorded 1999 revenues of Rup1.7bn (US\$38m). Bombay Drugs and Pharmas is a manufacturer and exporter of pharmaceutical intermediates and specialty and performance chemicals. The merger is subject to approval by the High Court of Mumbai. (September 20, 2000)

Kohinoorpharma.com, an online pharmaceutical exchange, was jointly established by nine leading Indian pharmaceutical firms. The venture will market products and services of its founding members, set up a pharmaceutical exchange and develop a domestic web-based supply chain distribution network. The founding Indian pharmaceutical companies include: **Alembic Chemical Works Ltd, Cipla Ltd, Dr**

Reddy's Laboratories Ltd, Lupin Laboratories Ltd, Nicholas Piramal India Ltd, Ranbaxy Laboratories Ltd, Sun Pharmaceutical Industries Ltd, Wockhardt Ltd and Zydus Cadila Ltd. (September 25, 2000)

JAPAN

AstraZeneca Plc of the UK plans to merge its Japanese pharmaceutical subsidiary, **AstraZeneca KK**, and its 60:40 JV with Japan's **Sumitomo Chemical, Zeneca Yakuhin**. The new 80:20 JV between AstraZeneca and Sumitomo, called **AstraZeneca KK**, will produce a variety of products, including cardiovascular and oncology drugs, and is expected to have annual revenues of ¥100bn (US\$925m). AstraZeneca also plans to have 20 of its new products approved and marketed in Japan in the next five years. (September 22, 2000)

Fujisawa Pharmaceutical Co Ltd of Japan will merge its three domestic subsidiaries, **Izumisha Co Ltd, Shinryoshinsha Co Ltd** and **Hitomi Art Co Ltd**, into one unit in October 2000. The unit is expected to have revenues of approximately ¥500m (US\$4.7m). (September 25, 2000)

Kao of Japan and **Novartis Consumer Health** of Switzerland will set up a JV to develop and market OTC drugs, including drugs for the treatment of back and muscle pain and fatigue, in Japan. Novartis will contribute its expertise in the conversion of prescription drugs to OTC to the JV, and Kao will conduct sales through its extensive network of drug chain stores. (September 11, 2000)

Kuraya Sanseido of Japan will acquire a 51% equity stake in **Chiyaku**, a drug wholesaler in Japan. This will be the company's sixth wholesale subsidiary. Kuraya Sanseido expects to increase its revenues to ¥1,080bn (US\$10bn) after the integration. (September 13, 2000)

Mitsubishi Corp of Japan has acquired a 4% equity stake in **Iomai Corp**, a US start-up, for US\$2m,

through its **CZ Venture Operations Inc** unit. Iomai developed and patented a vaccine seal that allows vaccines to permeate the body through the skin. (September 6, 2000)

Pherin Pharmaceuticals Inc of the US has signed a research and option agreement with Japan's **Taisho Pharmaceutical Co Ltd** to discover, develop and commercialize Pherin's proprietary vomeropherin technology in three human therapeutic areas. Taisho will provide initial funding of US\$9m over a three-year period. Taisho is the leading OTC pharmaceutical company in Japan. (September 12, 2000)

Quintiles Transnational Corp (Quintiles) of the US has opened a **Quintiles Japan Pharma Centre** in Scotland. The center provides information about the European markets to Japanese pharmaceutical companies, especially medium-sized and emerging firms who wish to enter the European markets. The first Quintiles Japan Pharma Center was opened in May 2000 in the US. (September 11, 2000)

Sankyo Co Ltd of Japan will acquire **Pfizer's** stake in their 50:50 JV, **Sankyo Parke Davis**, through Sankyo's US subsidiary, **Sankyo Pharma Inc**, for an undisclosed sum. Sankyo produces pharmaceuticals, medical devices and diagnostics, as well as agrochemicals, food, cosmetics, veterinary drugs and fine chemicals. (September 20, 2000)

Shiseido Co Ltd of Japan has refocused its pharmaceutical division on four brands of dermatological products. Shiseido's pharmaceutical division reported revenues of ¥5bn (US\$46.5m) in 2000 and expects to increase the revenue to ¥10bn (US\$93m) in 2002. (September 13, 2000)

Takeda Chemical Industries Ltd of Japan and **BASF AG** of Germany have agreed to merge their vitamin businesses. Under the agreement, Takeda will transfer related assets to BASF. The two companies will form a JV in Japan for the sale and distribution of a joint range of bulk vitamins. Outside of Japan, BASF will assume sole responsibility worldwide for the combined vitamin product range. BASF is the world's second largest manufacturer of vitamins,

mainly fat-soluble types, while Takeda is one of the world's leading maker of water-soluble vitamins, with revenues of US\$210m. The merger has been approved by US Antitrust Agencies and is subject to approval from European and other competition agencies. (September 11, 2000)

