Interview: Fangchen Lee – Chairman, YungShin Global Holding, Taiwan



"Our affordable, high-quality treatments have become absolutely indispensable to some of the most vulnerable parts of the population"

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Fangchen Lee, Chairman of YungShin Global Holding on strengthening the groups's vertical integration, expanding product portfolio, and instilling a collaborative approach in the local generics industry, with the vision to build a Taiwan-based pharmaceutical entity that could be globally competitive.

YungShin Global Holding proudly stands out as the largest domestic healthcare group of companies in Taiwan. What is the vision moving the group forward?

YungShin Global Holding was established on January 3, 2011 through a share swap from YungShin Pharmaceutical Industrial, Taiwan's largest domestic pharmaceutical manufacturer established in 1952. The YungShin group and the different companies it comprises both in Taiwan and internationally are essentially focused on generics development, manufacturing, and distribution – although I was personally trained as a new drug designer. Given this personal background, one could expect I would be tempted to steer the company towards the development of New Chemical Entities (NCE), especially considering the recent rise of Taiwan's R&D-driven, biopharmaceutical industry. Nevertheless, after having worked for more than thirty years in the company that my father originally founded, I feel more proud than ever to head a healthcare group that is highly committed the development of generics.

Our affordable, high-quality treatments have become absolutely indispensable to some of the most vulnerable parts of the population, such as elderly people, in Taiwan and globally. In the meantime, generics display more stable and predictable growth prospects than new drug development, which stands out as a crucially important parameter to our 3500 employees, their households and me. Nevertheless, we did not choose to concentrate our efforts on the generics field by default: we deeply believe generics products still hold a formidable development potential both in Taiwan and in key international markets, while YungShin already holds the resources and the expertise to truly establish itself as a leading generics company on the international stage.

In this regard, Yung Shin's revenues have been displaying an interesting growth over the past decades to overcome the USD200-million mark in 2016. Yung Shin Pharmaceutical, our pharmaceutical company focused on the Taiwanese market, brings to the group around USD100 million in annual revenues, while the sales of our Malaysian entity make up more than a third of the total revenues of the group. The rest of our group's sales come from other international markets, essentially the US, Japan, and China, while our Chinese business has been growing extremely rapidly over the past years.

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YungShin already is the largest domestic pharmaceutical manufacturer in Taiwan. What are your strategic priorities to nurture the international growth of the group?

Our strategic objective is to further enhance the vertically integration of our group and ensure we effectively control the entire value chain from API manufacturing to drug development and marketing and sales – for all products and markets we are focused on. Nowadays our sector's supply chain is closely scrutinized by regulatory and government agencies. By vertically integrating our group of companies, we could then consolidate the number of different supply chains we handle for all our products and more cost-effectively display the level of quality required by the most stringent regulatory agencies in the world.

In our endeavor to accelerate the vertical integration of our group, we fortunately do not start from scratch, as YungShin Global Holding already holds some great companies throughout the entire pharma value chain. For example, our API manufacturer YungZip Chemical already holds more than ten USFDA approved APIs, which are used both internally and by external clients in Europe and North America.

Nevertheless, we are currently focused on triggering a phase of inorganic growth in order to accelerate our value chain consolidation. We have already successfully acquired several companies

in the region: we just acquired from Pfizer a veterinary products company based in Taiwan, while in Malaysia we recently bought a company producing traditional Chinese medicine products. In Japan, we just acquired an API and formulation distributor.

Given the relatively low margins inherent to the generics sector, we have no choice but to combine this vertical integration of our company with the horizontal expansion of our portfolio. In this regard, we want to multiply by more than twenty the number of USFDA approved products we hold in our portfolio over the upcoming years. Reaching this objective would bring our portfolio to over 400 USFDA-approved products, which I identify as the critical size needed to become really competitive in the US market. In our development plan, we envision that around 200 products would be internally developed, while the other half would be brought to our portfolio thanks to various acquisitions throughout the region.

Nevertheless, generics penetration already is extremely high in the US, with many well-established companies. How do you plan to stave off this fierce competition?

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Actually, our development strategy is very similar to the one successfully implemented by TEVA in the US market, after the release of the Hatch-Waxman Act in 1984 *(which made it easier for generic drugs to enter the US market, e.d.)*. TEVA has built its tremendous success on a vertically integrated value chain, based on Eastern-European chemical plants, a drug development capacity based in Israel, and a strong, in-house marketing and sales footprint in the US market developed through various local acquisitions.

YungShin’s approach will then replicate a similar vertically integrated asset structure, but adapted to our own competitive advantages: establishing our production capacity in mainland China to leverage its competitive manufacturing cost, we can combine it with Taiwan’s expertise in drug development, while Taiwanese companies benefit from a great reputation in the US market and toward the US FDA, especially in comparison to Indian and Chinese companies. In the meantime, our unique positioning could allow us to access the Chinese market way more easily than for most international competitors, which do not benefit from the cultural and geographical proximity that makes Taiwan a unique gateway to the huge Chinese market.

