

Interview with Peter Jager, President, Novartis South Korea

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Novartis' Head Office in Basel, Switzerland as well as several prior international assignments in Asia and Europe. What do you find as the most interesting particularities of the pharmaceutical sector in the country thus far?

Korea is a great country to work. Having only been here for a limited amount of time, it feels like I have already been here for many years. It is such a dynamic and stimulating environment, unlike any of the other countries I have worked in such as Japan, France, Holland, Switzerland, Thailand and Vietnam. Koreans are great people to work with, very ambitious, passionate, hard working and competitive. These values are closely related to the economic success of this country. Korea is quite unique in terms of the pace of business, its rich culture and its spectacular development since the late 80's. I don't think there is another country with such a history and track record, so it is very exciting to be here. The pharmaceutical market is quite different from many others in that it is dominated by local companies; multinationals only make of for about 38% of the total market. To be successful in Korea, one needs to be very innovative, agile, striking a good balance between short term opportunities and long-term strategic goals. It is exactly this that appealed to me most when I took on the job.

South Korea, like many other advanced countries, is adopting sometimes radical cost containment policies in order to stabilize government healthcare spending. Some representatives of multinational companies maintain that this has created a high level of uncertainty in the market.

What is your assessment of this issue and how much is it affecting the pharmaceutical business in Korea?

This is without a doubt the number one critical issue today for the industry. The government introduced the Drug Expenditure Rationalization Program (DERP) in December 2006, triggered by rising healthcare costs. The government decided to curb the growth in their drug expenditures, and came up with a set of measures that regulated both the influx of new products and also the pricing of existing products. DERP has had – and still has – a very profound effect on the pharma market, negatively affecting growth since 2007, especially the multinational segment.

The Korean market had grown by 14% on a compound average basis over five years, but during 2008, the quarterly growth dropped to single digits, mainly as a result of DERP. In order to be successful in Korea today and in the future, it is essential to constantly innovate and come up with better medicines that improve patient outcomes. At the same time, we need to work with the Government to harmonize and streamline the pharmaceutical benefits program within the public health system in a way that is transparent, efficient and fair, rewarding innovation and granting fair prices – in line with other OECD countries – for products already on the market, as far as they are still patent protected.

Another big issue in South Korea is the need for greater transparency and compliance. Some multinational companies have been involved in investigations and fined for their practices by the Korean Fair Trade Commission (KFTC). From the multinationals' perspective, how has the response been to show the commitment to making progress in this regard?

I believe that the research-based industry has come a long way since recent years. The Korea Research-based Industry Association (KRPIA) has adopted a much stricter common code of practice, in line with the IFPMA, as well as a efficient system to govern the Ethical Business Code across the industry, and issue sanctions to those companies that violate the Code compliance. Novartis in particular, has an even stricter internal code that is rigorously implemented to ensure compliance and integrity in our business practice.

The domestic pharmaceutical industry, which is dominant in the Korean market, has adopted its own code of practice that – on paper – differs slightly from the one I just referred to. The issue however is that the enforcement of the code is inadequate, resulting in significant ethical business practice violations and unfair trade conditions in the market. Recent investigations by the KFTC have led to criminal charges against 5 local companies in this context. Several multinationals have also been investigated by KFTC and some were fined for compliance issues as well, however no

criminal charges were filed against MNCs. Recently, the Minister of Health has declared it a priority to eradicate unethical practices in the industry, a move that we very much welcome of course. We need to work across the entire industry with all stakeholders including the Ministries and the KFTC to ensure a unified code that is implemented evenly and effectively enforced.

Dr. Jesus Acebillo, head of Novartis' emerging growth markets (EGM) region, was telling us in Barcelona a few months ago how these countries are playing an increasingly important role for the Group. What role does South Korea in particular have in this context?

South Korea is a part of the EGM group together with other important markets like Russia, China and Turkey. These are seen as the key markets that will in large part determine the future growth of the company. Given Korea's size, dynamics and potential, it is certainly of a high importance to the Novartis group. This is why there has been a big focus on the country and we are happy to receive additional support and investment opportunities.

