FOCUS

Vol. 26, Vol. 13 | International Federation of Pharmaceutical Wholesalers | July 11, 2019

SPH 上海医药 SHANGHAI PHARMA

Shanghai Pharmaceutical Co., Ltd. Joins IFPW

(Source: IFPW press Release)

Shanghai Pharmaceutical Co., Ltd. (hereinafter referred to as "SHAPHAR") is a wholly-owned subsidiary of Shanghai Pharmaceuticals Holding Co., Ltd., and the first domestic pharmaceutical company listed both in Shanghai and Hong Kong. It is a national modern pharmaceutical supply chain service company covering the whole pharmaceutical value chain including medicine, medical devices, I and cosmetic surgery products. The company has long ranked as the top three in the Chinese pharmaceutical distribution industry. In 2018, it achieved sales revenues of nearly RMB 140 billion (US$20.4 billion), and has had a nearly15% compound growth rate in the last two decades.

As a leading pharmaceutical distribution company in China, SHAPHAR has a presence in 24 provinces out of 31 with 300 fully-owned subsidiaries as local distributors, direct municipalities and autonomous regions across China, covering more than 20,000 medical institutions. In addition, it has established important partnerships with many multinational pharmaceutical companies and has built up a unified service system and a standardized process in the whole of China to serve the needs of down-and-upstream customers with customized solutions.

As an integrated and innovation-driven pharmaceutical distribution company, SHAPHAR's business scope covers drug distribution, medical device distribution, international pharmaceutical supply chain services, 3PL, drug retail chains and direct-to-patient (DTP) pharmacies. It is also actively developing strategically emerging businesses such as the "internet + prescription drug" new retail and electronic prescriptions while actively exploring new business areas like clinical trial services, healthcare "big data" and pharmaceutical finance. It's one of China's largest pharmaceutical import service providers for drugs and medical consumables, as well as China's leading DTP specialty pharmacy.

SHAPHAR has firmly aligned itself with the trends of accelerating the integrated transformation and globalization of the Chinese pharmaceutical industry to push forward industry innovation. Through providing innovative pharmaceutical supply chain services and healthcare extension services, SHAPHAR continuously creates customer value, improves people's health, and strives to develop itself into a respected technology-driven health service company with global resource allocation ability and international influence.

In Brief...

- **Walgreens Boots Alliance** announced its third quarter 2019 earnings, with sales of US$34.6 billion, an increase of 0.7% attributed to growth in its American retail pharmacy and pharmaceutical wholesale divisions. Net earnings came in at US$1 billion (a 23.6% decrease over the same quarter in the prior year.) "Following a difficult second quarter, we made progress in the third quarter against the strategic goals we set, and are pleased to report an improvement in our U.S. comparable growth compared to the first half of the year," said WBA executive vice chairman and CEO, *Stefano Pessina*. Internationally, WBA saw retails pharmacy sales of US$2.8 billion, a 7.3% decrease over the prior year, and a reflection of a 5.7% adverse currency impact. The company's pharmaceutical wholesale division realized sales of US$5.9 billion.
- President *Donald Trump* is considering an executive order that would require pharmaceutical companies to offer the United States government a "favored-nation clause". The executive order would give the U.S. government the ability to pay the lowest price given to other nations. **The Department of Health and Human Services** has proposed a series of measures meant to help address the rising cost of prescription drugs. The executive order would use an index of international drug prices to set the price that Medicare pays for some drugs that are administered by doctors, such as cancer treatments. The index would include countries such

(continued on page 2)

Biotech and Pharma M&A in South Korea Heats Up

(An article written by Jung Won Shin for Scrip)

While there is still an appetite for mergers and acquisitions in the industry, South Korea has largely been subdued in part by a lack of of large-scale and cross-border deals. Several factors are now pointing to a possible pick-up in transactions requiring companies to step up their game in the hunt for new technologies and growth, both at home and abroad.

Traditional big pharma companies such as Yuhan Corp. and Hanmi Pharmaceutical Co., Ltd. are accelerating globalization drives with a clear focus on international expansion. Strong cash balances from licensing deals over the past several years with multinationals have bolstered takeover opportunities with foreign bioventures to boost pipelines, technology and a more skilled workforce.

Yuhan has set their sights on South Korean drug assets and biotech but is now expanding to overseas opportunities. This stems from the increasing costs surrounding domestic projects, as well as the surge in the value of these companies.

Hanmi Pharmaceuticals, which has signed a series of licensing

(continued on page 2)

South Korea (cont.)...

deals with major pharma companies (including Genentech), has also turned to M&A's as an important part of its innovation strategy. However, the outlook for potential M&A deals between traditional South Korean pharma companies remains uncertain due to their generally strong ownership structures involving influence from founding families.

