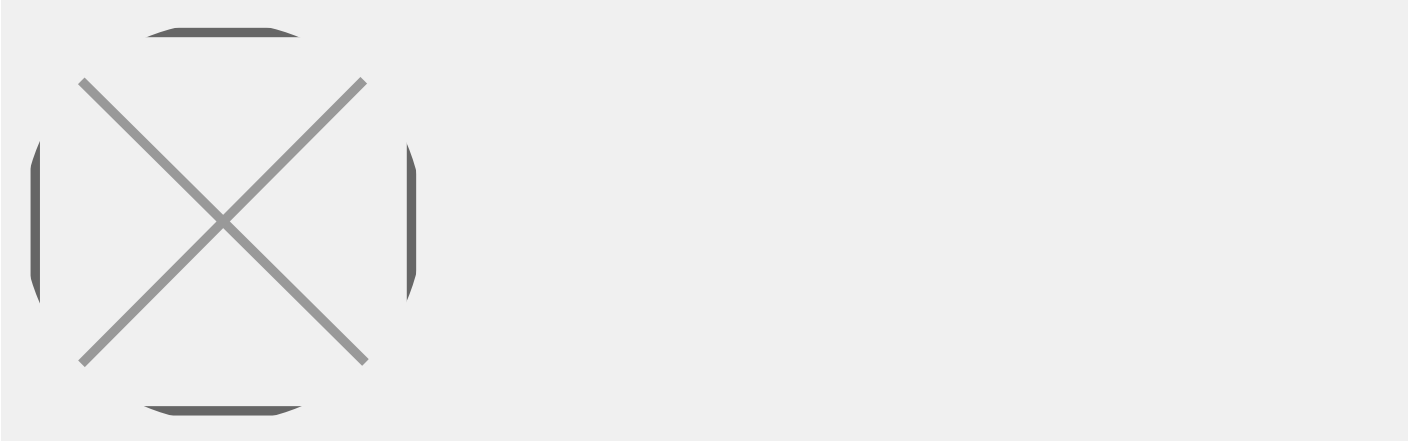
Interview with Linda Reid, Commercial Director, IMS Health South Africa



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Mrs. Reid, how would you define and describe the generic part of the South African pharmaceutical market?

Linda Reid: South Africa is very much a branded generics market, and not a commodity generics market. The brand is important in South Africa and a lot of our generics are not International Nonproprietary Names (INN) generics. They are either company branded or they are named branded generics. There tends to be an allegiance to the branded generics rather than the INN unbranded ones.

If you compare South Africa to other countries, you will often find that there is a much lower generic penetration, particularly when compared to those countries we refer to as ‘mature markets’ – the USA, Canada, Japan and the top five European markets. Relative to most of those countries our generic penetration is not as advanced, and that is just talking about the private sector, which you would expect should behave quite like a mature market at this stage. Instead, the price differences between generics and originators in SA are not as significant in most cases.

Symon Vokes (Senior Manager): It is around 40% which is close to the price for a generic as percentage of the original drug price that had been proposed for the international benchmarking exercised, generics are not benchmarked. Pseudo-generics are an interesting case and are being challenged by some generic manufacturers and their industry association. The original manufacturer and manufacturer of the same pseudo-generic is perceived to be anti-competitive by and said to hinder the access of true generics by for example influencing the market price of future

generics.

Worldwide, we have noticed that business models are transitioning to hybrid players. The line between research based companies and generic companies is less and less relevant. To what extent are we seeing this happening in SA? Do local generic players have the capacity to go and patent products and ensure a pipeline, and on the other hand, are local players interesting targets for the innovative industry?

Linda Reid: Just two days ago, a local company that was owned by an Australian company, Inova Pharmaceuticals, was purchased by Valeant. Inova's presence in South Africa is predominantly generic molecules while Valeant is very much a specialist company; clearly Valeant wants to establish a local presence in South Africa and perhaps a foot-hold into Africa. We increasingly see these kinds of operations. Also, as you mention, it is becoming difficult to distinguish between a generics company and a branded company. There are many companies that sell both brands and generic products.

Symon Vokes: If we look at the case where Adcock Ingram had proposed to acquire the share capital of Cipla Medpro, an offer was made to shareholders but the supply chain and pipe-line from Cipla in India may have been threatened by such corporate activity and this may have been one of the reasons for the deal not to have taken place.

