Interview: Christian Hogg – Executive Director and CEO, Chi-Med, Hong Kong

"The China pharmaceutical market – which is where our business really is – has been growing around 15 to 20 percent a year for the last 15 years, slowing only now to a very respectable 10 to 15 percent. Growth is much easier to achieve in that environment compared to a stagnant market like Europe."

05.07.2017

Tags: Hong Kong, China, Chi-Med, Pharma, Biotech, Innovation, Strategy

Christian Hogg, executive director and CEO of Chi-Med, discusses the company's rapid development in tandem with the growth of the Chinese pharmaceutical market, brining genuine global pharmaceutical innovation to China, and the state of Hong Kong's biotech industry.

Hutchison China MedTech (Chi-Med) is entering a very exciting stage of its development. How do you account for its meteoric success so far?

Chi-Med's success stems from a coming together of three or four critical factors. Firstly, our founding shareholder, Hutchison Whampoa (now CK Hutchison), is a highly entrepreneurial, global conglomerate that laid an extremely strong foundation for this company. Very few enterprises would have entered a completely new field with zero expertise, knowing that a pharma company requires 10 or 15 years to gain traction. There are many other conglomerates in Hong Kong but not many that would take such a calculated risk. Secondly, having laid this foundation, they then allowed us to access global equity capital markets when necessary in order to fund our continued growth. Consequently, in 2006, we listed on AIM and more recently in 2016, we did a NASDAQ listing. These were essential because we needed to access specialist money in markets that could value our assets properly and transparently, in order to acquire the equity-driven incentives required to attract top talent in the field.

Then there are what I classify as tailwinds: industry trends that have worked in our favor in the past 17 years. Firstly, the China pharmaceutical market – which is where our business really is – has been growing around 15 to 20 percent a year for the last 15 years, slowing only now to a very respectable 10 to 15 percent. Growth is much easier to achieve in that environment compared to a stagnant market like Europe. Furthermore, there has been unprecedented regulatory and industrial reform in China during the same period that we have benefited from. If you are truly innovating for unmet medical needs, the regulatory authorities are now extremely supportive, and regulatory reform designed to promote Chinese access to innovative drugs has accelerated in the past five years.

Another factor is the fact that throughout the 1980s and 1990s, a large group of very highly qualified, academically talented Chinese individuals emigrated from China to work globally. By 2000, many of them were looking to return home to capitalize on and contribute to China's national development, seeking to put their global skills and expertise to good use. We were able to take advantage of this inflow by providing a stable, solid platform to continue their research and paying them globally competitive rates. Today we have a strong R&D team of 300-odd scientists based in Shanghai that is really driving the innovation behind Chi-Med.

Adding in the last 17 years of grinding hard work by our team, today Chi-Med is in the enviable position of having clinical drug candidates in 30 clinical drug studies around the world as well as a very profitable China pharmaceutical business that helps fund much of our R&D activity.

Where does Chi-Med stand today in terms of its innovative portfolio and further growth development strategy?

Chi-Med today has a market capitalization of USD 2.6 billion, which is a solid foundation. The next step is to launch our first innovative drug. We have multiple drugs in Phase III and we have already announced positive Phase III clinical results for one, fruquintinib, with the NDA to be submitted shortly, so that will take us to the next level. We are on track to be the first Chinese company to bring a mainstream drug from discovery all the way to market authorization and launch.

While our innovation is based in China, each one of our existing eight drug candidates are designed to be differentiated on the global basis. We bring them through proof-of-concept in China and if they do well, we take them to Phase III registration studies in China but also develop them outside of China, either on our own or with partners. Key markets we will target outside of China will be the main ones, North America, Europe and Japan, which in total represent probably 70 percent of the global pharma market. We do not have commercial organizations in these countries yet but some

of these drugs are being launched in partnership with big pharma partners.

For instance, our first drug candidate to be launched will be our highly selected c-Met inhibitor savolitinib, through a global partnership with AstraZeneca. This was remarkable because AstraZeneca chose to partner with Chi-Med on savolitinib over all the other c-Met inhibitors worldwide – because ours was the best. This is testament to the strength of our innovations.

[Featured_in]

We have built a number of key corporate partnerships because speed is critical in our business. We need to be resourced to go as fast as possible, and large pharma partners help to de-risk our business financially and operationally. We also partner for different reasons: for instance, Eli Lilly saw in us the opportunity to develop and access the China market, so we entered a licensing, co-development and commercialization agreement with them for fruquintinib. This was instrumental in broadening our development program; alone, we would only have been able to develop fruquintinib in one indication, maybe colorectal cancer, but partnering with Lilly allowed us to expand into other areas like non-small-cell lung cancer and gastric cancer.

Ultimately, we partner with companies for different reasons but the crux is to always have a common objective and a common vision. Any partnership will either accelerate or broaden – if not both – the potential of an asset. Our Big Pharma partners realize that there is a lot of potential in homegrown China innovations and the common objective was – and is – to bring that innovation out of China to the global market.

That said, ten years from now, we expect to see our own commercial teams everywhere.

Chi-Med started as a small-molecule biotech company focusing on cancer. Immuno-oncology is the buzz word today in the world of cancer treatments, so how has Chi-Med's research focus adapted?

