Interview with Karen McTavish, Managing Director, Watson Pharmaceuticals

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Tags: Watson Pharmaceuticals

Earlier this year the company set a crucial step in its internationalization strategy with the acquisition of Ascent. Would you outline the significance of the acquisition within Watson's global expansion strategy?

Watson had through the Arrow acquisition in 2009 actually acquired two Australian businesses, Spirit and Willow Pharmaceuticals. Spirit is a business-to-business company that focuses on difficult to develop generic products, while Willow focuses on the hospital market.

Watson sees Australia as a key market for its global growth strategy, and the acquisition of Ascent was a way to give the presence a serious boost and accelerate the process beyond more expensive and time consuming organic growth.

What complementarities and synergies were generated from the Ascent transaction and where do you stand today with the integration of the four companies?

By acquiring Ascent, Watson received a major customer base and an existing products portfolio. It is a diversified company with both generic products and partnerships in the innovative arena.

Right now we have two offices – one in Sydney, one in Melbourne – and they are mostly integrated. We still have some infrastructure and IT projects ongoing that will complete the integration. In a month a new CFO will join the operations. As he headed the integration team and was part of the

M&A team for the Ascent acquisition we are looking forward to the contribution he can make.

Watson had also provided an integration team following the acquisition of Arrow a few years ago, and we are able to apply valuable lessons in the integration of Ascent.

An article in the Herald Times last week informed that three out of four Australians want a price discount to encourage them to use generic medicines, and with the gvt on a mission to cut healthcare costs, the parameters for growth are good. In your vision, what are the biggest challenges & opportunities to further boost the generics share?

One of the biggest challenges is the lack of a strong price signal to the consumer. Half of the prescriptions under the Pharmaceutical Benefits Scheme (PBS) go to concessional patients with a co-payment of A$ 5.80. This co-payment does not change regardless of whether a patient chooses a generic or a brand.

The policies at this point in time do not strongly encourage the use of generics. The government has felt that there needs to be a level playing field for all pharmaceutical companies, but the problem in my mind is that the generic companies are providing the biggest cost benefit for the government while there is no strong volume trigger.

Both the nation and the government value the PBS, and today we see an intense discussion on how the PBS can be kept sustainable in the long run in the face of an ageing population. Medicines Australia, the representative association of the innovator companies, has had a very strong voice in this discussion, while the Generic Medicines Industry Association (GMiA) is much newer, smaller, and less funded, and thus has been less vocal.

The Generic Medicines Industry Association (GMiA) is working hard however to build relationships inside the government and create a better understanding of the challenges that the generics industry deals with in further increasing the use of generics.

The challenge for the government is to find the right mix – they do not want to unfairly disadvantage anyone, and yet they are the ones that actually need savings on the PBS to keep it sustainable especially as the population continues to age.

Where do affordability and sustainability meet? How much more price cuts can the generics industry accept?

Cost of goods becomes crucial for every company, and there are companies that have already had products go below cost. Range has been important for pharmacies, because they tend to pick one

supplier to supply the bulk of their products. Pharmacies look for support from generics companies, and the big generics companies hence maintain a bigger, more costly infrastructure to supply pharmacies. As prices come down, that infrastructure becomes less affordable. At some point the services are bound to become less, and in this situation it is not clear whether pharmacies will be willing to pay more or not.

We need to be prepared for change with such a big piece of margin taken out of the market. It is an understandable situation as the government is by far the biggest spender in the market and is looking for a better price and sustainable PBS. It is a challenge for government to find a way to sustainably support the generics industry as a contributor to lower healthcare costs.

Having Watson now own this company and being able to provide a very competitive cost of goods at the earliest point after patent expiry is key. Only a global player can afford to do that.

To which extent does the patent regime in Australia contribute to shaping the right environment for the generics share to grow?

It tends not to be very rewarding for the side that challenges a patent. The struggle is that, if brand companies see that it is not difficult to keep a patent on foot, even if it is a bad patent, they will be more likely to file more and more patents, as they understand that the generics industry is the one who has to take the initiative. It is a challenge to find the right balance between granting patents to truly innovative products and simultaneously not block new products coming to market.

How do you outsmart the competition in an increasingly competitive environment and move ahead to the top of the table?

The market is highly challenging. It is not just the entrance of various Indian players entering that is a challenge.

In some ways PBS reform is driving down generic pricing. The initial PBS reforms came about in 2004-5, but the rate of change has speeded up significantly over the past years. Now the system provides a continual cycle of price disclosure followed by price chances based on the average disclosed price. This quickly drives prices down in the market not leaving a lot of margin. The companies that would be expected to prosper most in such a cost-focused environment are actually not the ones with the biggest market share, because it is not easy for pharmacies to substitute generics, they need to receive approval, for which in turn support and training is needed that the bigger players in this market provide.

Which products or therapeutic areas are the key growth drivers in Watson’s portfolio?

To turn your first question around, what Watson has brought to Ascent instead of what Ascent has brought to Watson – a pipeline of products and a cost-competitive source of products. Moving products into the Watson portfolio does not happen overnight, partly because of the regulatory environment and partly because of distant logistics, but we are doing a lot of work on our pipeline internally to make sure that we are leveraging the strengths of our parent company.

One of the pillars of Watson's strategy to drive long-term growth is based upon building a leadership position in the emerging global biosimilars market. How important is this as a growth driver for the company today and what opportunities do you see for Watson in Australia?

Watson's growth strategy as a corporation has been based on global generics, global brands, and biosimilars.
With global generics we focus on increasing local market share but also on having products ready at patent expiry – a basic formula that is similar in many markets. The Actavis acquisition gives Watson the desired global presence on the generic side.
At the branded side there is an appetite to establish a branded portfolio in Australia in urology and Woman's Health, following the presence of these products on the US market.

Biosimilars is part of a longer term but essential part of that three-pillar strategy. The challenge in Australia is that the regulatory path is still a little unclear, as is the way in which these products will fit into the PBS and PBS reform.

Currently GMiA, Medicines Australia and AusBiotech all have different opinions on how the issue should be approached by the government. The generics industry is looking at the opportunity, and we obviously need to make sure that we will be able to recoup our investment. While the products are being developed globally, the next interesting step will be the market strategy, and this will depend on how the government deals with that.

What are the growth targets for the coming years?

Watson was a purely US based company until five years ago. The global focus is part of a strategy that has been firmly embraced by the top of the company recently. In line with this strategy Watson Australia has a very strong mandate and desire to grow and the tools, the people and the assets to make it happen.

Watson is very supportive and willing to invest in the local business, and I have been incredibly pleased with the support that I have received over the past months. We are focusing people, portfolio and infrastructure – three areas on which to set up a solid platform to grow and expand.

What was it specifically that attracted you to the company?

I was very impressed with the group management, with their goal to globalize quickly and the big steps that had been taken already to realize that. I felt attracted to the goals, the commitment to the goals, and the fact that they were following through. Also, the fact that the company has a diversified portfolio appealed to me.

Where will you have taken Watson by the time we come back for the next edition of our report in 2017?

Australia is a great market, it is affluent, it has an ageing population, stable government that is supportive of the pharma industry. Within this, Watson is very well placed to grow. By 2017 we will be a major player in the Australian pharmaceutical industry; the diversity of our business will help ensure the success in all the areas we operate in.

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