

Interview with In-Chull Kim, CEO, LG Life Sciences

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LG Life Sciences seems quite unique among the rest of pharmaceutical companies in Korea which tend to be family owned. How has this set LGLS apart in terms of its development and strategy in the industry?

Traditionally, companies in Korea have focused on generic drugs and in-licensing new medicines, so in essence they are sales and marketing companies. A large number of Korean companies of similar strategies with their revenues of only 10, 20 or 50 million dollars, have survived and enjoyed high margins in their generics business. Therefore, even among the top local players, there has been lack of motives to become competitors on a global scale. LG Life Sciences has been taking an approach different from this conventional pharma business model which, in my view, is not working well anymore. We are a very young company but with high ambitions and the support from the prominent LG Group which believes in the future of the pharmaceutical and bio-industry. There are currently very interesting new opportunities for us both in Korea and overseas. Indeed, in order to one day become a global player, a company in Korea needs to start targeting international markets from early on. Although the local market is growing, it is simply not big enough. Even considering the possibility of industry consolidation, a local company focusing only on the domestic market is unlikely to reach revenues much higher than \$1 billion. Korean companies in the electronics business like LG and Samsung have shown that by penetrating the developed countries and large emerging markets it is possible to have global success. For pharmaceutical industry to enter the global market, unlike electronics, additional processes such as getting patent protection, then being able to register your products in different countries are required, before finally having the capability to market and sell them abroad. LGLS is still building its expertise in the first two parts of the process, getting patents for our innovations and achieving market approval in places like the United States and Europe.

LG Life Sciences has the distinction of being the first Korean company to achieve US FDA approval with its FACTIVE drug in 2003. Where do the company's developments currently stand in this regard?

LG Life Sciences has followed up this major achievement with EMEA approval of our own biological drugs in 2006. There are also interesting things in our pipeline, particularly in phases II & III. The challenge then is to get US FDA and EMEA approval and to follow that with a successful marketing and sales strategy. That is a difficult and risky path, this is by nature an industry with a high failure rate, but this is the only way forward for LGLS.

How would you describe LG Life Sciences' business model in the midst of a defining moment for the Korean and global pharmaceutical industry?

In order to face these challenges I believe that LGLS should follow the hybrid business model which some companies are adopting. A key example is Daiichi-Sankyo, which recently finalized the acquisition of Ranbaxy, thus creating a hybrid between novel drug development and generics business. The main rationale is that it is crucial to build a steady stream of revenues from wherever there is the opportunity to commercialize branded generics, OTC, well-being products, etc. in order to secure sufficient funding for R&D. In fact, this business model has the virtue of motivating us to constantly improve in terms of product sales and marketing because this success will enable investments towards innovation. Another interesting approach can be found in Otsuka, from Japan, which is growing through a combination of pharmaceuticals and healthcare products business not only in Japan but also overseas. There is so much pressure on prices of ethical drugs around the world that pharmaceutical companies are inevitably looking for complementary sources of growth. It looks like the big pharma model that thrived in the 1980s is no longer the best choice for the next generation of companies like LGLS. A small Korean company like LGLS needs to find and follow a vision according to our unique circumstances. This is the process we are in at the management level, defining what the LGLS will look like in the long-term. Good business opportunities exist not only in Korea, but also overseas. LGLS's vision is to be a company with sales of around \$1.5 billion by 2015, which would put us in the global top 50 range. Based on this goal, we are establishing annual action plans to guide each step we take. But, first of all, we are looking very closely into the sales and marketing approach in South Korea, in order to find a new model to implement. Many of the practices which are commonplace in the industry are not compatible with the LG way, so we will define a new approach that will allow us to compete with the other players but with the right practices.

What is the scope and importance of LGLS's international business activities?

LG Life Sciences has sold about \$100 million overseas in 2008, representing 40% of our total revenues. We are continuously looking for new opportunities overseas, and expect the share of international business to reach 50% in a few years time. Some other local players are also trying to globalize, but they rarely manage to get more than 10% of their revenues from abroad, so LGLS is well ahead in this regard. This is mostly thanks to our own R&D efforts and capability to register products in the leading markets. We have relied primarily on licensing-out agreements up to now, but we are increasingly interested in setting up our own sales operations in places like China, the United States and possibly Turkey, on top of our existing offices in India. Growing and establishing this direct sales and marketing presence abroad will be one of the major challenges that LGLS will be tackling in the next couple of years.

How does R&D fit within LGLS's new approach to the pharmaceutical market?

The new business model we are defining for LGLS will also strive for better efficiency in R&D, as we can see that even big pharma companies are having big problems in this regard. Our approach will be based on a different model which basically allows a company to create value and innovation while minimizing investment risk. What we need is a model which requires less people and resources, and uses more creativity. A good example of this is on the biopharmaceutical side is Gilead Sciences, which is our licensing partner for our new drug candidates. LGLS has begun to conduct an important part of its R&D through collaborations with strategic global partners. One interesting example is our agreement with Takeda, which is providing research funding and will eventually also make milestone payments to LGLS. I believe that similar opportunities with big pharma companies are bound to increase as Asian countries become more and more competitive in R&D activities. For now the investments have focused more on India and China, but Korea is increasingly looked into as well for opportunities to boost their own pipelines. Additionally, the Korean government is another key source of funding since it has started emphasizing the importance of supporting R&D in the pharmaceutical industry. There is also a big effort to make a connection between the industry and academia in South

Korea, which has benefited from strong support from the government for decades. This has resulted in very high quality researchers and academia, with whom we can feel comfortable working together.

LG has made great progress in the consumer electronics market to the point of becoming a household name. To what extent is the LG brand an asset for the Life Sciences businessâ?? internationalization?

I believe that the LG brand is very positive for Life Sciences, because it is based on an emotional approach towards customers, where the key message is warmth and love. Other elements strongly associated to LG are youth and health, so clearly this image is very suitable for a pharma or biotech company. Maybe in a few decades LG may even be more associated to Life Sciences than to electronics, who knows. We are fortunate that we have full support of the Group Chairman who believes in the potential of this business.

Do you believe that it takes a researcher such as yourself to make a Korean pharmaceutical company truly research-based?

When I arrived in LGLS this was a company with no track record of R&D and little knowledge of the pharmaceutical industry, so we practically built up these capabilities from scratch. I believe that for LGLS it was the right time to have a researcher as the leader as I have been able to contribute in the processes of getting patents and achieving regulatory approval for our products. My successor will probably have to be better than me on the commercial side, as this is not my area of expertise, and helping find the right person for this role is one of my main duties while I am still CEO of LGLS.

What is legacy you will like to have left LG Life Sciences when you eventually decide to move on?

My goal is for LG Life Sciences to be one of the top 50 pharmaceutical companies in the world, in line with our objective of reaching \$1.5 billion in revenues by 2015. This is what I aspire to and we are working hard towards this challenging aim.

What is your final message to the readers of Pharmaceutical Executive?

The pharmaceutical industry was in a very comfortable position for a number of decades a number of decades and many became complacent as a result, but now things are getting difficult for everyone. One of the keys to future success will be making a connection between Asian and Western countries. Big pharma should not only look at us as big emerging markets, but as partners in the construction of the next generation biopharmaceutical industry.

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