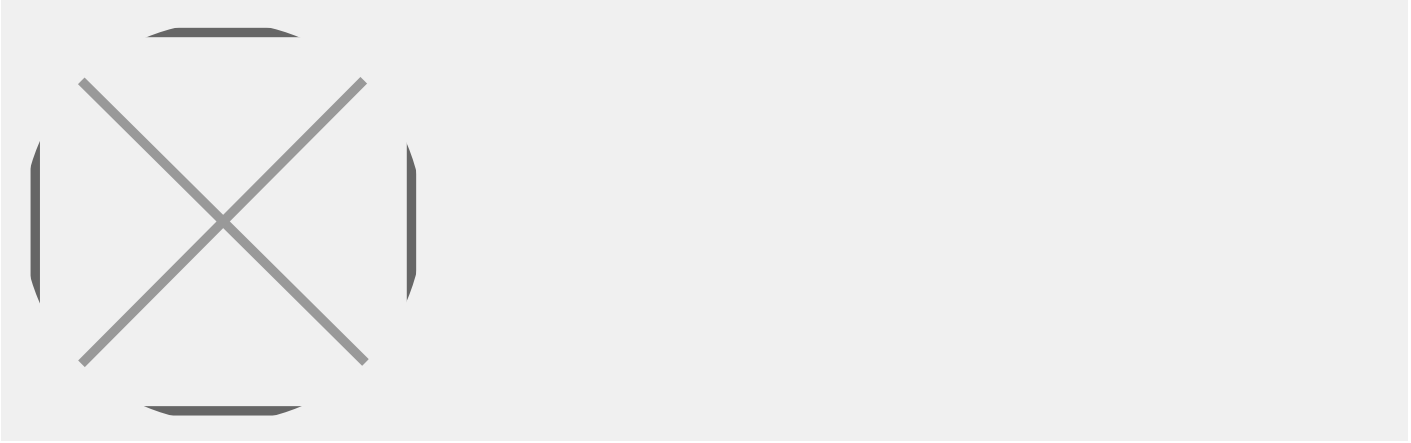
Interview: George Yeh, President, Taiwan Liposome Company (TLC), Taiwan



10.10.2013

Tags: liposome, Taiwan Liposome Company Ltd. (TLC), Biotech, Innovation

A 2006 article in CommonWealth Magazine detailing the genesis of this company reported that TLC had managed to "break out from the typical dilemma of ordinary biotech firms—to either engage in low cost, high competition generic drug manufacturing or expensive, time-consuming new drug development—by opening up a third road of innovation." What is that third road?

TLC's approach is based on creating value-added products. We do not look to develop first-in-class or best-in-class molecules. Instead, we innovate in areas like drug delivery. For example: can our delivery system turn a daily dosage drug into a weekly dosage drug?

Such products typically will generate yearly global sales of 400-500Mn USD, which I call the 'vacuum area.' At one end of the vacuum you have the top twenty companies, which are hunting for the next game changing, billion-plus blockbuster. At the other end you have small, localized generics companies looking to enter the market quickly, with products that can generate peak sales of 100-200Mn USD. Due to their lack of technical expertise, the small generics players cannot enter the vacuum area; Big Pharma, on the other hand, isn't very interested in it. As such, this third, value-added approach comes in under the radar, and is perfectly tailored for emerging markets—notably China—that are looking for discounted innovation.

Our core competency is in the improvement of existing drugs that have lost their patent. However, we can also offer a new lifeline for compounds that are under development and struggling. It is

often the case that the formulation can make or break an otherwise viable compound, and our bargaining power is enhanced when our formulations become ‘enablers’: must-have assets. For instance, we were involved in the development of one New Chemical Entity (NCE) that was originally discovered at a US research institution. We developed the formulation for the drug, and since we liked the asset, we acquired it. We got it for a knockdown price—because frankly, without our formulation, the product could never have succeeded.

What differentiates your strategy from that of your peers?

The Asian market is appealing for international pharmaceutical companies that want to develop drugs, for two reasons: cost containment and market opportunity. However, while it is easy to go from FDA requirements down to TFDA requirements, it is very hard to do the reverse. Part of TLC’s competitive strength as a drug development company comes from our ability to leverage cheap, local resources and still build a package that can ultimately be recognized by the FDA and marketed in the largest global market by population: China.

