

Interview with Jong-Wook Lee, CEO, Daewoong Pharmaceutical

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What are the main milestones and achievements of Daewoong's pharmaceutical business over its decades of evolution?

Daewoong was first established in 1945 as Chosun Liver-oil Pharmaceutical Industry Co., Ltd. The company name was later changed to Daehan Vitamin in 1961, and again to the current name, Daewoong Pharmaceutical in 1978. It first reached sales of 10 billion won in 1979, 100 billion won in 1993, and opened a new era when it achieved an annual sale of 200 billion won in 2001 with the launch of Easyef, a new biotech drug. Over the last 5 years, Daewoong has shown 18.2% sales growth rate in average. The total sale for 2007 was 484.2 billion won, and it also had 15.3% operating profit ratio, the highest level in the industry, in the same year.

What are the main characteristics of Daewoong in today's pharmaceutical landscape in Korea?

Although Daewoong currently stays in 3rd or 4th in the industry ranking, if you look only at the sales of prescription drugs, we are at the top. The company was first in terms of the prescription drug market, with sales of 376.4 billion won. Daewoong also has 9 blockbuster products, which sells more than 10 billion won each. The company has a very bright prospect as it has achieved nearly 20% growth rate for the past 4 years, and the sales of original drugs represent about 65% of the total sales.

How is Daewoong performing in the midst of a challenging environment for the local industry due to the effects of cost containment policies and eventually the free trade agreement with the US?

The Korean government is making efforts to contain its healthcare costs with new policies. Over the last three years many drugs have been going through a price re-evaluation process, and the results were informed in August 2008. Fortunately for Daewoong, there was not such a significant impact for our sales. The system is much more focused now on studying the economic efficiency of a drug, in order to adjust the price, but the government's guidelines for this process are not very clear yet. Regarding the KORUS FTA, the main impact will be on the profits of American pharmaceutical companies focused on new drugs. For the local industry in general, we predict that this will have some negative effects, but in Daewoong's case the impact will not be as strong since we are also have a large part of our business in original drugs.

What is your assessment of Daewoong's performance in 2008 and perspectives for 2009?

In 2007, Daewoong had total sales of 484.2 billion won, an increase of 20.9% compared to the previous year. We ranked third overall in the local industry, beating Yuhan by a narrow margin. For 2008, we are expecting sales of 555 billion won. We set the goal a little low as there is some strong competition from generic companies. We have not yet set the plan for the year 2009, but we believe it will be reasonable to expect 12-15% growth.

Which are the main trends and drivers of growth for Daewoong's blockbuster drugs and key therapeutic areas?

The company's main focus is drugs for digestive system, circulatory system and endocrine system. Ursa, Gasmotin, Olmetec, Diabex are good examples. Olmetec is our representative product as it sold for 73 billion won last year and is showing 30% growth this year compared to the year before. It seems such growth will continue for a while. Gliatilin, a drug for the nervous system, is also a significant product and we are trying to strengthen the pipeline for other CNS and cancer products.

What are the keys to gaining market share in Korea in order to consolidate its leading position?

Daewoong has had intensive investment in the line of products with high growth potential, and thus focused on producing blockbuster products. As a result, it has a high market share in major fields such as drugs for digestive system and circulatory system.

What are Daewoong's main strengths on the manufacturing side, as many multinational companies have been selling their factories in Korea?

This is one of Daewoong's biggest advantages in South Korea since we have been investing in our manufacturing facilities for a long time. They are in the top level for the Korean KFDA and also in line with international standards. This allows us not only to be a quality supplier for the local market, but also opens up exporting opportunities.

What are Daewoong's main characteristics in terms of R&D?

Investments in R&D only began in the South Korean pharmaceutical industry after the country adopted the material patent system in 1987. During those years, Daewoong built up research centers on areas like API, formulations, bio-drugs, new drug discovery and development.

Today Daewoong invests approximately 7.5% of its revenues on R&D, which is the key to our future success. How important are international sales for Daewoong?

The international sales of Korean pharmaceuticals are gaining importance day by day. Although current international sales for Daewoong is minor with 4-5% (including Daewoong Bio), sales should increase in China and Vietnam as the company has put intense effort over the last 3-4 years. We expect that the sales will really begin as Ursa was authorized in China and TV commercial started in Vietnam. In addition, we plan to strengthen our "glocalization" approach in China through local R&D and establishing supply corporate and to strength marketing activities in Southeast Asian countries including Vietnam.

Which are Daewoong's existing overseas operations and the next steps in its globalization process?

For Daewoong, overseas expansion means that we will find and use resources in the world, the resources needed to produce globally competitive products and service, as we see the whole world as a potential market. It also means that Daewoong will secure a system in which global resources

of the world can be utilized anytime anywhere, overcoming cultural and language difficulties. Currently, Daewoong is in the process of localization of labor, products, production and research by focusing on attainment and education of talented individuals abroad. During this time, Daewoong is also establishing business systems and information networks for overseas expansion. We are planning to launch more local offices in new countries, as we already have in Vietnam, China, Indonesia, India, Thailand and Philippines. Moreover, we are achieving globalization through global partnership with prominent pharmaceutical companies abroad. To establish smooth cooperation and give local employees in overseas offices, the idea is that everyone is a part of one big family, Daewoong also educates and trains them in Korea. Daewoong is aiming to establish Daewoong as a corporate brand through its individual product brands and local marketing activity in Southeast Asia, while securing market presence with patented products such as Ursa, EGF, Luphere, Albis. This will help to form a foundation for constant profit by obtaining a reasonable price. Daewoong is also planning to enter the European and North American markets through different strategic alliances with both domestic and international pharmaceuticals and by licensing-out of new drug candidates.

How active is Daewoong in terms of in and out-licensing with pharmaceutical companies from around the world?

Daewoong has active on-going exchanges with pharmaceutical leaders which have new drugs and technology in major countries like the US, Europe and Japan for in-licensing. As a result, we are selling Olmetec, Gasmotin, Gliatilin, Diabex, Botox and others. Also, based on the company's excellent sales/marketing power, Daewoong looks for various business opportunities with international firms with Korean offices. Co-promotion of Forsamax with MSD was the starting point. In terms of out-licensing possibilities, we are in the process of business partnering to launch candidates for new drugs globally, including a product for neuropathic pain treatment which our researchers are currently developing.

How are you facing the challenge of positioning Daewoong as a recognized global brand in the worldwide pharmaceutical industry?

We are building up internal strengths for Daewoong to be recognized in the international market through various systematic experiences and effort as already explained. However, as the increase in medical expense is a burden for every country, price competitiveness is becoming an important factor. Acquiring price competitiveness in countries such as China and Vietnam, and forming a system for stable supply are gaining more and more importance. Daewoong is preparing to face these challenges progressively. Although for many businesses the recent global financial crisis and credit crunch are delaying investment decisions, Daewoong is ready to turn this challenge into an opportunity thanks to our favorable cash position.

What are your ambitions for Daewoong over the next 5 years in Korea and the world?

Daewoong Pharmaceutical aims at entering the world's top 50 pharmaceutical company ranking by 2012, after becoming No.1 in Korea, No.1 in core fields for East Asia, and No.1 in the wound treatment field globally, with the corporate vision "Global Healthcare Group leading the advancement of quality life".

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