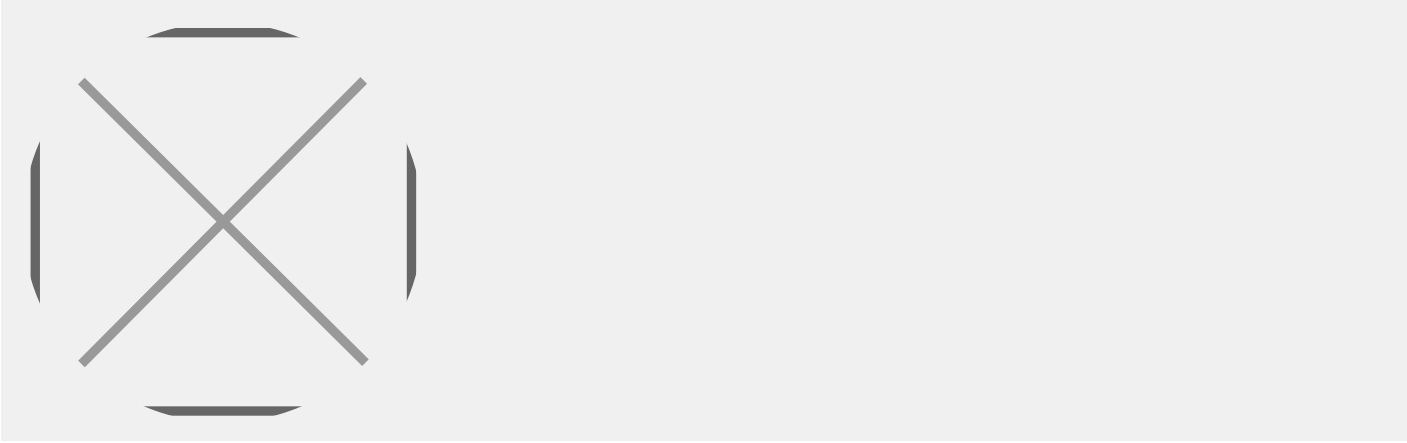
Interview with Ronald Christie, VP Interntaional Operations – General Manager China, Novo Nordisk China



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We found a Capital Markets Day presentation from Novo Nordisk that talked about the “rule of halves” – that of all people with diabetes, 50% of diagnosed, and of those 50% have access to care, and of those 50% get decent care, and finally 50% of those reach their targets. How does this rule play out in a China context?

The rule of halves is a general measure that’s discussed worldwide as an example to show typically what happens everywhere in the world: that most people are not treated very well and miss their targets. The figures we show in our presentations are results of specific surveys or clinical trials in China. It’s disappointing here, but it’s disappointing around the world. Not enough patients get to target – even during clinical trials! If not everyone gets to target when they’re intensely involved and monitored, you can imagine that with a regular GP, unless people suddenly become very motivated, they will not achieve their targets then either. This means we need to continue to develop better drugs. In China, as elsewhere, there’s a reluctance and delay in intensifying treatment. Especially when the diagnosis is first made, doctors still believe patients will do the diet and exercise they need to, but everybody knows they won’t, and it’s a slow process to upgrade the treatment. Novo Nordisk has tried to change that paradigm via two means. One is to do much more work on doctor education for both diagnosis and treatment. The other is by providing a lot of information for the patients, and if you can get both working together you can improve those figures for them.

Some major studies have been conducted in China regarding treatment and diagnosis rates to determine the numbers. Two major studies on diabetes prevalence in China have been released. One in 2007 was published in the New England Journal of Medicine, which put the number at 92 million. The study was led by Chinese Diabetes Society head Dr. Yang Wenying at the Beijing United Friendship Hospital, and is considered an accurate study. Another study done in 2010, with a wider scope, conducted by the Chinese Endocrinology Society together with the MOH who were interested in checking the figures, and they came back at 96 million. This has been published in China but not yet in the West. The bottom line is that there are a lot of diabetics out there, and the numbers are growing significantly. We know that for ethnic Chinese populations around the world, there's approximately a 10% prevalence of diabetes, and that's what we're seeing in the big cities like Beijing and Shanghai. The overall prevalence in China as a whole is less, and there is still a gap between rural and urban areas, but it's closing. In the long term, if nothing is done to avoid it, 10% of China's population could have diabetes. Even at 92 million, that makes it the highest population in the world.

Unfortunately, it remains the case that often patients are found to be diabetic only after showing other symptoms, and by that time they've already had the disease for years.