Toho Pharmaceutical of Japan will acquire the business rights of the drug wholesale division of **Oshima Yakuhin** of Japan. Oshima Yakuhin had revenues of ¥1.4bn (US\$13m) in 1999. (September 13, 2000)

KOREA

Green Cross of Korea has sold its 80% equity stake, worth W10bn (US\$9m) in Korea's **Greenmate Corp** to **Fresenius Kabi** of Germany. Under the agreement signed by Greenmate and Fresenius, Greenmate will operate under the name, **Fresenius Kabi Green Cross**. It will serve as the basis for Fresenius Kabi to introduce its infusion and nutrition therapy products in the Korean market. Greenmate is one of the leading providers of parenteral nutrition in Korea, with 1999 revenues of W10.8bn (US\$16.2m). (September 13, 2000)

Santen Pharmaceutical of Japan has established a subsidiary, **Santen Korea Pharmaceutical Co Ltd** in Korea, in the hope of expanding into the Korean market. (September 13, 2000)

MALAYSIA

Unza Holdings Bhd of Malaysia has acquired 100% of **Gervas Corporation Sdn Bhd** and **Formapac Sdn Bhd**, two personal care product companies in Malaysia for a total of RM48m (US\$12.6m). Gervas Corp distributes and sells mainly haircare,

skincare, baby care and body care products, while Formapac is a contract manufacturer of personal care products. With the acquisitions, Unza will increase its market share in the personal care and household products sector in Malaysia, and add ten additional established trademarks to its product portfolio. (August 12, 2000)

SINGAPORE

Chiron Corp of the US has formed a JV, **S*Bio**, with **PharmBio Growth Fund (PGF)** of Singapore to develop pharmaceuticals based on small molecules. Chiron will invest US\$8m, a 20% contribution to the project, while the Singapore Government will invest the remaining 80%. As part of the agreement, Singapore will receive rights for genetic expression and combinatory chemistry processes from Chiron. PGF is run by an investment department of the **Singapore Authority for Economic Development**. (September 12, 2000)

Dairy Farm International, the **Jardine Matheson Group** subsidiary which owns **Guardian Pharmacies**, has bought a 51% stake in **Apex Pharmacy International**. Dairy Farm acquired the stake from **United Engineers Limited Group (UE)** for US\$11.5m. The enlarged chain now accounts for over 50% of the market in Singapore. Dairy Farm will acquire the leases, assets and staff of all 23 Apex stores. These will be rebranded under the Guardian name. Pharmaceutical products supplier **Grafton Pharmasia**, Apex's sister-company under UE, will be granted preferred supplier status by the enlarged chain. (September 29, 2000)

To submit stories to future editions of the *Asian Health Newsletter* please contact Kathleen Ng on (65) 533-8506 or via email at kng@bdallc.com.

THAILAND

Daiichi Pharmaceutical (Thailand) is now a 100% subsidiary of **Daiichi Pharmaceutical** of Japan, following the parent company's acquisition of the 51% stake owned by **Watana Inter-Trade Ltd** and the 15.7% stake owned by **Kanematsu**. (October 5, 2000)

FOCUS:

Japanese Pharmaceutical Industry

Japan's record long life expectancies and low birth rates have created one of the fastest graying populations in the world. This demographic trend is expected to continue for the foreseeable future, especially in the continued absence of immigration. A full quarter of the population is expected to be over the age of 65 by the year 2020 if current birth rate is maintained.

Pharmaceuticals manufacturers in Japan have long benefited from government-controlled prescription drug prices, non-tariff barriers against foreign competition and a national health policy that encouraged health professionals to dispense prescriptions. The equity market has long recognized the pharmaceutical industry's capacity to grow even during much of the economic contraction of the 1990s. The TOPIX pharmaceuticals sub-index was one of only two sectors that consistently outperformed the broader market during the past decade. A Bank of Japan study in 1996 found that the industry enjoyed an average net profit margin 6.5%, which substantially exceeds the sub-1% margins common in the automobile and electronics industries in Japan.

The government's accommodative pricing policy and absence of foreign competition have resulted in low R&D expenditure and a lackluster pipeline of new drugs. The **absence of high R&D budgets and**

few blockbuster drugs partially explains why M&A activity has been relatively quiet in Japan. Size does matter in the West, where development and marketing budgets can easily top US\$500m to bring a drug to market. Japanese pharmaceutical companies have historically specialized in licensing products developed abroad and distributing them in the domestic market.

