Interview with Roshidah Abdullah, Director of Finance and Corporate services, Pharmaniaga Berhad

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In the same week that you announced a rise in your Q3 profits your Managing Director resigned. How have you managed to achieve this increase in profits despite management uncertainties and how have you maintained shareholder confidence in the company?

Roshidah Abdullah (RA): In June 2010 our majority shareholders, UEM Group Berhad, announced the proposed disposal of their shares in Pharmaniaga to Boustead Holdings Berhad. The share disposal is still on-going now and the company is therefore operating under a transition period.

Despite that and the recent changes at the top management, as far as the company is concerned, it is business as usual. We are continuing to implement the plans set in motion at the start of this year and we continue to deliver value to shareholders. Q3 results have shown improvement and are a reflection of these plans.

Overall on the economic front, Malaysia was not much affected by the recent global financial crisis. We believe that Malaysia, and similarly many countries in this region, was more prepared now as a results of the Asian financial crisis of 1997. We also observed continued growth in spending on pharmaceuticals and healthcare by both the government and private sectors .

The company is also very attentive to developments in the global generics market. We are seeing global generics players entering the space of MNCs, whilst MNCs are diversifying into the generics sector. To maintain competitiveness, we realise that we need to grow more aggressively and continue to place emphasis on cost reduction initiatives.

We know that the company experienced a problem earlier this year with revocation of its manufacturing licence. How is the companyâ??s manufacturing side recovering and what are your financial projections for FY2010?

RA: Licence revocation is of course a very serious matter for any pharmaceutical company. There were some issues in a couple of GMP areas which led to this revocation. However, we managed to resolve these issues and the company re-obtained its licence soon after. Pharmaniaga has a good relationship with government and kept it well informed throughout the resolution of these problems.

Since then, the company has recovered well. Pharmaniaga has made firm commitments to training its staff to make them aware of the various GMP requirements to prevent similar incidents in the future.

For FY2010 we expect the Malaysian pharmaceutical market to grow around 5% and most of the companyâ??s business still remains centred around the domestic market. Pharmaniaga therefore expects growth to occur in line with the marketâ??s growth.

Today Pharmaniaga is engaged in generics manufacture, logistics and medical products. What is the revenue breakdown of these different activities and what is the overall growth driver for the company?

RA: The biggest contributor is the logistics unit because we have a long term contract with the Ministry of Health to supply a range of pharmaceutical products and medical devices to all the government hospitals in Malaysia. This contract has been in existence since 2004 and was renewed in 2009 for a further ten years.

The public sector is of course a very stable market with growth driven by government spending and population growth. Over the last five to eight years the government has increased spending in the area of healthcare development, including building new hospitals and clinics so that more people can have access to healthcare services. Pharmaniagaâ??s government-based business has therefore grown strongly over the last few years at between 5 and 10% per annum.

The manufacturing of generics contributes around 15-20% of the companyâ??s revenue. Growth in this area should continue to be even stronger than logistics and will become a major centre of focus within the companyâ??s long-term growth strategy.

In 2004 Pharmaniaga upgraded its facilities. Where will the bulk of future investment go to maintain the companyâ??s competitiveness?

RA: Over the last five years, Pharmaniaga has been very aggressive in capital assets investment. The biggest investment was in its small-volume injectable plant, which has just been given the GMP certification.

Going forward capital expenditure will mainly be in the area capacity and efficiency enhancement of the existing warehousing and manufacturing facilities.

Since Pharmaniaga is already a big player in the Malaysian market, which is fairly small â?? around 2bn RM ($640million) we are looking beyond Malaysiaâ??s borders. The company is therefore looking to expand in the overseas markets. This may involve collaboration or joint venture with other companies, or even acquisitions, in these foreign markets.

Pharmaniaga already has operations in Indonesia and is looking towards Thailand and Myanmar in the near future. What are your principal strategies for entering these markets and how does it fit with your ambition to become a regional leader?

RA: Pharmaniaga currently has a 55% subsidiary in Indonesia, a company that provides warehousing and distribution services for pharmaceutical and healthcare products. We have also set up a marketing office in Viet Nam. The next goal will therefore be to further develop our business presence and market share in both Indonesia and Viet Nam. This is in line with our strategy to be a regional player as Indonesia and Viet Nam are the emerging economies in this region.

Do you believe that as a Malaysian company it is easier for you to enter these markets than a multinational company because you already have cultural ties or is it harder because you do not have international brands?

Jamaludin Elis (JE): As the pipeline of innovator companies grows thinner and patents expire there will be around $180bn of off-patent drugs in the market. MNCs cannot simply sit idle whilst this occurs and business is lost to generics companies and they are therefore entering the generics market. MNCs naturally argue that their generics are of better quality than the copycat generics of other companies. This is still an advantage in entering markets such as Thailand and Viet Nam where consumers are still very brand conscious.

Pharmaniaga is fortunate to be based in Malaysia which is a member of PICS unlike many of our Asean neighbours. The high quality of our manufacturing processes allows for the company to exploit the brand awareness in Southeast Asia. People are growing more concerned about healthcare and patients are conscious of the drugs they are taking.

Pharmaniaga has been in Myanmar longer than any other player, around 15 years. However Pharmaniaga previously employed the wrong strategy, by trying to compete with India, Bangladesh and so on. Pharmaniaga simply cannot compete in price wars. Therefore the company is establishing a name for itself in Myanmar as a branded generics company. Investment is being channelled towards acquiring super-generics and collaboration with multinationals in dossier exchange or joint clinical trials to acquire the rights for certain products.