With respect to diabetes, was the Healthcare Reform Plan of 2009 a success or failure?

Definitely a success. China is a big country, so anything's difficult, but they set five objectives. The first was to extend basic coverage to everyone, which has essentially been done, and most everyone has access to basic healthcare with growing coverage. As the government continues to invest on an annual basis, the Chinese government spends more and more of its GDP on healthcare – and although if you compare to the U.S., for example, it's nowhere near the same, things are getting better.

The second target was around infrastructure, and there we have seen phenomenal progress. China traditionally has always thought in terms of infrastructure: build a big hospital, fill it with doctors. They have built a fantastic number of county-level hospitals, and while they don't yet have all the doctors yet, I'm confident that they're coming. The government is also supported by MNCs like Novo Nordisk, who contribute a lot to education and training, pushing out into smaller and smaller cities and hospitals.

Novo Nordisk on the vanguard of R&D in China, as the first MNC to establish research facilities here. In 2009, we met with a number of IP law firms who advised their clients against bringing core research to China. Has this stigma changed since then?

I don't believe the stigma should hold anybody back, and it certainly doesn't hold Novo Nordisk back, but you must think about what you bring, and bring it intelligently. There's still a danger of a lack of ethics on an individual basis, like everywhere else in the world, but it shouldn't stop anyone, and if you register your products and IP properly, it's not a concern.

We've spoken to a number of your counterparts about local producers "closing the gap," even if right now the number of companies are very few who can compete with MNCs. However, it has been pointed out that the domestic market as far as MNCs concerned, could be considered a nice party that will soon end when locals ramp up production and quality and the government then references prices; how much of a threat do you see this scenario for Novo Nordisk in China?

I agree that the locals are ramping up, and the quality is getting better, but I don't see them as a threat to innovative companies like Novo Nordisk. The local industry is setting itself up to be a generic or biosimilar industry. There's not a lot of innovation or originality in Chinese pharmaceutical industry, and no new products; China has a huge market and need to supply drugs for its people at low cost, and it has built an infrastructure to do so consisting of thousands of companies. Most of those are generics producers, and some are stepping up to produce higher quality, and maybe even exporting, but they're not really involved in innovation. I don't feel a threat because Novo Nordisk's innovation will continue to set us apart from local companies for a long time. Even though the government has announced its intent to become involved in the field of biotechnology, from what I can see and hear, what they're really talking about is setting up a biosimilar industry. That's where I think MNCs have a role to play. MNCs that want to get into the generics business in China will find it extremely difficult unless they have an extremely competitive production base. If you're in small molecules, it's even harder – I wouldn't want to be in small molecules competing with Chinese producers! Novo Nordisk is exclusively biotech, which is not so easy to get involved in, and very difficult to produce on a large scale, with high quality. That's what sets Novo Nordisk apart, and we have many new drugs coming to the market on a regular basis.

In that slide deck from Capital Markets Day, your last line was about looking forward to the Victoza launch in the second half of 2011. How ready is China for innovations like Victoza?

The launch went very well according to IMS data, better than any other launch of incretin drugs. And that's because, first of all, Victoza is a fantastic product. It's a very safe drug that Key Opinion Leaders endorse, and also has an interesting side-effect that it actually causes weight-loss, unlike most diabetes treatments which cause weight gain! Some of the other drugs are nowhere near as effective as Insulin or GLP1 products like Victoza. As a consequence, doctors like to use more effective, safe drugs. Our sales are far ahead of expectations, but compared to the rest of the world, it's a slow uptake in China. The product is totally self-paid, and at this stage we count about 10,000 patients. It'll be a long time before the number increases, because it takes a long time to penetrate all the hurdles surrounding reimbursement, pricing, hospital and provincial listing, etc. And new drugs are totally self-paid, for the first few years, anyway.

Novo Nordisk announced a landmark investment in 2008 of USD $400MM in building new Tianjin facilities, which were expected to come online in 2012. How has that project

progressed since?

The factory's finished, and the validation and GMP approval of the plant is underway. We have approval already for export to Europe, and we expect approval for China by the end of this year. It takes a long time, of course, but when you consider that this is the first direct technology transfer of such a biological product, Novo Nordisk has been a pioneer in this case, and working hand-in-hand with the SFDA to go through the process.

What did you learn during that process?