This operating environment of the industry may be coming to an end. In response to public criticism and rising healthcare costs associated with an aging population, the government introduced biennial price reductions of between 6%-10%. Although this is not the first time the industry had to cope with government mandated price cuts, the price cut comes at a time when foreign competitors are increasing their presence in the Japanese market by taking share away from the domestic incumbents.

The key steps to survival in the industry will be R&D, partnerships with foreign manufacturers and cultivating viable export markets. The market leader, **Takeda Chemicals**, has been particularly active on this end, and is one of a handful of firms to have a deep new product pipeline of drugs that will be competitive in the global markets. We have profiled a select group of Japanese pharmaceutical companies that are now enacting large-scale reforms and/or have developed strong new product pipelines, which we believe puts them in a relatively strong position as the Japanese pharmaceutical industry begins to restructure and face more foreign competition.

1. Takeda Chemical Industries

Business Summary: Takeda is Japan's largest pharmaceuticals manufacturer. The company's product concentration is in ethical drugs (64% of revenues), but it is also involved in healthcare products, vitamins, agrochemicals and environmental materials manufacturing. The company's particular strengths lie in cancer research, ulcer agents and diabetic drugs.

Senior Management: Masahiko Fujino, Chairman; Kunio Takeda, President; Hideyuki Nagasawa, Senior Managing Director.

Ownership Structure: Nippon Life 9.3%, Daiichi Life 9.1%

Key Financials: Takeda's revenues increased faster than any of its peers, at 9.3% YoY for FY1999. Pharmaceuticals and Healthcare Products, in particular, saw robust growth, rising over 13.8% to ¥597.6bn (US\$5.6bn). Q1 00 (ending June 2000) results were equally impressive, with sales rising 14.1% on the back of strong demand for its mainstay products, *Basen* (anti-diabetic) and *Blopress* (anti-hypertensive).

Points to Consider: The company recently announced plans to withdraw from the bulk vitamin business. It will transfer the business to the new 33% held JV formed with **BASF** in July 2000. This announcement should complete the company's restructuring plans announced two years ago, which has encompassed withdrawals from cosmetics, veterinary medicines, and other unprofitable businesses. Takeda is one of the leaders in genome drug research, and has a first class development pipeline.

2. Kyorin Pharmaceuticals

Business Summary: Kyorin Pharmaceutical was established in 1940 but became a public corporation only in 1999. The company focuses on antibiotics, circulatory and respiratory drugs and chemotherapeutic agents.

Senior Management: Minoru Ogihara, Chairman; Ikuo Ogiwara, President; Hiroshi Uchida, Senior Managing Director.

Ownership Structure: **Apricot Co** is the major shareholder with 27.0% of the company. Closely held shares amount to over 50% of the equity capital.

Key Financials: Kyorin reported FY1999 revenues (ending March, 2000) of ¥46.9bn (US\$438m), and achieved gross margins of 70.6%, one of the highest in the industry. The company spent ¥5.58bn (US\$52.1m) or **12% of revenues on R&D** in 1999, which is approximately **four times the industry average**.

Points to Consider: Kyorin's strengths are in the development of antibacterial agents to treat respiratory diseases and antibiotics. The company's newest antibiotic is TEQUIN (gatifloxacin), a quinolone-based antibiotic that has been proven effective against community acquired respiratory tract infections. The new drug is marketed in conjunction with **Bristol-Myers Squibb**.

3. Toyama Chemical Co

Business Summary: Toyama Chemical Co is a comprehensive pharmaceutical manufacturer specializing in antibiotics and oncology drugs, which collectively accounted for over 52% of the FY1999 revenues.

Senior Management: Katsuhiko Nakano, President & CEO; Takeo Abe, Senior Managing Director; Hideo Sanada, Senior Managing Director.

Ownership Structure: Hokuriku Bank 4.9%, Sakura Bank 4.9%.

Key Financials: FY1999 revenues were ¥46.8bn (US\$439m), an increase of 3.8% from the previous year. Net profits fell to -¥4.65bn (-US\$43.5m) due to an extraordinary expense of ¥9.7bn (US\$90.7m) incurred from costs associated with its early retirement program.

Points to Consider: The company's restructuring program over the last six years has reduced headcount by 24% and streamlined the product line to focus on three areas: cerebral function drugs (Alzheimer's research), anti-inflammatory agents (rheumatoid arthritis) and anti-biotics. Toyama has formed various strategic alliances with domestic and US companies to market its neuroprotective pharmaceuticals under development.

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