There is much potential for expansion in the region. Indonesia has the biggest market potential in the region with 250 million and then Thailand with around 60-70 million. Even Myanmar, If current political trends progress towards democracy, with a population of 65 million, is a large potential market. Pharmaniaga is in the process of lining up good mergers and acquisitions so that it can capitalise on this growth in Asian markets. Pharmaniaga will become a significant name in this region.

It is true that establishing collaboration with other â??Asianâ?? players is easier for a Malaysian company than for a â??Westernâ?? MNC. There is a certain prejudicial element in business decisions and a fellow Asian company simply presents less of a threat.

MNCs and generics companies are converging on this innovator or premium generics market. Do you see more challenges or opportunities in this dynamic?

JE: It depends largely on the attitude of the MNCs. Some view Pharmaniaga as potential partner and others view us as a competitor. Pharmaniaga was the first to partner with an MNC having maintained a partnership with Pfizer for over 15 years.

Unfortunately there are companies which view Pharmaniaga as a threat. When we identify certain therapeutic areas which we see as potential growth drivers, we get in touch with MNCs and offer to collaborate. However many of these companies want to maintain sales under patent as long as possible.

RA: At Pharmaniaga we believe that collaboration and competition can co-exist in the market place. There is huge opportunity because the two groups of players are converging. Pharmaniaga has been a pioneer in collaboration and was for a long time the only local manufacturer to offer contract manufacturing for a multinational company whilst the patent was still in place.

Pharmaniaga has continuously looked to develop the capacity and capability of its staff and facilities. Collaboration with multinationals helped to catapult the company into a different league compared to the other domestic players and was a key factor in our differentiation.

However the collaboration is not only with other pharmaceutical players. Relationships with the healthcare professionals are also an important factor in the companyâ??s competitiveness. As an example, in 2006 Pharmaniaga launched a campaign called â??Back to basicsâ?? whereby we demonstrated to the GPs and doctors that the prescription of first and second generation antibiotics to patients is cost effective to both doctor and patients. We also launched BE (Bio-Equivalence) Campaign whereby we have managed to increase awareness amongst doctors and healthcare professionals that generics are as efficacious as patented drugs once they are tested for BE and certainly more cost effective that originator drugs. Through these activities, we have been able to differentiate ourselves from other generic players in Malaysia.

Pharmaniaga is clearly a very experienced and influential player in the Malaysian market. The company is also a GLC. How much of an advantage are these government ties when securing tenders?

JE: People perceive there to be some sort of advantage but actually this is not the case. In fact, Pharmaniaga does not win that many government tenders. Out of ten put forward by government over a three month period, Pharmaniaga will probably win one.

RA: We have to compete as fiercely as any other company for these tenders. Aside from the concessions and long-term contracts from the Ministry of Health, the company gains no benefit from being linked to government in acquiring tenders. Even regarding the concessions, Pharmaniaga has had to work hard to prove to the government that it is a worthy partner to manage the drug supply chain for the government.

The only real advantage Pharmaniaga has is that it is both a manufacturer and a distributor. Therefore in terms of the tenders that the company does not win, it still distributes the third-party products to the government hospitals. This is probably where the perception of the company as having an advantage in government tenders arises from..

Pharmaniaga is trying to become a trusted brand in Malaysia and it engages in a lot of CSR activity. What do you think the role of Pharmaniaga in Malaysian society?

RA: The company is very active in its SOS mobile clinics programme and has been working with NGOs to support their activities. Pharmaniaga has been reaching out to people in rural communities to increase their awareness on healthcare. In 2011, we plan to target pockets of the communities in urban areas who require direct attention.

JE: CSR is based on actions not words. We feel that we cannot tell people what we are doing in CSR in case they denounce it as simple corporate spin. SOS mobile clinics are the well-known activity in terms of CSR. However, we are also engaged in drug rehabilitation and we work with the Malaysian Aids Council to this end. Pharmaniaga works with the National Diabetic Institute and with a local university in trying to maintain a lake close to our manufacturing facility for future generations. Pharmaniaga goes wherever it sees a need and where there is not much assistance from other players.

Perhaps partly down to the contribution the company makes to Malaysian society it has received multiple awards over the last decade. What potential do you see for the company to become a leading company not just in Malaysia but in the region?

JE: The company certainly has this ambition but it wants to conduct its business ethically and it doesnâ??t want to get there through too much self-promotion. Malaysia has what it takes to produce regional leaders with companies such as Air Asia and Petronas. Pharmaniaga is on the right path. When we talked about uncertainties at the beginning of the interview I feel that this is more for observers looking at the company from the outside. Within Pharmaniaga we are very certain of what we aim to achieve. In the next five years you will see Pharmaniaga not just as a leader in Malaysia but assuming leading positions in the region.

For those readers who are not as familiar with the Malaysian market as you. What do you believe is necessary to put Malaysia on the global pharmaceutical map?

JE: Innovation is key to putting Malaysia on the map. All the pieces are currently in place, but players need to collaborate more to make the most of what Malaysia has. The universities, the government and industry players need to collaborate more closely on the development of policies for the pharmaceutical and healthcare industries, for commercialisation of new discoveries by universities. R&D efforts need to be supported with incentives and funding programs by the government.

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