
EXAME

Negócios Indústria Farmacêutica – “Pharmaceutical Industry” Na Medida Para Os Emergentes -- “Custom-made for the Emerging Markets”

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American and Brazilian investors collaborate to create an exclusively Emerging Markets-focused pharmaceutical business – taking on a giant and complicated industry.

BY MELINA COSTA

For large consumer-focused companies all over the world, the emergence of countries like Brazil, India, China and Russia, and the new possibilities of countries in Africa and Asia, have been source of euphoria, growth and profit. Previously approached with caution, these markets are now priority.

This shift in directing investment and tailoring new products especially for the new markets has occurred in the food, cosmetics, automobile, and consumer electronics industries. Yet one exception is the pharmaceutical industry, which continues to focus its R&D, manufacturing and commercialization efforts in rich countries. While companies in other industries already derive over half of their revenues from Emerging Markets, 90% of large drug manufacturers’ revenues are still concentrated in the mature economies of the United States, Europe, and Japan. Due to a number of factors, these established pharma companies either had no interest in, or could not take advantage of the rapid growth of the developing countries (see report on page 118).

The scenario provides a background to the current level of excitement over the debut of **moksha8**, a new pharmaceutical company designed to operate exclusively in and for the emerging growth markets. The company commenced operations in Brazil two months ago, with offices in China, Europe and the United States.

“We want to be the largest pharmaceutical company in developing countries”, says Mario Grieco, Executive Vice-President, and head of company operations throughout Latin America.

What is moksha8?

Company fundamentals:

Current sales revenues:

\$80 million dollars

Offices: Shanghai and Hong Kong (China), San Francisco and Philadelphia (USA), São Paulo (Brazil) and London (UK)

Investors: Texas Pacific Group (TPG); Votorantim Novos Negócios, of the Votorantim Group

Partnerships: Roche; Pfizer

Objective: License drugs from American and European labs for developing countries and create new drugs for these markets

moksha8 may still be a typical startup - however expectations for its success are not. **moksha8**’s executives and investors expect the company to generate over \$1 billion U.S. dollars in revenues over a 2-year period, and lead the pharmaceutical industry in the four most promising emerging market countries - Brazil, China, Mexico and India. The company’s business model is designed to capture the purchasing power of the growing middle classes within these countries.

The company’s Emerging Markets strategy is even reflected in its exotic name – a blend of Chinese and Hindu traditions and beliefs. The word moksha means “enlightened state” in Sanskrit, while the number 8 is a sign of good luck in China. To increase the good fortune indicated by their name, the company counts on investors from different regions and global vocations.

moksha8’s investor group is made up of the Texas Pacific Group (TPG), the fourth largest private equity fund of the United States, with assets over 40 billion U.S. dollars, and Votorantim Novos Negócios, one of the largest venture capital funds in Brazil.

moksha8's board of directors consists of experienced executives from the pharmaceutical industry, among them, Davinder Singh Brar, former CEO of Indian pharmaceutical giant Ranbaxy Laboratories. Steen Kroyer, former president of AstraZeneca (China), leads the company's Asia commercial operations, while Mario Grieco, who left the presidency of Bristol Meyers Squibb (Brazil) to join **moksha8**, directs Latin America commercial operations.

moksha8 was conceived without any development laboratories or installations of its own. The company, which currently operates only in Brazil, has license to market 22 drugs of Pfizer and Roche in the country. The entire portfolio represents annual revenues of over 80 million U.S. dollars.

These drugs, including the sedative Lexotan and the antibiotic Bactrin, are older products. Having been on the market for over 30 years, they currently struggle to compete with new generics. They are exactly the kinds of products receiving little or no attention from the established pharma companies. Through the efforts of a 60-strong sales force promoting these drugs to local doctors, **moksha8** expects to increase sales of these products by over 20% by the end of this year.

"We do not promote these products among the doctors anymore. The idea now is to concentrate all efforts on the new releases", says Gustavo Petito, responsible for business development at Pfizer. New products, still patent-protected from competition with generics, generally have much larger profit margins.

moksha8 will operate in three phases, and obtaining the licenses of mature and novel drugs from European and American labs, which have not yet been released in Emerging Markets, is part of the first phase of the **moksha8** business model. When formulating the structure of these licensing deals, **moksha8**'s executives bear in mind the goals of their partner companies, and take care to represent the well-known status of their brands.

In the second phase, **moksha8** will continue to partner with large pharmaceutical companies, and also include smaller biotechnology companies (the most innovative sector of the industry, producing drugs synthesized from genetically altered microorganisms).

"Instead of struggling to manage many disjointed partnerships with a multitude of companies in order to commercialize their drugs in local markets, these pharmacy and biotech companies will be able to streamline their efforts by dealing exclusively with us. We will be their partner of choice in all emerging markets", said biologist Fernando Reinach, director of Votorantim Novos Negócios.

The third business phase will be the production of original drugs with the **moksha8** brand - to be sold exclusively in developing countries. The company has already purchased three drug patents in the advanced research phase, and scheduled them to be released in Brazil in the next three years. **moksha8** is currently engaged in negotiations to build a factory in order to produce these products locally.

The central motivation for creating a pharmaceutical company exclusively targeting developing countries is based on an undisputable reality: drug sales growth in these countries is surging compared to stagnating sales in mature markets. According to IMS Health, a U.S.-based healthcare information company, over the next four years the pharmaceutical market is projected to expand at a rate of 20% in China and 10% in Brazil. In the same period, the European market is forecasted to grow only 5%, and the American market by only 2%.

Despite the obvious opportunities, **moksha8** will also face great challenges in these countries – the same faced by the established pharmaceutical companies. The greatest of these hurdles is the drug access model. In Europe, governments are largely responsible for the reimbursement of healthcare expenses, while in the United States, private insurance companies reimburse healthcare. In India, most consumers pay for healthcare out of their own pockets, without any kind of coverage. This severely limits pharmaceutical sales in a market where most patients' incomes are still very low.

Things are trickier in Brazil. There is a free governmental distribution plan in which the government first purchases drugs directly from pharma companies and then distributes them to patients with lower levels of income. The problem in the case of Brazil is that the drug industry has to deal with a giant and powerful buyer [the state], which can claim huge discounts. The Brazilian government generally purchases drugs at just 10% of the price paid by the end-consumer.

One of the possible strategies to enhance sales in Emerging Markets is to repeat a model already used by companies in other industries: adapt products and establish prices according to local consumer demographics. Perhaps one of the most successful examples of this is Tata Motors' \$2,500 U.S. dollar car, which costs less than half the price of the most economical car in India.

On the other hand, established drug companies consider this strategy for the pharmaceutical industry unthinkable. "It's impossible to produce a simpler pill for developing countries", says Mariano Garcia-Valiño, director of the cardiovascular segment at Pfizer. Yet despite the backlash, there are already signs that creating more accessible products is not an impossible task. The Shanta Biotechnics lab in India, for instance, was able to produce a Hepatitis B vaccine for 30 times less than the established market price. This was a result of the discovery of more efficient technology for the drug's production.

"Pharmaceutical companies have two options: wait for disposable income to increase in developing countries to developed country levels, or support these markets now by simply using some creativity", stated an annual industry report by Ernst & Young. Due to Emerging Market risk factors such as economic or political instability, largely absent in European and American markets, maybe the second option is the only one available.