Although there may not be scope for mergers and acquisitions within the large (listed) companies there may still be scope for this to occur with smaller companies particularly those not listed on the local bourse.

How do you think the generics space will be utilized in the context of the National Health Insurance (NHI)?

Linda Reid: Of the two sectors of the market at the moment, the public sector currently relies heavily on generics and the private sector is mixed, as you would expect. Typically when you analyze the market, most of the multinational (MNCs) pharmaceutical companies are mostly interested in the private sector because it holds the bulk of the value of the market.

Nevertheless, as we move more towards NHI, the only way the government can afford to implement healthcare coverage for all, is firstly by suppressing prices of the brands which they are planning to do using International Benchmark Pricing as a cost-containment mechanism, and secondly by an increased emphasis on generic utilisation. So yes, absolutely, under NHI we will shift more and more to generics.

Symon Vokes: I also believe they may set up their own state manufacturer which will centrally procure products for the country with a likely slant towards generic molecules. The hope is that we do not get a situation in South Africa similar to that in New Zealand, where the multinationals limit

their presence due to for one pricing regulation. It does not have a short term impact initially, but it means that some of the new products that are coming out may not be launched in New Zealand at all. Therefore in five to ten years time you will have a stagnant and old portfolio of the not most effective drugs because the new and effective drugs are simply not there.

That has always been a threat ever since the government started to regulate and legislate around pricing, that some companies may choose to leave South Africa and this decision may be aided by the fact that South Africa is a small percent of the global revenue.

Linda Reid: I suspect the trend that we are going to see in the next few years is regionalization. At the moment most MNCs have either what they call CEOs of the local organizations or general managers, and for the most part those individuals run the South African operations. The trend that has already started is a bit of internationalization: many local GMs and CEOs have been replaced by international colleagues in the last 18 months or so.

Going forward, I believe we will have companies that operate with regional remit and South Africa will be a component of that region, with a sales- and marketing-focused team in South Africa without as much of a ‘local headquarters’ presence. The more the government regulates, the more I think MNCs are going to push towards regionalization.

With regard to NHI, to what extent is IMS able to help its clients apprehend and integrate the changes happening in the market driven by the new healthcare reforms?

Linda Reid: Healthcare reforms in South Africa are a challenge for any company, because the timing of implementation of regulation and legislation is often unpredictable.

A case in point is the international benchmark pricing. We have seen three iterations of draft legislation over the period of the last five years. The latest one is as close to final as we have seen. The government has addressed some of the issues that industry has raised and commented upon on previous legislation, but a few gaps still remain. Now we believe the government needs to use mechanisms like IBP to reduce the price difference between public and private pharmaceuticals as we head towards NHI. However, timing of IBP final legislation is still a complete unknown, which makes planning a little difficult.

On a syndicated level, we have a five-year forecast that we have produced for most countries, called Market Prognosis. It is a comprehensive report that outlines the entire market and also predicts for the next five years what we think the trends are going to be in the retail market and in the overall market. This report aids people to understand the current healthcare situation, and the nature and extent of expected changes.

In terms of support for our clients, we are very well placed with our Consulting capabilities, as we have many years of global experience helping clients to understand and adapt to healthcare

change. We have worked with clients in many other countries to make the most of new circumstances brought about by national health systems, and are in the unique position to leverage that experience to advise and support our clients' decisions. We are currently putting together a report on what IMS believes is going to happen with the advent of NHI, and how we suggest our clients should adapt and prepare for it. We expect to have that report completed in the second quarter of 2012.

How important is South Africa for IMS Global?

Linda Reid: Although the local operation is dwarfed by many other countries in terms of revenue contribution, South Africa is strategically important to IMS in the same way that it is for many of our clients.

Many multinational companies are using South Africa as an access point into Africa. IMS is putting a lot of emphasis on growing our presence in Africa in the next five to six years so that we're able to help clients quantify, understand, and develop into those countries, and South Africa is going to be very important as a base for this development.

Symon Vokes: South Africa has a two-tier health system with the majority of the healthcare spend within the private sector which services only 17% of the population. With the onset of NHI whole population will be considered in one system, however, the difference between the haves and the have-nots is now wider than it has ever been. Making it difficult for a system such as NHI to breach this gap. A consequence of the global recession has been the partial collapse of the Middle Class as unemployment has set in making such a gap wider.

You were just appointed commercial director two months ago. Have you defined new objectives for the company?