In the United States, patients have to self-pay the price difference between generics and originators as soon as a first generic alternative reaches the market. As a result, generics can make up 95 percent of a given market niche only six months after an originator went off patent. In the meantime, it is not rare to find up to twenty generics manufacturers entering the same segment as

soon as a branded product loses its patent. As a result, price erosion for every single product going off patent is extremely rapid and significant in this market.

Out of twenty generics competitors, at least fifteen of them will not be cost effective enough to remain competitive in this price erosion context. Nevertheless, if a group of companies holds the integrated supply chain needed to be extremely cost-effective and can modulate its price according to the market evolution, it then automatically becomes one of the few companies that will share between themselves the entire US market for a given product. Given the price erosion, the revenues brought by a single product would however not be particularly substantial, and this is precisely why we also need to tremendously expand our portfolio of US approved products.

Given Taiwan's rising capacity in the biotech field, shall we expect YungShin to develop biosimilar products in the upcoming years?

So far, we are not involved at all in biosimilar development and production, and this situation will not change in the mid term.

Although it is still forbidden in Taiwan, most countries in the world authorize auto-substitution for chemical products: even if a doctor prescribes an originator to the patient, the pharmacist can still switch to the generic equivalent with the agreement of the patient. Nevertheless, auto-substitution is not allowed for biologics products, which tremendously reduces market potential. In the meantime, promoting biosimilars becomes as expensive as promoting originators, as you have to ensure physicians know your products and prescribe them to their patients.

Furthermore, most biosimilar products are for hospital use, which is traditionally innovator companies' preserve. In Taiwan, the hospital sector makes up 80 percent of the value of our total domestic pharmaceutical market, and 80 percent of the treatments used in the hospital sector still are branded products. Finally, setting up a biosimilar manufacturing facility is extremely costly, while stringent regulations framing biosimilars around the world make it almost impossible for a company like YungShin to be competitive in this field.

While Taiwan's President Tsai recently established the pharmaceutical and biotech sectors as a key pillar of the country's new economic model, how can the government operate as a catalyst in propelling the development of the local generics industry on the international stage?

For the last ten years, I have been striving to convince several Taiwan-based generics manufacturers and industry leaders to bring together our resources and build the portfolio width

we need to be competitive in the US market. YungShin is the largest domestic company in Taiwan and we so far hold 15 USFDA approved products. As mentioned before, we identify that a portfolio comprising between 200 and 400 approved products is needed to successfully penetrate the US market. Nevertheless, most domestic generics manufacturers have been experiencing very interesting growth rates over the past decade, which does not encourage them to embrace this collaborative approach, and most of them prefer to develop their own strategies to enter the US market. YungShin has been selling products in the US for more than twenty years. We know how competitive this market is and that cost-effectiveness and portfolio width matter more than anything else. Even if none of Taiwan's generics manufacturers holds the resources and the portfolio to be successful in the US, our competitors have unfortunately been so far ignoring YungShin's offering to jointly build a winning capacity for the US market.

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Although President Tsai indeed established the pharmaceutical and biotech sectors as a strategic pillar of Taiwan's new economic model, the government however is essentially concentrating its efforts on new drug development companies. Nevertheless, one should not forget that developing NCEs is extremely costly and risky, while supporting the dawn of this industry has already led our government to inject billions of US dollars in direct investment over the past decade, all in the hopes to see one of our biotech companies bringing a breakthrough therapy to the global market and earn unprecedented revenues for a Taiwanese pharmaceutical company.

Nevertheless, none of our local, R&D-driven companies can currently expect to truly reap the rewards that such a breakthrough product would generate, as they do not hold the marketing and sales footprint to promote it by themselves in international markets. As a result, our companies have no choice but to license-out their products to internationally established biopharmaceutical companies, which will actually get the largest part of the cake.

A company like TEVA started to operate as a vertically integrated generics company and quickly generated substantial profits. In the meantime, promoting their generics provided them with the opportunity to enhance their sales and marketing networks in the US and EU markets, while also rising awareness around their products among international key opinion leaders and in the hospital sector in general. After twenty years of growth in the generics market, TEVA then started to develop new products, while holding the financial means, the marketing and sales channels, and

the international reputation to make a success of these new products' launches. If our government could allocate just a share of the tremendous resources exclusively invested in our biotech industry to bring our domestic generics companies together and follow the development plan I just explained, our country would have greater chances to give birth to a real pharma success-story within the next decade.

What is your vision for the development of YungShin?

YungShin actually is a portmanteau name of two Chinese words that could be translated in English by " Forever Trust". These words are our core values. In our daily operations, we ensure we will never compromise the mutual trust our company has been strengthening within our eco-system over more than fifty years. This mutual trust applies to our 3500 employees, but also to our partners, clients and the government and regulatory agencies we are working with. In an industry framed by so many regulations, there is only one way forward to become an internationally leading company: be irreproachable in our day-to-day operations to build a long-standing trust around our company's name, which will be respected and praised by patients, doctors, clients, and regulators.

As a company, we are extremely ambitious and we have set up aggressive growth targets for the upcoming years, with the vision to become an efficient, vertically integrated group of healthcare companies holding a global reach and focused on generics products. In the grand scheme of things, we want to become one of the largest pharmaceutical generics companies in Asia within the next five years.

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