James Wang, Country Managing Partner, Ernst & Young Taiwan

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James Wang, Country Managing Partner of Ernst & Young Taiwan explains why Taiwan's DIG (Diversify-Innovative-Globalize) strategy is crucial for the growth of Taiwan's economy over the next decade, why biotech will be the leading industry in this new strategy and that less reliance on China will be necessary for an independent and strong industry in Taiwan.

Please give a brief background of Ernst & Young (E&Y) in Taiwan.

E&Y established an office in Taiwan in 1969. With 45 years behind us, we are the oldest global accounting firm in the market.

Our key competitive advantage is the fact that we always put people first. E&Y is also the most integrated professional services firm in the world: over the last six years, this organization has worked diligently to better streamline and coordinate its services among all global offices in order to offer the best international platform to our clients. E&Y looks to provide the same consistent, high-quality service to every company we work with, no matter where they are.

E&Y is a committed partner to the life science industry. We are the leading audit firm among Fortune 100 life science companies in the US, and in Taiwan, we are actively positioning ourselves to help guide what is a burgeoning biotechnology industry.

As the world knows, Taiwan has achieved great success in the information and communication technology (ICT) sector. As the government implements a strategic directive to diversify to other knowledge-intensive sectors like biotech, E&Y can offer our years of global expertise to Taiwan's pharmaceutical and medical device companies.

What is Taiwan's Diversify-Innovative-Globalize (DIG) strategy?

DIG is a strategy that has been formally put forward by the chairman of Taiwan's economic council, Minister Chung-Ming Kuan. It describes the approach that should guide the next five to ten years of our economic development.

Taiwan needs to diversify. For quite a number of years, ICT has accounted for over 51 percent of our total output value. Recognizing that this country's reliance on a single industry is risky, the government has identified six emerging strategic sectors to focus on. One of these is biotech.

Taiwan chose sectors that could closely correspond to the seven strategic industries that its cross-strait neighbor, China, had itself chosen to develop. With the Economic Cooperation Framework Agreement (ECFA) between the two sides in place, Taiwan will gradually have better and better access to the Chinese market and to Chinese partners.

How successful has diversification been thus far?

We have a long way to go—our success will be measured in decades. But the strategy is very well rounded, and it is hitting its marks. A lot of new entrepreneurs, and a lot of new businesses, have sprung up. The government acts as a driving force behind incubators and innovation centers, and offers incentives. Meanwhile, hurt by the decline of the global economy and the falling prices in ICT, many ICT stakeholders and supporting actors are increasingly refocusing their resources on areas like biotech.

Taiwan defines "biotech" as a sector that spans pharmaceuticals, medical devices, and applied biotech areas like agriculture. The industry is extremely diverse, and it's filled with companies that are in most cases much smaller than their Western counterparts; however, that kind of structure is great for innovation, incubation, and cultivating a knowledge focus.

Our medical technology industry in particular has a great chance to succeed, because of its natural synergies with ICT. For a lot of high tech companies, moving into medical devices can be a relatively straightforward step.

What about the ‘G’ in DIG: globalization?

Taiwan has been a major global exporter for over two decades, and we want to continue that momentum. Recently, the government has worked to join regional trade alliances like the Trans-Pacific Partnership (TPP), but there are still a number of hurdles remaining. ECFA, however, is already a success story, and the two sides have just announced a service trading agreement as a continuation.

Today, there is great potential in China for Taiwanese companies that want to take their first steps toward internationalization. However, I believe that their thinking shouldn’t stop at China. If they want balance, they should also look to expand to markets like South East Asia, the US, and Europe.

Does Taiwan rely too much on its relationship with China?

I believe that it does. Currently, approximately 40 percent of Taiwan’s exports go to China, Hong Kong and Macau. This is very risky. If China’s economy suffers, Taiwan’s economy suffers as well.

The interesting point here is that our reliance on China is actually quite recent. From 1949-2009 (60 years) Taiwan maintained a relatively hostile relationship with our neighbor. It was only after the signing of ECFA in 2010 that things changed. First of all, China’s lower labor costs convinced a number of Taiwanese manufacturers to move their plants across the strait. Their exports still head to Western markets like the US, but the production location has shifted. Secondly, China, which is 60 times the size of Taiwan, has proved a lucrative retail market for us. But we need a better-diversified export strategy.

What are your thoughts about the capital market opportunities available for biotech companies in Taiwan?

In Taiwan, so-called ‘technology’ companies are given a particular certification that facilitates their entry onto the public market. The state has recently expanded this program to include biotech companies. A significant number of Taiwan’s pharmaceutical players in particular—many of them quite small, but with more than ten years of R&D under their belt—have leveraged this opportunity to make an initial public offering (IPO) in the last few years.

The fact that these companies have this route to the capital market is great. It means they have options. Among 2012 IPOs, more biotech companies (13 in total) went public than companies from any other industry. Their post-IPO price increase was also the second highest after the semiconductor industry. The market clearly sees great potential in this industry.

Is biotech too hot in Taiwan?

Perhaps it is. Investors need to consider whether biotech companies are focusing on evidence and efficiency. Having a great R&D base is important, but businesses cannot simply burn money. They need to constantly bring costs down, and consistently create value.

In the US and Europe, investors ask, “is this company efficient?” and, “what evidence is there that this company creates value?” Gradually, investors in Taiwan will adopt that kind of thinking when they consider a potential investment, but we are not there yet. There are definitely a number of companies out there that are overvalued.

In the West, it is often expected that larger biotech will acquire smaller biotechs, better justifying a high pre-revenue stock price. There is little evidence at this time that Taiwanese investors have the same exit. Is that an issue?

Given the recent challenges that Big Pharma is facing with the patent cliff, there has indeed recently been a lot of M&A activity among biotech companies in countries like the US. In any case, the very nature of the industry there demands scale, so for a long time the mindset in the West has been to acquire or be acquired.

In Taiwan, the situation is different. We are used to small and medium-sized enterprises, and we appreciate the flexibility they have. When these companies want to grow, their ambitions are ‘affordable’ for funding sources like venture capital firms. The size of their IPOs, in turn, is also quite a bit smaller than we see in the US. We are not talking about huge sums of money. I think that given their scale and limited funding, these companies are sustainable without having to look for a buyer.

Compared to the US, Taiwan’s biotech industry is still in the incubation stage. We are in the latter end of that stage, but we are not out of it yet. For now, the investments we’re seeing are enough, and the investors themselves feel comfortable. Five years from now, when the market becomes more mature and the next series of funding is beyond the reach of these limited resources, M&A will come more into play.

Unlike in the US, going public in Taiwan is a small player's game. M&A is for the bigger fish. In Taiwan even companies with a market cap below 15Mn TWD have a chance to get a taste of the stock market by trading on the so-called 'pre-GreTai' exchange. Our attitude is also different: our companies grow for the IPO, rather than grow for the sale.

Where do you see the industry in Taiwan in the next ten years?

Biotech is the key industry among the six sectors chosen to drive diversification in Taiwan. It is the new focus industry in this country—for the state, for academia, for the private sector, and for the investment community. The next five to ten years will bring about a harvest period for all stakeholders.

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