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Japanese pharma cos consolidating presence through R&D investments

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The Japanese pharmaceutical industry, the second largest in the world, is moving ahead with extreme caution to overcome the new challenges it is facing such as soaring R&D expenditure, a drop in the number of new molecules and increasing safety demands by the regulatory authorities. A wave of major patent expirations in and around 2010 also expected to cause a serious impact on the margins of Japanese companies. The Japanese pharma industry is thus focusing more on R&D outcome and spread their presence in the US, Europe and Asia.

In Japan, the government is implementing measures to expand the use of generics amongst the people to cut healthcare costs. It has also introduced measures to resolve the drug lag (the lengthy period required until new drugs launched overseas are approved in Japan). The National Health Insurance (NHI) drug price revision in April 2010 has included additional price cuts for long-listed drugs, or off-patent drugs for which generics are available. In view of these conditions, pharma majors in Japan are concentrating their resources on areas of unmet medical needs that have high growth potential, and on development of antibodies and other biopharmaceuticals.

Competition to ensure future growth is intensifying with companies aggressively making large acquisitions and other investments to secure new drug leads. The impact of the new drug pricing system aimed at promoting the development of innovative new drugs will also give Japanese pharma companies an advantage over competitors. Long-listed drugs account for a mere 20 per cent of revenues, whereas new products that qualify for the promotional premium for new drug development make up more than 40 per cent of revenues. The promotional premium for new drug development will enable faster recovery of R&D expenses and encourage reinvestment of those funds in subsequent new drug development.

Considering the above challenges, the performance of five pharmaceutical majors in Japan viz., Takeda Pharmaceutical Co., Astellas Pharmaceuticals, Daiichi Sankyo Co, Eisai Co and Chugai Pharmaceutical posted satisfactory financial working during the year ended March 2010. The aggregate sales of these five companies increased by 8.3 per cent to US\$49,811 million from \$45,990 million in the previous year. The net income has taken strong jump of 110 per cent to \$6,031 million from \$2875 million, as Daiichi Sankyo has turned the corner and reported net profit of \$451 million as against a net loss of \$2,215 million in the last year on account of acquisition of Ranabxy Laboratories.

The constant exchange rate is taken between Japanese Yen and US Dollar for conversion of their financial figures as at the respective year end. The exchange rate between Dollar and Yen as at the end of March 2010 was 1:92.67 as compared to 1:97.27 as at the end of March 2009. Except, Chugai Pharma the year ended for all other four companies was March.

The gross profit after cost of sales improved marginally by 4.9 per cent to \$36,898 million during the year 2009-10 from \$35,177 million. The cost of sales of these companies amounted to \$13,019 million as compared to \$10870 in the previous year, a growth of 19.8 per cent. The selling and other expenditure of 5 companies also remained at same level at \$26895 million as compared to \$26,436 million in the last year.

Takeda Pharma maintained its leading position with almost stagnant net sales of \$15,815 million during 2009-10 as against \$15,812 million in the last year. This was followed by Astellas Pharma with net sales of \$10,517 million, Daiichi Sankyo \$10,271 million, Eisai Co \$8,664 million and Chugai Pharma, a subsidiary of Roche, \$4,544 million.

The sales of five companies in Japan stood at \$31,410 million during 2009-10 as compared to \$28,715 million, representing a growth of 9.4 per cent. Their net sales in US improved only by 3.3 per cent to \$15,877 million (excluding Chugai Pharma) from \$15,368 million and that in Europe increased to \$6,866 million from \$6,239 million. These companies are now spreading their business operations in emerging markets. The sales of these companies in Asia increased smartly to \$2,386 million from \$1,161 million mainly due to Daiichi Sankyo's sales increased to \$1,604 million (with acquisition of Ranbaxy Laboratories in India) from \$492 million in the previous year.

The R&D expenditure of leading five companies in Japan declined slightly to \$10,218 million during 2009-10 from 410,382 million on account of lower R&D expenditure incurred by Takeda Pharma. All other companies stepped up their R&D spending during 2009-10. Takeda's R&D expenditure declined by 31.4 per cent to \$3,197 million from \$4,657 million in the previous year. However, the R&D spending by Astellas Pharma and Daiichi Sankyo and Eisai Co increased by 29.1 per cent, 11.9 per cent and 36.4 per cent respectively during 2009-10. With higher spending on R&D these companies are gaining higher presence in highly regulated markets. These companies are mainly focusing on oncology, diabetes, central nerves system.

Under the new drug price scheme introduced experimentally in Japan, pharmaceutical companies allowed to collect R&D costs earlier by adding some amount of price to regular revised prices of new drugs meeting certain requirements through the patent protection period. Further, as per the new system, prices of the off-patent brand drugs will drop significantly after the patent period expires due to promoting the uptake of generics in the market. This will encourage the creation of new drugs activities. However, the new health bill passed in US, competition and volatile foreign exchange rates may put pressure on margins in the coming years. However, the long term outlook is consider to be positive.