

The generics boom

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Drugs worth more than \$76 billion in sales are set to go "off patent" in the next few years. This amounts to an explosion in the generic drug market size. According to research firm, Research and Markets, the global generic drug market has grown at a rate of 20 percent in 2005; which is four times that of patented drugs and over three times that of pharmaceutical market. It is estimated to grow at a CAGR of 13.62 percent during the five-year period 2006-10. A 2006 report released by Datamonitor, estimated that \$160 billion market currently served by blockbuster drugs will open up for the generics players between now and the year 2015. This has opened up enormous opportunities for the generics players in Asia. They are all gearing up to tap the new markets through mergers, acquisitions, and alliances even with their competitors. BioSpectrum brings to you an overview of the generics boom.

The rise of generics

The deal activity has increased tremendously in the last 12 months as the generics majors prepare to put their best foot forward into the emerging generics market. In early 2006, Indian pharma major, Dr Reddy's Laboratories outbid the world's largest generics company, Teva, to acquire Germany's fourth largest company, Betapharm, for a sum of \$570 million. Soon after followed Ranbaxy's acquisition of Romania's largest generics pharma company, Terapia, for a consideration of \$324 million. In fact, India-headquartered Ranbaxy, in 2006, executed a record number of eight acquisitions spanning across geographies.

Success stories from China include Zhejiang Huahai, a company that makes blood pressure drug Irbesartan, a generic version of Avapro (Bristol Myers Squibb) Harbin Pharma that makes Penicillin and Cephalosporin, and Hisun Pharma that makes Atorvastatin, a generic version of Pfizer's cholesterol lowering drug Lipitor.

Consider this. At the Generics Congress held recently in Singapore, Dr Jia-Li Lou, Chairman and CEO of Hisun Pharma said that the Chinese pharma sector is growing at almost 20 percent and is valued at \$65 billion.

Even Japan, the world's second largest pharma market is ready to embrace the generics players. Teva and Sandoz and Indian players like Biocon have already reached Japan. India's Lupin is looking for acquisitions to expand its presence in the \$80 billion Japanese market. Japanese generics companies are also preparing themselves for the sales surge as the government is changing policies and taking up awareness campaigns to boost generics. The Japanese government is working to bring legislative changes to allow foreign investors with an aim to bring down the cost of drugs in the country.

China aims for center stage

China's biogenerics industry has experienced rapid expansion and will continue to have steady growth in future years. Analysts who are tracking China are confident of its potential as a generics powerhouse.

Ms Eliza Yibing Zhou, project director for research programs in China and India for Rockville, Maryland-based business consultancy BioPlan Associates says China is a country with a large market potential and solid foundation to produce biogenerics and it will play an important role in the world's biogenerics market in the future.

Statistics show that generic drugs dominate the Chinese pharmaceutical market; 95 percent of Chinese pharmaceutical products are generic. The market share of innovative drugs (including proprietary drugs) has shown an increase: rising from 17 percent in 1997 to 20 percent in 2003.

The North China Pharmaceutical group is one of the first companies in China that started research on modern biotechnology and formed the system for developing generic drug involving new products R&D, pilot production and commercial production. It produces over 430 kinds of antibiotics, semi-synthetic antibiotics, and pharma intermediates.

Some other success stories from China are Zhejiang Huahai, a company that makes blood pressure drug Irbesartan, a generic version of Avapro (Bristol Myers Squibb). Harbin Pharma that makes Penicillin and Cephalosporin, and Hisun Pharma that makes Atorvastatin, a generic version of Pfizer's cholesterol lowering drug Lipitor.

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"The state and local governments are making sustained efforts to encourage the expansion of the biogenerics industry and enhance IP protection for both domestic and foreign biologics," Dr Lou said.

With governments and public opinion on their side, this is just the right time for Asian players to consolidate their presence in the major markets and meet the unmet needs of the millions of patients around the world.

Industry estimates emphasize that in the next 10 years the complexion of this market segment is going to change dramatically. There will be consolidation in the industry, stronger players will emerge, and by 2015 it is likely that you will see a couple of Asian companies break into the top 10 list of global generic players. For now, from Asia, Ranbaxy rules the roost.

The frontrunner from Asia

The only Asian MNC to be counted in the top 10-list of generic drug makers, India-headquartered Ranbaxy is headed by its young CEO, Mr Malvinder Mohan Singh. Better-known as MMS to his friends and colleagues, Singh has been instrumental in turning around Ranbaxy after its pitiable performance in FY 2004-05. That was the time the company was facing intense

pricing pressures in the US market, which also happened to be its largest market. That was just about the time Singh took over reins of the company.

According to Singh, for Ranbaxy the journey from the very start, in the early 70s, has been ambitious. "Ranbaxy was the first Indian company to go global and that was way before 'Indian Inc' as such came into existence," he recounted. The story of Ranbaxy is that of a very old company keeping pace with times and reinventing itself time and again as it went along.

Today, Ranbaxy boasts of manufacturing facilities in nine countries and ground presence in 49 countries. Its products are being sold in over 125 countries. Gunning for a spot among top five, it is aiming at \$5 billion in revenues by 2012.

In 2006, the company successfully closed eight acquisition deals across geographies spanning US, Europe, Africa and Asia. For acquisitions, Ranbaxy works within a very well defined financial framework, which is why the company backed out of acquiring Merck's generic drug business, informed Singh. "Along with being a good strategic fit the acquisition target should also add to the economic value," he elaborated emphasizing that Ranbaxy will actively pursue both organic and inorganic growth to reach its target revenue of \$5 billion.

In the year that went by, the company turned its attention to focus on emerging markets. In 2006, Ranbaxy strengthened its ground presence in Europe market. The blueprint included an equity stake in Terapia.

As for the high selling products-in-the-making at Ranbaxy, there is a huge list but Singh is banking heavy on Ranbaxy's Atorvastatin launch in the US scheduled for 2010. He expects the huge financial returns from there will help him take Ranbaxy to another level of growth. Ranbaxy is set to close 2007 with \$2 billion in revenues and Singh sees it happening as per plan. He is keeping the pace, striving to move his company up the value chain with a two-pronged agenda: One, attaining & retaining strong leadership in the generic space and two, leveraging IP that Ranbaxy is creating via innovation and commercializing it. The company is actively expanding in new drug discovery and novel drug discovery systems.

The list of Indian companies riding the generics wave runs long. Led by Ranbaxy the list includes Cipla, Dr Reddy's Laboratories, Sun pharmaceuticals, Nicholas Piramal, Zydus Cadila, Glenmark, Orchid Chemicals and Wockhardt among others. Each of these companies are well-entrenched in their respective segments. For instance, Cipla supplies its cheap anti-AIDS drug to more than 35 countries, mainly in Africa.

According to industry estimates Indian drug-makers are expected to acquire a 33 percent share of the global generic market in the next two years as against the current four percent market share.