Novo Nordisk is in China for the long-run, so the fact that it takes longer to approve a factory here than elsewhere is par for the course, and we accept that the benefits of being in China outweigh the delays of regulatory approval hurdles. The basic problem is the lack of capacity in the SFDA. They really need to gear up if they want to approve quality and control, and they need enough inspectors to go out and make the necessary checks. It's a combination of both numbers and training issues, but it is primarily and first of all a numbers issue – there simply aren't enough people! Also, the SFDA don't decide for themselves how many people they get; it's decided by another government department. There's a central department that's not increasing government staffing levels at the moment. The government talks a lot about improving its pharmaceutical and biotechnology industries, but it can't increase the size of the SFDA, which means it takes much longer in China to get clinical trials approved than elsewhere. It's simply a backlog of work. There's a misfit between stated goals and the resources provided to achieve them. The SFDA does a good job but it's dramatically understaffed.
In the case of Novo Nordisk, building a factory that produces insulin, that's rather complex and it takes time, and as with any first there are many new things to be learned on both sides. But the SFDA has been very cooperative, and we're working very well with them, and we expect the plant to be completed by the end of the year. If you're in biotech and you want to be in insulin, you had better be prepared to invest big bucks for a long time. That's why the segment is led by a few major companies around the world.

Novo Nordisk is #1 in diabetes by quite a wide margin. What are the biggest concerns from the view from the top?

My biggest concerns are about where the government is going to take the industry. I get the impression that China likes to do things itself. I would like to see the Chinese government want to be part of the global pharmaceutical industry rather than just control the domestic industry. To do that, it needs to be a partner. If you look at how research is done around the world., it's not done in one little laboratory somewhere, but distributed all over the world. Novo Nordisk's R&D laboratory works as a piece of an integrated global system; similarly, the best approach for the Chinese government would be to integrate into the worldwide pharma industry rather than see foreign firms

as separate and hoping that one day they can do without us and do everything in-house, as has been the case in the car, wind turbine, and aircraft industries. I don't believe that China can necessarily do every single thing more efficiently than everyone else in the world.

I'ts often asked why China doesn't have global brands. They have brands that are becoming better known, but what they need to do is to choose a few industries and companies and make them world leaders. But when you try to do everything yourself, it's not going to happen. That's my biggest concern, because it's a mistake for us as international companies, and it's a mistake for China. Look at India, which went down the route of not recognizing IP and compulsory licensing. As a result, India has become a generic producer of not world-renown that is not highly competitive on a worldwide basis, and there are hardly any new drugs coming out of India. My fear is that China may end up like India in this respect.

Isn't that an advantage, in a sense, for companies like Novo Nordisk, if locals will ultimately not stand a chance of competing?

It may sound like it, but there's the potential for the same scenario that has arisen with the power companies; it becomes a matter of access, through price control, exclusion from national reimbursement lists, etc. Novo Nordisk may have a fantastic drug like Victoza, but so few people will have access to it because the government won't reimburse, and if they do it takes a long time.

You received a Lifetime Achievement Award in 2010, but your life is not yet over; what achievements would you like to see here in your remaining time with Novo Nordisk China?

Novo Nordisk will continue to be the leading diabetes care company by far, and we have a strong position that we've earned by determination and hard work coupled with really good products – and we'd like to stay there. I'd be happy to maintain that lead. We're in a market that everybody's trying to get into, and we have the ability and position that we'll still be the leading company for the long-term.

From a patient point of view, I'd like to see that diabetes patients have a better access to treatment than they have now. Most people have access to treatment, but they have restrictions in terms of funding. The government is increasing healthcare spend, up to now about 5% of GDP, but compared to other countries it's still very low for the environment. I hope in the future that they can access better treatment, because the rule of halves exists here as well.

When Novo Nordisk does good business, we know we're doing good for people. Currently there are about 4 million people on Novo Nordisk products in China, and we expect to see that grow significantly in the future, and we know that every time it does, they're getting better treatment, because there's no better treatment for diabetes than insulin.

Overall, China is an extremely rewarding and exciting market for companies to operate in. Whatever you hear about China, it's always fun to work in – exciting, dynamic, and not easy – it's like Europe and even more complex. But there are rewards, and there's no MNC that's not doing

well. It’s already the second-biggest economy, and you have to be here, and whatever the happens, I don’t see that changing in the near future. The government is open to foreign companies, and people in China want to get better treatment. When it comes to diabetes, those treatments, for the foreseeable future, are going to come from innovative companies like Novo Nordisk.

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