Interview with Peter Tsai, President, Orient Europharma Co.

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You founded Orient Europharma in 1982, nearly 30 years ago. As you approach the 30 year mark, how has the company evolved to the way it is today, and how would you describe the company to our readers?

I left Upjohn in 1982 and established Orient Europharma (OEP) as a distributor for Rhône-Poulenc. For the first few years we were successful, and we started to diversify the company's client base, entering talks with Hoechst and Elan. However, the strategy changed when these big European pharmaceutical giants began the process of merging with one another.

Today Orient Europharma licenses in products from Pierre Fabre for whom we are the regional distributor serving Singapore, Malaysia Hong Kong and Taiwan, and the company is also the distributor for Elan Pharmaceuticals. We believe that bringing international licenses into Taiwan is still the best business model for the company: although many Taiwanese companies are looking to develop their own chemical entities. It is a long and difficult process, and most of the companies in the Taiwanese market are lacking the financial backing to make this dream a reality. So OEP continues to license new and promising products and chemical entities by investing in companies who are already have products in Phase II studies, In addition to fill in our pipeline through licensing, we formed of a new subsidiary Orient Pharma (OP) which is the manufacturing arm of our company to build a new plant, with which we can focus on developing new formulations, new delivery systems, and new indications. To add our R&D capability, we had to repatriate some

Taiwanese scientists who were formerly working in the US in order to help us.

And so you will look to license in drugs in Phase II of development and bring them to the market?

We do not have the capability to review product potential pre-clinical trial, but if drugs have made it through to Phase II A or B they are a less risky investment for a company like OEP. Our recent investments are
1) Cel Sci, an American company which researching immunotherapy which we will be participating the Phase III registration trial for head and neck cancer, and
2) NanoCarrier, a Japanese company working with nanotechnology to develop anti-cancer therapies.

In 2003 you started to internationalise the company and since that time you have expanded again, now encompassing Mainland China and a lot of the countries in South Asia. What do you think the strengths of Orient are in these international markets?

The company has always made an effort to maintain its levels of professionalism, always hiring the most talented individuals. Our current general manager has been a great asset in helping to develop the business since we started to look to other markets in 2003, but he will retire this year. We are hoping to replace him with JP Chang, who is our current general manager in the Philippines, and was formerly the general manager of Glaxo Taiwan. The first and only family member to enter Orient Europharma is my son, Calvin Tsai, who has joined the company as its licensing-in manager. Calvin is a trained US CPA. Before joining the company he worked for Elan and Pierre Fabre, and brings a very useful international perspective to the business.

What are your ambitions for your internationalisation? Will the Taiwanese market continue to be the most important market?

Taiwanese market may not be the biggest market in the world, but Taiwan will always be important to OEP. The home market is always important because it is where your headquarters is and where you develop your products and provide direction for the future for regional subsidiaries to follow that direction.

Currently, our subsidiary contribute 20% of our total revenue of USD$121M in 2009. We are continuing to expand into South East Asia as we have been doing since 1999 with Singapore as the first branch. Before we purchased the plant, one of the challenges that the company faced was owning regionalised products. Not every licensing opportunities came through would be able to extend to our regional affiliates. The new plant gives OEP the capability to create a synergistic

effect to our affiliate which allowed we start to harmonize our company product portfolios throughout our regionalised presence that also in turn gives us an advantage when we want to license in new products, as we can show our partner the capabilities that the OEP has. That is a continued development of what we have been trying to do.

OEP business is high science, dealing with complex therapeutic areas such as oncology, a business that requires a lot of capital and a long time. As a result, the company prefers to license in from big companies. In this way we are able to work on a daily basis with such companies and learn from them. Times change and the environment changes quickly. We want to learn from the big companies what is their vision and market strategy. Distribution is a tricky job: if you are unsuccessful in marketing a particular product the licensor is disappointed in the work you do – if you are successful, then the company starts to think that they should enter the market themselves! As a result, OEP also needs to develop its own products, and these will come through our expertise and capabilities in new formulation.

Today, the Taiwanese government is pushing for an improvement in manufacturing standards which will force a consolidation of the market. As a company that for a long time has been focused on very high quality manufacturing, what opportunities do you see within the Taiwanese market in terms of future business development?

Today there are over 160 domestic pharmaceutical companies in Taiwan – far too many for a country with only 23 million inhabitants. This is the reason behind the government wanting to raise standards: as a result of this, those less competitive companies will start to disappear. However, whereas in other markets this would lead to a consolidation, the business attitude in Taiwan means that this may not happen here. The Chinese say that they would rather be the chicken’s head than the Ox’s tail: the cultural philosophy is that the heads of many local businesses would prefer to be the boss rather than the employee. Even though they know that there are tricky times ahead for the industry they will still hold on to their businesses, because they perceive it to be shameful to sell a family-built business. The other factor is that Taiwan is a branded generic market. Smaller businesses can compete much more easily in this environment than in a market where pure generics are dominant.

TTY Biopharm have done very successful things in bringing some smaller businesses together, but taking majority stakes in these other companies which still allows them to exist as independent entities. Is that something that Orient would consider doing?

Orient Europharma is constantly exploring the opportunities in merger & acquisition. In 2003, we bought the Philippines subsidiary from Elan and it is currently ranked No. 26 in IMS survey. if opportunities arises, we would like to buy another company in the south east Asia that we currently do not have a presence in. Today the company continue to acquire licences rights for in which covers South East Asia, along with Australia and New Zealand. However, I don't think there is not much of a chance for us on the license right in China: good companies always see China as a huge potential market, and want to go there themselves. Countries in South East Asia such as Thailand and Vietnam (a market we will open next year) have challenges with language and these small markets can eventually be too complicated for big companies to deal with. What these companies see as a challenge, Orient sees as an opportunity. These companies can delegate the job to us.

After so many years of dealing with multinational companies and in-licensing their products, how do you think you are perceived as a company within Europe and the US?

European companies are usually much easier to approach than the American Companies. It's probably the name of the our company " Europharma" that helps, To name a few of the European that we dealt with, for example: Recordati from Italy, Pierre Fabre from France and latest company that OEP signed in 2009 is HRA Pharma, who has developed a new generation of emergency contraceptive pill. At the moment we are also approaching deals with one mid-sized European Biotech companies. The concept of the service to these European partners is simple: by partnering with OEP, we can save them the trouble of looking for partners in every country in the region. These are small markets but still require the same amount of attention as the big market and OEP is here to provide an one-stop solution to help them with all their needs.

OP is OEP's manufacturing arm, which incorporates the new facility. The concept or business model is to partnered with known drug formulation laboratories which do not have a manufacturing facilities where we manufacture for them as well as promote the products in our own territory. The current example is that we are working with DURECT in the US, who will market the drugs in their country but will rely on us for high-quality manufacturing.

We know that pharma is a long-term business but in the next ten years, what are your personal goals for the company?

Next year OEP we will reorganise its organisational structure. Pharmaceuticals will be one unit, nutritional and healthcare products will be another. We believed OEP has lines in cosmetics, health products and nutrition. We also want to release some products in China. We already started to register products there, but we will not set up our own sales force in China for pharmaceuticals.

This will also be the strategy for the US market.

People are very important for Orient. Without good people, there is no future. We want to continue to hire good people and develop our own people from within. This year and last year we have engaged Towers Watson to reorganising the structure of the business, and this plan will be fully implemented next year. Over the next ten years we want to continue growing and develop OP to the point where the company has good products to sell to the US and European markets.

What would you like to say as a final message to our readers about your company?

OEP & OP is a great partner today for those companies that need a one-stop solution to marketing their products in the Asian region

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