In terms of immuno-oncology, we already have multiple programs on the research side and in preclinical, which should start hitting the clinic in the next three to four years. That said, our R&D program is traditionally been focused on developing highly selective small molecule tyrosine kinase inhibitors, which will never be rendered obsolete by immuno-oncology. In fact, the two are very complementary. What our inhibitors do is hit specific proteins and enzymes involved in the cell signaling pathways to inhibit cancer cell division.

Furthermore, our drug candidates are uniquely specific and selective; they only hit the proteins we want them to hit, and it is like turning off the switch on a cancer cell so they cannot multiply.

Immuno-oncology is a fantastic treatment revolutionizing the treatment of cancer. But even if your immune system is attacking cancer cells, you still need to turn off the switch that is the genetic driver of the disease. For instance, there is a lot of immuno-oncology activity in the field of lung cancer today, but for non-small cell lung cancer, global studies often exclude patients with the epidermal growth factor receptor (EGFR). EGFR is this genetic switch causing cancer cells to multiply and our compounds are targeted to turn that off.

In addition, as our drug candidates are so selective, they are very clean. Last week, we published the results of our Phase III study for fruquintinib at the American Society of Clinical Oncology (ASCO). The point of differentiation here is that it is so selective to this particular protein that it does not hit everything else, which means the off-target toxicities are almost negligible. This results in a very clean targeted therapy that can then be combined with multiple oncology therapies to attack the disease from multiple angles.

[related_story]

Chi-Med also has a hugely successful commercial business in China. What is the significance of that?

First and foremost, our Commercial Platform, the pharmaceutical business in China, acts as a strong revenue source funding our intensive R&D activities. This is always reassuring.

But what we have also shown in China is the ability to run large commercial teams. We have over 2,200 medical reps through a joint venture that is managed by us, which has been built up from nothing. To me, running commercial teams, regardless of market, boils down to the mindset or system put in place. I find operations almost military in style, because it is important to maintain tight control over the teams to ensure compliance with our model and desired execution. With this experience, I do not doubt that we will be successful in commercializing our own compounds.

Market access ultimately depends on only one thing: are you genuinely helping patients in that market, and are you providing that help at a realistic price? If you get that right, it does not matter who you are, an MNC or a local company, regulatory authorities would be very supportive and market launch would not be an issue.

There are very few companies conducting genuinely global innovation in China today but it is coming. 20 years from now or even 10 years from now, China will be a source of enormous innovation in this field. This is being driven by the Chinese government’s push to foster this biotech ecosystem in China. The Chinese government has done absolutely everything in its power to help

companies like us get established and grow. It is inevitable that China will become a major player in the field of global biopharma innovation over the next few decades years – and fortunately, we find ourselves in a privileged position of leading this. Running clinical trials in China to global standards is also very cost-competitive even through a global CRO simply because there is such a huge patient population.

China is also already most important market in the pharmaceutical industry globally because of its incredible unmet need – it has close to 30 percent of the world's cancer patients – and its single regulatory regime.

As a company incorporated in Hong Kong, how would you assess the biotech environment here?

Hong Kong's core advantage is the strength of the financial services industry here, which is increasingly interested in the healthcare sector, seen to be a high-growth sector. The transparency of the equity capital markets in Hong Kong and the increasing sophistication of their understanding of the healthcare space are big positives. Therefore, Hong Kong offers a potentially very attractive IPO pathway for emerging biotechs. As I mentioned, Chi-Med had to go to the UK and the US to find specialist investors, but in 10 years, I believe there will be sufficient specialist expertise in this part of the world to support biotech companies.

The right investment mentality for biotech does exist in Hong Kong; the long-term, patient approach that Hutchison Whampoa adopted with us exists, which is a contrast with the short-term venture capitalist attitudes in European countries that look at investments with a three- to five-year time frame. Chi-Med has taken a completely unconventional path; if we had gone the VC-backed biotech route, we would not be here today.

That said, for biotechs to be able to take advantage of the financial environment in ten years, the government needs to implement policies today to foster a number of biotech companies. Hong Kong is not a biotech hub yet, in my opinion. The cost of operations here is also high and the ecosystem is much smaller than that of other hubs in the world like Boston, Shanghai and Cambridge, in the UK. For instance, the Singapore government has done a lot in the past two decades to attract investment in this field but compared to Hong Kong, their disadvantage is that they are far from the core Chinese patient population. Hong Kong has a huge advantage in terms of its proximity to China, which we should capitalize on more.

Having been with the company for 17 years now, what continues to motivate you in this difficult and risky industry?

17 years is indeed a very long time and it has definitely not been easy. I would characterize it as a long-term, constant grind in a very risky industry. We have to constantly balance the risks. But this challenge is what has kept me engaged every day – because someone needs to do this to benefit all the patients out there. Pharmaceuticals is a great industry with significant, tangible rewards that genuinely benefit patients.

> “China is a market that appreciates – and needs – innovation.”

Chi-Med’s primary objective is to bring innovative therapies to market in a disruptive manner that no one else is doing. That is intellectually and operationally very difficult but that is what makes it such a great mission. We are working to become the first truly global-facing biopharma company based in China. This means that we are very ambitious and we are innovating for the global market in order to create something that has never been established in China before.

China is a market that appreciates – and needs – innovation. The days of international companies looking at China as a developing market and outlining a ‘China strategy’ are over. Take China seriously, and you will be rewarded. 15 to 20 years from now, it is going to be the largest market in the world for many products, including oncology drugs. Many companies and investors have not yet figured this out, but we have – and we are going after this market.

See more interviews