Our process is simple. We identify and acquire the appropriate asset, develop it in Taiwan, file for 505(b)2 application in the US designed for incrementally modified drugs (IMD), and perform Phase I and II trials in the US and Taiwan before migrating to China for Phase III. Relative to companies running Phase II trials in China, we find that ours is a more efficient strategy because Chinese regulators generally emphasize safety over efficacy, which can add an additional three to four years to the development timeline. We think we have found the perfect model for Asia.

A second differentiator for us lies in the fact that US companies do not aim to scale up. Biotech startups in the US want to get to the clinical stage as quickly as possible before passing the buck to the bigger fish, who take care of the remaining stages. However, the ‘bigger fish’ in China prefer to in-license products that are already approved. As a consequence of this clash of ideologies, US startups frequently hit a wall in China. Exploiting this clash is one of the things that makes TLC’s and indeed Taiwan’s biotech model interesting, original and efficient. We can fill the gap: we can provide a fast, green channel for Western emerging biotechs that are looking East.

A third differentiator is our emphasis on Asian-prevalent diseases like liver cancer. 90 percent of liver cancer sufferers are Asian, but the bulk of the drug development work for this and other Asian-prevalent diseases has typically been done outside of Asia. The drugs have been tested primarily on non-Asian people, so the data being produced may not hit the mark. We see an opportunity to address this issue, and create drugs that are truly tailored for an Asian population.

TLC initially planned to IPO in the US but ended up going public in Taiwan. How would you compare the mindset of these two investor groups?

There is a marked difference between the capital market in Taiwan and the US. For instance, in the US investors are willing to commit to the whole ride: as a company goes from no revenue to profitability. By contrast, Taiwanese investors are willing to take on some risk, but usually want to see a revenue stream before pledging financial commitment. This mindset is gradually changing, but we are not there yet.

Another difference is that in Taiwan, analysts will typically assign companies a lower initial value than they deserve due to the fact that financial penalties can come into play if a stock's price drops following the offering. In the US, on the other hand, brokerage houses looking for financial incentives pump capital into the system and inflate the price from the onset. It is difficult to say which is the superior system, but in Taiwan, due to the initial undervaluation of the company, it is harder for investors to lose confidence.

Our IPO has been good, because ultimately, our stockholders have made money.

At the time of your IPO, analysts forecasted strong net profit growth for 2013. Are they right? What is driving that growth?

Last year we doubled our revenue; in 2013 we are looking at high growth with that trend expected to increase next year. 2014 is a crucial year for us because our international sales and marketing partners will look to aggressively enter the various geographies with our products. If we get the green light in just one of these markets, we expect strong growth rates. In particular, we believe there is vast opportunity in China for our value-added drugs.

Do you believe that in the long term, the only way a biotech company can survive is by having truly innovative products?

Not necessarily. At TLC we do not endeavor to provide similar efficacy products, but to improve them and as such, this amends the price. For instance: if a daily dose product was sold at 100 USD, and I produced a superior weekly dosage product, the price could realistically rise to 300 USD. The tricky part is calculating the trajectory of the price of the improved product to assess how the improvement determines the new price. As such, the pricing analysis done by our partners is absolutely essential to deciding whether we develop a potential asset.

Is Taiwan on the map as a biotech hub globally and If not, why?

We see China as Taiwan's gateway to economic growth. Despite its problems, China is the market most investors want to tap into. The Taiwanese market is neither small nor big, but its advantage is that its business culture bridges the divide of East and West. The biotech industry has also been bolstered by an increasingly impressive and transparent stock exchange. If Taiwan can continue to develop a system where its products go through the US and Taiwan and onto China efficiently, then our reputation will be enhanced profoundly.

Furthermore, the continuing expansion of Taiwan's capital market is central to our ambition to become a global player in this industry. We may be looking at a bubble, but every new industry goes through a bubble: just look at the dot-com crash. I think bubbles can be good. They represent enthusiasm, and more importantly, they represent an influx of resources. When the bubble pops, you know by who is left which companies have good fundamentals and which don't. If we can survive a hiccup, we can position ourselves very well on the international map.

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