Interview: Charles Lin, Chairman, Lotus Pharmaceutical Co., Taiwan

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Charles Lin discusses the impact of investment in R&D on Lotus's product line, and how this has shaped the competitive value of the company over the last decade, as well as the launching of the company's IPO in 2010. Lin also discusses the positioning of the company in the Taiwanese market, and why he believes the company is more international than local.

What is the story of Lotus Pharmaceutical?

I originally founded this business as a marketing agent for small and medium-sized European pharma companies. However, when we lost our first marketing rights after our clients were acquired by a larger entity, we paused and began to think about how we could build a more sustainable business. We began to develop our own products in Taiwan instead of relying on imports.

Initially, we contracted a local manufacturer to produce the drugs that we identified. Our first product was a drug that was brand new to Taiwan at the time: Trazodone, an antidepressant that was developed by the Italian company Angelini. Worldwide, Trazodone's market was very fragmented—and in Taiwan, the drug had no patent. We seized upon the opportunity and worked with the TFDA to develop an active ingredient that was completely new for this market. Trazadone was the first-ever drug that was introduced in Taiwan not by a multinational, but by a local producer. After our successful collaboration, we merged with our partners at the manufacturing company.

We then replicated our strategy to offer other products that were neither available nor patented in Taiwan. At the time, the country had no law on the books regarding data exclusivity. We were able to use information that was in the public domain to support the registration of our products. Over the ten years leading to 2006, we brought more than ten molecules to the market. In some cases, we were able to launch our product even earlier than the original! For instance, we were faster to market than Lundbeck with the anti-dementia drug Memantine.

We continue to have relatively strong market coverage in Taiwan today—but the game has changed since 2006. In that year, pharma multinationals lobbied for data exclusivity. It was at that point that we decided to go global.

In the past, we focused mainly on Taiwan and China. Our first target for overseas expansion was the U.S. So far, we have submitted eight products there, and have already received one approval. We expect an additional two or three approvals by the end of this year. We have been inspected by the U.S. FDA and the EMA. We also submitted a complex generic to Japan, and expect approval in August. Our products will be on the market in the U.S. and Japan by Q4 2013—in the E.U., we will have to wait another two years.

What makes your products competitive in advanced markets?

We know that we cannot compete with countries like India on a commodity basis. We lack their scale and vertical integration. However, over the last decade, Lotus has developed a special formulation technology. We have focused on so-called ‘multiple barrier’ products—products that are difficult to produce, and therefore represent significant barriers to entry: formulation barriers, potency barriers, bioequivalence barriers, and so on. We have partnered with strong local API producers like Formosa Lab., which are also capable of operating on this level. Our strategy is to avoid competition, rather than meet other companies head-on. We have had a good start so far.

How did the market receive you when you undertook an IPO in 2010?

When we floated our stock three years ago, we were quite successful. We sold our vision of entering advanced markets to investors. However, approval by the U.S. FDA took longer than we expected, and competition in the U.S. market was stiff—the first product we introduced there was a relatively common generic; our profit margin was very low. These challenges, which created an expectation gap for investors, brought our stock price down in the first year after our IPO. It continued to decline last year because BNHI price cuts diminished our revenues in Taiwan.

However, since the end of 2012, and especially in the first and second quarters of this year, our overall revenues went up 20 percent relative to the same period in 2012. Our stock price, too, has reflected this increase.

From a brand perspective, we have sought to position Lotus as an international company—not a ‘local’ company. For foreign investors, I believe we are a strong bet at the moment—because we have gained our entry ticket. As I noted, we have been inspected by the regulatory authorities of the U.S., E.U., and Japan. In the third and fourth quarters of this year, we will ship our next wave of products overseas. And if we can attract additional foreign investment, we can enhance our portfolio even further.

Over the last two or three years, the Taiwanese capital market has been good to startup companies—and it has been good to the biotech sector. Taiwan has a number of features that incentivize young businesses, including being the only other market in the world besides the U.S. that allows companies to go public while still in the red. This is the reason we have seen so many IPOs here recently.

You mentioned that you look to position Lotus as an international, rather than ‘local’, company. Do you believe that to be unusual thinking among Taiwanese generics players?

Most of us are trying to go global. The government is supporting this drive: it has set up a special fund to subsidize businesses with export ambitions—Lotus itself has benefitted from this capital in the last three years.

But the problem is in the capability. Only two or three local companies, ourselves included, are actively pursuing an international agenda.

You have the capability—or the “entry ticket.” What else do you believe it takes to become a global company?

Firstly, from my experience with international companies, they usually convey a singular motivation to their employees: to file first. To be first to market. Speed—and innovation—is the key to the global market.

On our journey overseas, we have suffered a lot of setbacks. We have needed a good deal of consultation both in Taiwan and in the West. As I mentioned, our first product in the U.S. was not exactly a hit. In the ensuing two years, we’ve increasingly taken a specialty strategy—we have seen that this is what the U.S. market is missing. Similarly, our first product for Japan is a highly complex oral cytotoxic that contains three components, each of which requires a bioequivalence study.

Do you have all of the pieces in place today for sustainable growth?

If we compare ourselves, again, to our counterparts in India, then I would say we require more investment. In India, there are more than 20 companies with an annual turnover of over one or two billion USD—and many of them focus on the same advanced markets as Lotus. It is only a matter of time before they develop the capability to play in the high barrier and specialty segments. We may avoid competition with them for now, but they are gunning for our niche.

The market in the U.S. is highly competitive, and in order to sustain growth, we certainly need more capital. Our market capitalization is currently less than twenty million USD. Nonetheless, as I mentioned, our infrastructure is there. If investor interest picks up, we are capable of growing very quickly.

Another element of sustainability for Taiwan's generic companies could be greater consolidation domestically. If we look at the story of Teva, it is the story of the successful integration of local Israeli companies, forming a global competitor that was capable of penetrating the U.S. market. In Taiwan, we need to do the same.

Will your counterparts throughout Taiwan agree to consolidate?

I think they will be compelled by market forces.

Taiwan is still a branded generic market. Approximately 50% of market share is held by brands—especially in the public hospitals. Sooner or later, public hospital tenders will become open. Our competitors in India and elsewhere will rush into the market.

Lotus has four products available in Malaysia, and as Malaysia has long had an open tender system, we have seen the competition that such a system can create. If the tenders open in Taiwan, local generic companies will not be as competitive in this market anymore. Instead, they should look to find a niche abroad—and in either case, we will all be made stronger through consolidation.

Did you envision that you would build an international company when you first founded this business?

Actually, I never imagined that I would be 'forced' to go global one day!

In Taiwan, I think that most pharmaceutical entrepreneurs do not have global aspirations—quite similar to the entrepreneurs in China.

But China is a 1.3 billion-person market.

Exactly! This may be a mentality that works for the Chinese, but it is not sustainable in Taiwan. We have to look beyond our borders—and we have to come together to do it.

Personally, in the next five to ten years, I think we will see a lot of M&A activity in this market.

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