Linda Reid: In line with our global organization's focus, we are moving towards offering new types of data, to a broader client base. In the short term we are developing offerings based on outcome-based and longitudinal patient data, as compared to our current strength of sales and volume capture data. We want our clients to be able to understand the effectiveness of their drugs in comparison to other drugs as well as to understand dynamics of certain types of patients that are more treatable or for which outcomes are proven to be better, and better understand long-term outcomes of treatment. Therefore we are investing in creating longitudinal patient data assets that reflect outcomes of treatment, in certain key therapy areas; primarily diabetes and oncology to start with.

Another of our key priorities is to grow and build our presence in Africa using local the expertise of the local team, as mentioned previously.

We are also prioritising a shift from being data and service providers to our clients to becoming their business partners so that are better able to support them in all aspects of their business than we have in the past.

IMS understands its own data better than anybody else does. We have a heritage of 50 years of understanding data, the supply chain, the caveats of the data, how to interpret it and what stories it is telling. Often we find that our clients cannot spend the time developing that same depth of understanding of the data, and we have decades of experience in many countries extracting insights from data and turning them into actionable advice.

Therefore Consulting will also be one of our key priorities going forward. Although we have had a limited and erratic consulting presence in South Africa over the last few years, we are developing a deeper consulting base in South Africa and starting to work in partnership with companies instead of being only a service provider or a data supplier to them.

Symon Vokes: One of the upsides of NHI is that we are going to have to develop a stronger relationship with the government. To develop this relationship further with government will certainly emphasize the fact that IMS is a neutral party and has to forge relationships with all stake-holders in the industry despite being dependent on the private sector stakeholders for its revenue. In other words IMS cannot be seen to be siding with one particular set of stakeholders in order to secure its client base and revenues.

Which of your services contribute the most to the IMS's growth in South Africa today?

Linda Reid: Two of our newer offerings are seeing great uptake into the market, reinforcing our view that the market is giving more attention to those two sectors. The first is Oncology Tracker, which we find is of great interest to several clients, and the other is what we call our Over The Counter (OTC) audit, which reflects those products for which a prescription is not required. In addition, our Consulting offerings are growing rapidly South Africa.

Symon Vokes: The popularity of the OTC Consumer audit is also a consequence of the economic times of the moment. Job losses in South Africa have been significant and as a consequence of this people have lost access to medical insurance schemes. As they can no longer afford to go to the doctor or remain on chronic medication, they may turn to self medication. That is why the OTC sector of the market has become an important focus.

Because of the weakness in the public healthcare system where you have to queue for hours and take time off work – often an entire day – to go and get your new prescriptions or to go and see a doctor, a lot of people choose to pay out of pocket for a doctor if necessary, and self-medicate.

While there is supposedly free access to medicines for every citizen, people end up paying out of pocket for the medications and they end up getting down-scheduled products instead of getting

fully insured products.

You have evolved rapidly within the company. What motivates you in this industry? And what explains your loyalty to IMS?

Linda Reid: I really believe in what we can do as a company to support the healthcare industry and to help support access to medicines. IMS is uniquely positioned in that respect and I see huge potential for the company in South Africa.

IMS's history in South Africa is a bit peppered for a variety of reasons, and we have not played as big a role in our clients' daily business as in many other countries. I see huge potential for the company to play a much bigger role in our clients' futures and facilitate their business than we do at the moment. That is what has driven my loyalty to the company. I want to move the company from data and service provider to respected business partner, much as we are in other countries, and to become the centre of the healthcare conversation amongst all healthcare stakeholders.

What is your vision for the South African pharmaceutical industry?

Linda Reid: It is a very exciting time in South Africa; we are positioned at the cusp of significant healthcare changes with an opportunity to make the most of them and to help the government move towards successful implementation of the daunting NHI project.

A few years ago, when the government first started to talk about NHI, the sense amongst healthcare stakeholders was very much of resistance. Now, there seems to be a sense that this is both inevitable and necessary; we all have a part to play in the moral and social responsibility of taking care of all South Africans, so let us start to look for ways to make NHI a success.

I am excited to be involved in the move to NHI because I believe in the social responsibility to provide healthcare access to everyone.

Hopefully, South Africa will be an example for other countries of how public-private partnerships can work together in order to give access to healthcare to those who cannot afford it; especially to countries coming from a poor and undeveloped background, aiming to become more wealthy and able to support changes of this nature, and to provide broad healthcare access to everybody. Healthcare access is a fundamental right for everybody.

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