Interview with Joong Keun Cha, President & CEO, Yuhan

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Tags: Yuhan

Yuhan is one of the largest and fastest growing pharmaceutical companies in South Korea, with a long history in the sector. In your view, what are the main elements that have set Yuhan apart from the rest in the Korean pharmaceutical industry?

Yuhan was founded over 80 years ago, in 1926. It listed on the stock market in 1936, becoming the first Korean pharmaceutical company to be listed on the stock market. There are several factors differentiating Yuhan from the competition. First, there is transparency. That’s why the public respects us and we are viewed as the people’s company. In 1936 when the company was listed, the book value of the stock was 500 Won, however the market price was actually 5,000 Won. So the market price was 10 times book value. The founder, Dr. New Ilhan, believed that they didn’t go public to make money, but rather to allow the public to participate as stockholders. This would help the company create better and higher quality products, and also accelerate the company’s overall development. Thus, the founder actually set the IPO at 500 Won.

Dr. New Ilhan passed away in 1971, and when he died, he donated his personal wealth to society. He donated his stock holdings to various organizations. Primarily to Yuhan Education, an organization devoted to improving the country’s educational system. He also donated a great sum to the Yuhan Foundation. The Foundation is devoted to helping the underprivileged through scholarships and other programs. These two historical events, the initial stock price, and the founder’s social programs, contribute to the unique esteem accorded to Yuhan as a company and as a brand. This goodwill is unlike anything experienced by other Korean pharmaceutical

companies and represents great value to the corporation.

The Yuhan corporate structure is also unique. Yuhan Education and The Yuhan Foundation are the two largest shareholders of the company. The Yuhan Corporate Mission involves working hard to increase profits, but these profits go to the charitable organizations and subsidize their social welfare activities. This corporate governance structure is unique in Korea and the world. Many scholars are interested in studying the corporation. In order to maintain this system, the founder decided that his family would not be permitted to participate in the management of the firm. Thus, all employees of the company have a sense of shared ownership and purpose, which is highly motivating.

There is a shared mission, which propels the company forward. For example, there has never been a strike or major labor dispute throughout the history of the company. This is also a unique record for a major Korean company. This history and set of corporate values commands great respect from society and differentiates Yuhan from the rest of the pharmaceutical industry.

Yuhan has been involved in a wide range of business lines in the pharmaceutical sector such as new drug development, generics and API. How would you describe Yuhan’s business focus today?

Our domain in the drug business can be described in three points. First is R&D. In R&D the goal is to produce products that customers need and want. In Korea there are ten major diseases. Our target domains include central nervous system, circulatory system, cancer, gastrointestinal system, and antibiotics. These are the types of drugs with high consumer demand. Six years ago, antibiotics dominated Yuhan’s product portfolio. The other drugs I mentioned, circulatory, cancer, gastrointestinal and CNS, were a very small part of our business. I have changed this by adding these new focus areas. Going forward, these four areas are targets for all our new product offerings whether, it be generics or new drug development.

Our recent R&D focus has been on stress related disorders. According to the WHO, by 2020, stress will be the number one cause of illness worldwide. Therefore we are very interested in stress related drugs. The overall direction of our research is stress, but there are two main divisions. First is therapeutic drug development, and second is prevention and diagnosis.

Another area of focus is improving the quality of service. We are trying to think from the customer perspective in terms of increasing efficiency and quality. In detail, we are trying to improve the quality of design in our drugs, increasing the stability of the drugs by enhancing positive effects while minimizing side effects. We are also trying to design drugs that are longer lasting in order to save customers the hassle of taking them multiple times per day. Our focus is primarily

incremental, to increase the effectiveness, stability and convenience of our existing drugs. Our strategy is to differentiate our products and specialize in our key products.

The third key strategy is to produce high quality drugs, at a lower price.

Yuhan has been very successful in generics, in particular recently with Atorva. What has been the key to Yuhan's success in this area?

I believe that there are two reasons for our success in the generics market. First is the sheer size and growth of the market. Second is our success in marketing. In the case of Atorva, we were successful in part because of our pre-marketing campaign, which lasted for a year before the official launch. The key to success in marketing is with distribution of resources. Yuhan is fortunate to have the most invaluable asset, which is our staff of 600 highly skilled and motivated salespeople.

How active is Yuhan in terms of establishing partnerships with international players in the pharmaceutical industry, and are the main areas of collaboration?

Regarding our international partners, we use a real option approach. We have three main types of partnership agreements. First, we establish joint ventures. Secondly we engage in contract manufacturing, and thirdly we engage in co-research. We have two main joint ventures with Wyeth and Johnson & Johnson in drug development. We also have a major JV with Kimberly and Clorox. The Kimberly joint venture is an example of how we have diversified our operations beyond Pharmaceuticals and into non-drug products such as hospital supplies and sanitary products. We recently expanded the terms of our agreement with Kimberly to include hospital supplies such as masks, gowns and bandages. We are also doing co-research with Kimberly to further collaborate in the hospital supply business. Thus, we are engaging in vertical diversification, and expanding into other health related business. On the contract manufacturing side, our major partners are Roche, Gilead, Abbot and Baxter.

What is the scope of Yuhan's globalization process and its main international business activities?

In the USA we currently have three products authorized by the FDA and in Europe we are in the process of registering, which should be completed by the end of 2009. Our CMO strategy involves both products for export as well as domestic consumption. For developing markets such as South East Asia and Latin America we will not be working with multinationals. In these regions, we have two main strategies. Firstly, we are creating partnerships with local companies for import and distribution. Secondly, we are providing these companies with bulk raw materials in order for them

to manufacture locally. We recently developed a new drug called Revanex, which is a drug related to the gastrointestinal system. We will be distributing Revanex in China, South East Asia and Latin America as described above in addition to the rest of our incrementally improved drugs.

Yuhan has recently jumped to the second place in the market among the Korean pharmaceutical companies. What is the company's vision for the coming years?

In 2008 we reset our five-year vision, which is to be the number one health related company in South Korea, with global competitiveness. Our goal is to be a $1.7 billion USD company by 2014. We have two concrete goals. In addition, we are also aiming to maintain 15% operating profits, because of course turnover is important, but having profits to reinvest is essential to the sustainability and growth of the company.

What is your final message to the international readers of Pharmaceutical Executive?

Yuhan will produce the best medicines to serve humanity by alleviating suffering from disease. In order to accomplish this, all members of Yuhan will maintain honesty and integrity as their core values. We will also increase investment in R&D to pursue sustainable development for the company. Our basic goals are thus to improve financial performance, to improve environmental performance, and to improve performance in social responsibility.

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