South Korean conglomerates, such as SK Holdings Co., Ltd. and LG Group, are also looking to international investment opportunities to kickstart and grow their pharma and biotech businesses. SK has already acquired the US-based CDMO (contract and development manufacturing organization) AMPAC Fine Chemicals to become a top global player in the small molecules arena, and has made it clear that intends to search out another global CDMO should an appropriate fit arise.

LG Chem, which also includes a life sciences business, is seeking to expand its global networks, and to that end has set up LG Chem Life Sciences Innovation Center in Boston to bring innovative technologies and establish a base for new drug development, including clinical trials of gout and autoimmune disorder drugs. LG aims to pursue more aggressive open innovation products and launch innovative drugs.

The third main area of potential for M&A involves South Korea's cash-rich bioventures. These opportunities are backed by a sharp rise in investment by venture capital and large-scale share offerings. These bioventures are looking for potential partners and deals to capture state-of-the-art technologies and gain global competitiveness. Yun-Taek Jung, president of South Korea's Pharmaceutical Strategy Institute told Scrip that these efforts are likely to increase in the future. Thus far, the domestic pharma/biotech sector has focused on investments in, or M&A deals for, biotech companies in the form of financial investments or co-marketing and sales collaborations.

The fourth type of M&A deals are between non-pharma and pharma companies as non-pharma firms diversify into the sector. Alternatively, pharma firms are looking to diversify into businesses or prop up their existing operations. Examples include medical product manufacturer BioGenetics Co., Ltd.'s acquisition of Kyung Nam Pharm Co., Ltd. and Hanmi's acquisition of JVM, a manufacturer and provider of pharmacy and hospital automation systems.

The fifth driver of M&A activity in South Korea is the government's efforts to increase sizable R&D investments, along with financial and tax incentives. These activities will help to ease regulations to nurture the bio-health sector, particularly cutting-edge technologies, as a source of economic growth. This could lead to more technology-driven deals such as the Genexine/ToolGen merger.

A final external contributing factor comes from the global big pharma companies' continued investment in bioventures, which means competitive acquisition targets are being placed on the block worldwide. In a report released by Samjong KPMG, this could be an excellent opportunity for South Korean biotech/pharma firms to seek M&A deals abroad for growth and new technologies. To truly become competitive in the global market, South Korean companies may have to seek out cross-border transactions in their growth strategy in the same manner big pharma companies have in order to expand pipelines, patents, workforce and technologies.

As South Korean companies become global players in the biotech/pharma world, foreign pharma firms' interest in South Korean assets will increase and potentially lead to other acquisitions.

In Brief (cont.)...

as Canada, The United Kingdom, Japan, Slovakia, and others.

- **The Federation of Japan Wholesalers Association (JPWA)** expressed concern that October's NHI price revision associated with the consumption tax hike will result in extremely complicated price negotiations and set back efforts to improve distribution practices. Subsequently, it has asked the Japanese government for support in order to promote the guidelines. Additionally, JPWA stated that medical institutions and pharmacies would shun purchases or even return products before the re-pricing for drugs that go through a price reduction in October. This could cause challenges in deliveries and stock shortages. Alternatively, drugs that will suffer price increases in October could see healthcare providers rushing to hoard product ahead of the price revision. This would hinder the industry's efforts to improve distribution practices. *Takeshi Nakahara*, chairman of JPWA's Wholesaler Issues Review Committee, asked the government to "promote earlier price settlements, such as in August, for first-half price negotiations on the assumption that the drug price survey will be conducted in September."
- Pharmaceutical manufacturer **GlaxoSmithKline (GSK)** has opened two new facilities in Singapore and expanded one of the production buildings on its Jurong site. The move will enable the company to "accelerate the supply of new breakthrough medicines to patients globally" by reducing production time for medicines such as ingredients used in HIV medicines.
- Former commissioner of the **U.S. Food and Drug Administration**, *Scott Gottleib* was named to the board of directors for pharmaceutical manufacturer **Pfizer Inc.** Gottleib has been an outspoken critic of drug manufacturers, calling them out for specific abuses and publicly engaging the industry on drug pricing.
- **Cardinal Health Inc.** announced that *Jorge Gomez* will be leaving his position as chief financial officer of the company effective August 9th. Current CEO *Mike Kauffman* will assume the role of interim CFO until a replacement is found. Kauffman served as CFO from 2014-2017.
- **AmerisourceBergen Corporation** announced that it has entered into a long-term agreement with **OneOncology**, a leader in cancer care in the U.S. OneOncology partners with the U.S.'s top community oncology practices and their physicians to support delivery of comprehensive cancer care to patients. Once its public launch in September of 2018, the organization is now comprised of four large practices across the U.S., representing nearly 250 physicians at more than 70 sites of care.

(Sources: Barrons, BiopharmaDive, Channel News Asia, CBS MarketWatch, Drug Store News, FiercePharma, Pharma Japan, and Yahoo Finance)