It is often said that Asia is the new hot spot for clinical trials by the leading global MNCs. How does South Korea fit into this broad picture, and to what extent is Novartis performing clinical development in South Korea itself?

South Korea has really become a center of excellence for clinical development. Novartis has been rapidly expanding its clinical trial program here, participating in 49 multinational trials in 2008. On top of this we are also involved in local programs, so altogether we have 120 clinical trials going on right now in Korea, which is a huge number by any standard. Novartis employs 64 people just doing clinical research in Korea, which compared to the total size of the workforce – 460 people – is very significant. We have been stepping up investments in the country and expect them to further increase.

This is especially thanks to Korea's many assets like excellent clinical infrastructure (hospitals, research institutes, etc.), very well trained and motivated physicians, highly skilled staff and an ability to perform clinical trials under the strictest global quality standards. Korea has some large urban concentrations, such as the Seoul and Pusan metropolitan areas. With this come large and efficient state-of-the-art hospitals, serving huge patient pools. This enables high quality and high speed in performing clinical studies of many different kinds. So, infrastructure excellence and an high ambition on the investigator's side, combined with a strong IP environment, it all adds up to just what we need to attract global clinical programs.

According to recent IMS statistics, Novartis is one of the few multinational companies which still posting high levels of growth even in the midst of the price cuts. What is the key to this

performance?

After the very strong growth of the previous 5-10 years, the market is significantly slowing down. However, we believe that market dynamics will pick up again with strong underlying demand and an aging society. Even in the current environment, Novartis has been gaining market share in Korea and is one of the few large multinational companies to continue with strong growth. Our outlook for 2009 is to maintain double-digit growth, in line with our recent performance, driven by our portfolio of new products, combined with innovative and patient-centric approaches in marketing and sales. Part of our success is also driven through partnership deals with trusted Korean companies such as Handok and LG, accounting for about 10% of Novartis' turnover in Korea.

What were the key elements that drove Novartis to create its first and only country-specific Venture Investment Fund for South Korea?

Novartis has a global Novartis Venture Fund of about \$650 million, and Korea was announced as the first country to have its own focused fund in 2008. The Novartis Korea Venture Fund consists of a \$20 million budget to be used to participate and explore the local venture businesses over a period of 5 years. Novartis chose Korea as their first focus country for a country specific Venture Fund. The reasons why are pretty much related to the same factors that made Korea a preferred country for clinical research programs. In addition, we have seen a significant rise in Biotechnology start-ups recently, many of which have very interesting innovative potential. The Korean Government strongly promotes the Bio-industry in declaring it the next Economic Growth Engine.

We initially screened some 35 companies using an external scientific advisory board, and chose to support Neomics with a \$1 million participation. This is an important first step which has helped them pursue additional funding. Moreover, it is not just a financial commitment but also a commitment in sharing technology, know-how and our global network. We have also identified a second investment, which was announced during the Bio Korea 2008 conference, and are currently agreeing on the terms sheet. The Venture Fund engagement exceeds our initial expectations and we are excited to expand this initiative in the future.

What are your ambitions for Novartis' growth and development in South Korea over the next 5 years?

Our vision is very clear: we are on our way to becoming the number one multinational pharmaceutical company in Korea. I mean number one not only in sales and market share, but also in being the most respected pharmaceutical company in the country. Our plans going forward are

all in that direction. Our investment in R&D, in people and the market are all serving that mission and objective.

Besides leading Novartis in Korea, you are taking an active role within the industry association representing the research-based industry. What motivates you to be active on this front in Korea?

I personally love the challenge of change and like being part of the process that is shaping Korea's market, through dialogue with all the stakeholders that affect our industry environment. Most importantly, improving access to innovation for patients is the biggest drive and motivation to me. If we do a good job and succeed, we can actually deliver better outcomes to patients, which ultimately, is the most relevant goal for all of us.

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