Interview with Liu Dianbo, CEO, Luye Pharma

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Tags: Luye Pharma

What was the transition like from academia into entrepreneurship and what challenges did you face in beginning this company?

I realized during this period in the late 1980s that there were no local Chinese companies doing what I wanted to do at the time so I saw there was an opportunity.

Currently, the company has many drugs that are derived from herbs and we have seen that his has become a popular segment in China. While a lot of people are working in this sector it is also a challenging one when it comes to mapping the active compounds to meet Western approval guidelines. Thus, we have noticed several companies give up in this pursuit; do you see this as a trend in the industry? What direction will Luye Pharma take?

Firstly, I would say herbal medicine is very important but it is only one part of our company. Our R&D has two directions; one is focused on single compound extraction while the other is on drug deliver systems. We still believe herbal medicine has a future with a lot of opportunities coming from herbal compounds. Currently, it does not appear as good a sector because there you have to invest a lot of money as well R&D up front and no one has been able to do it so such an extent as a multinational would be capable of. It is a pity that so many companies have given up just short of succeeding in this segment.

Do you think this is a question of not having enough resources or is it perhaps more scientific barriers that need to be crossed before this can turn into a global industry?

There is two perspectives to consider in this, the first being investment and time horizon while the second is the global perception of traditional Chinese medicine (TCM). At the moment, TCM is largely ignored by Western consumers but we hope that as China rises on the global scene that TCM will become more widely accepted as an alternative in the market.

Luye Pharma has a very large market penetration in China, particularly around the coastal regions. Do you see a move towards the interior in the near future and do you believe the healthcare reform will increase the speed of this process?

Our company has an extensive product portfolio and in the future we will still enlarge our hospital coverage. With reform it is possible that different hospitals will begin to cover new products and perhaps expand our exposure on the basic reimbursement list. In specialized areas such as oncology and cardio vascular we will focus more on exposure in large hospitals and increase the output in these locations.

You recently made a marketing and distribution deal with a foreign company which is very common in the more sophisticated markets such as the US and Europe however, until now we have not seen it in China. What made you realize the market was ready for this kind of deal with a foreign enterprise?
In the future, China will follow the same trends as the more developed markets where certain companies focus on specific markets and other firms collaborate with them. Of course, this will take place over the next decade and its adoption will depend on two things, namely the government policy on manufacturing and marketing licensing and whether the two can be separated. This is in addition to the development of new drugs in China which will demand further marketing practices out of R&D oriented companies. I believe that multinational companies have changed their strategy from licensing their products to collaborating with local companies.

Luye Pharma recently cut out its API side of the business. When you made this decision did you see it as a risk or was it the logical next step in the evolution of the company?
It’s a strategic decision because we want to be a formulation company not an API manufacturer. After examining our company internally we saw that our strength was in formulation not raw material manufacturing so it made the most sense to divest from API. Previously, we engaged in API in order to establish a bridge between our business and those overseas so the first step was to engage in export operations. Now that we have experience working farther up the value chain and that foreign companies are familiar with us we can focus more on exporting our formulation products.

You have a number of agreements, such as the MOU with the Government of Scotland and product deals in the US. What is your vision for the evolution of these international relationships and the globalization of Luye Pharma?

Globally, we can separate our collaboration into three different segments: technology, trade and financial. In technology we are focused on both license in and license out for our product portfolio. For trade we look for distribution partners to bring more of our formulations to overseas markets. Financially speaking, we are concentrated on joint ventures as well as M&A where we look to either enhance both operations in win-win scenarios or gain exposure to emerging areas. Our goal is for other companies to think of us as an international company rather than a local company with some global business.

We have noticed a lot of co-development and outsourcing of R&D via virtual resource networks. The challenge stems from the fact that this is an emerging area without any established leaders. How is Luye Pharma positioned in this sector and how are you preparing for the anticipated rapid growth?
We welcome every approach to co-development because we realize you cannot rely solely on one company’s resources in this market. The basic requirement is that both parties have the same target goals for a project.

One of your areas of focus is in drug delivery systems which is a very specialized market however a very small one as well when compared to some wider markets. While there is potential for growth in the near term it will not become a major niche. How are you looking to leverage your strength and continue to grow in this sector?

At the moment, drug delivery systems only contribute to a small segment of global healthcare but it is set to increase as even large companies are looking into the sector. Luye is a small company that cannot afford a lot of new drugs so we decided to focus on differentiating our drug delivery systems and concentrating on the most difficult applications with the aim of using these platforms to make a global standard. Most of our products in this segment have global patents and look well positioned to contribute heavily to our global sales.

Can you give us a synopsis of the commercial success of the company as well as results from last year and perspective on the coming year? Which products are driving your growth?
For the last two years the biggest contributor to our growth has been our oncology segment and we believe it will be the same this year. Additionally, our hepatology and cardio vascular drugs should be supporting drivers. Most of our products are unique so they take time to gain the proper

approval overseas, thus the only products we export at the moment are generic.

There was very impressive growth in the company during Q1 2009; do you expect this level of over 50% growth continuing in the near to medium term?
Due to the securities information laws of the SGX we cannot provide a definite forecast but we think our growth rate can exceed that of the total market in China.

Currently, there is massive growth in the overall Chinese market which is putting a lot of pressure in terms of Human Resources for many companies looking for the best researchers, sales persons and IT professionals. Interestingly, Luye Pharma is not based in Beijing or Shanghai, major centers for the industry. Do you see this as an advantage or disadvantage for recruiting talent?
This scenario is especially true for senior management talent where we are looking for people with both the managerial skill as well as the global experience. We have several offices including locations in Shanghai, Beijing and Singapore where our management talent is so this is a consideration for us, where as in Shandong and Nanjing, most of our employees are on the manufacturing, R&D side of the business. In order to attract global talent we have to meet several of their needs such as having a clear vision and aspiration for the company. We also have to offer a good enterprise culture as well as a good incentive mechanism to motivate people.

Often a challenge entrepreneurs face over the life of their startup is the changing face of the company. In the beginning an enterprise is a representation of your values and direction yet over time it continues to grow larger. What are you doing to continue moving Luye Pharma in the direction of your original vision and keep the initial values at the core of the company?

Firstly you need to establish a good management system in order to manage the company’s growth while secondly, it is important to introduce executives with modernized management experience. The vision and culture a company is really the soul of the organization, while it can be optimized there are certain aspects that cannot be changed.

Luye Pharma has had a number of milestones as well as awards and recognitions over the years. What will be the next milestones for the company in terms of growth and goals over the next five years?
We are only 15 years old so we are still a relatively young company so our R&D still has some time to mature into a full pipeline but we see a very good future. In the coming years we would like to launch one of our own drugs into the global market, especially developed countries. The coming years should see a maintained rate of high growth and keep our position among the top 20 local pharmaceutical companies.

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