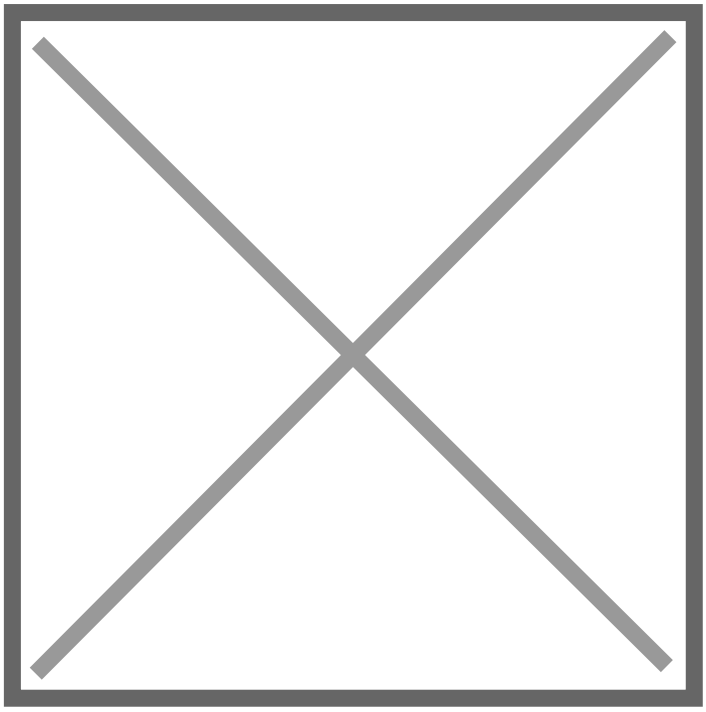
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# The year ahead

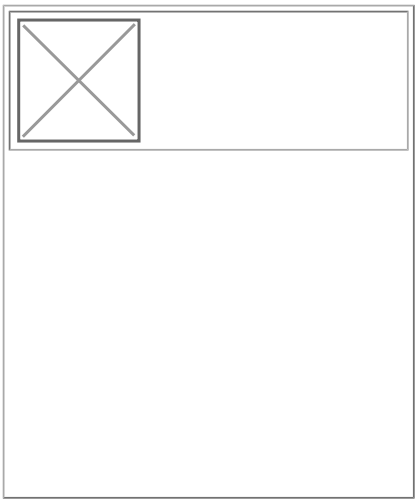
09 January 2009 | News



## The year ahead

Year 2009 promises to be a 'Year of Consolidation' for life sciences industry in the Asia Pacific region. While Big pharma will continue to downsize as patents expire and new products come to market slower, biotech companies will learn to sell their IP cheaply, merge, find synergies or die as they run out of money. The year rings in consolidation with capital Ã¢â?¬Å?CÃ¢â?¬?
The US economy has entered a prolonged period ofÂ  recession and will remain weak for most parts of 2009. This will possibly extend into 2010. It is likely that the conditions experienced in 2008 (limited availability of capital from debt and equity markets) will continue to persist. According to Dr Louis Payet, Senior Consultant, Healthcare Asia Pacific, Frost & Sullivan, the capital availability for small-to-mid size development stage life sciences companies will lag the broader market and these industries will remain under funding-pressure for a significant period of time.
He says, even though year 2009 will remain challenging for companies in the healthcare sector due to declining government expenditure and weakness in the healthcare insurance sector the industry in Asia, in 2009, will continue to grow. Stagnant and challenging markets in the US (and EU) will drive the companies in these regions to increase their focus on growing Asian markets. The financial crisis will however broadly slow the growth of the region's major markets such as China and India.
The overriding factor that will modulate the growth of the sector in Asia will be access to funding. Even though US, EU and Japanese companies may see the region as critical to their growth, their ability to develop their operations here will to a great extent be determined by their access to funding. Small-to-mid size Asian companies with access to strong customer bases, manufacturing capabilities or innovative products will fare better. Also, a continued drive towards personalized medicines is likely to result in the emergence of new technologies in the diagnostics and medical IT space. Diagnostic technologies providing patient specific analysis (such as characterizing drug resistance in infectious disease suffers) will see increasing demand due to their ability to improve patient therapeutic outcomes. The need to streamline the analysis of large amounts of patient data will also drive the development of complementary IT systems designed to support large scale data analysis and the subsequent automated output of concise analytical reports. These systems will provide medical practitioners with timely results that can be used to make patient specific treatment decisions. This trend towards 'personalized medicine' will be encouraged by governments, as optimal application of costly therapeutics can result in lower healthcare costs.
In the following pages of this special issue, BioSpectrum fast forwards 2009 to capture a first person account of what the industry insiders are anticipating in the year ahead.

### Forced M&As will rise: Burrill



Year 2009 is a time of great opportunity and many changes. Overall, the industry will see consolidation, a forced consolidation at that. There will be hectic M&A activity and outsourcing to Asia will pick up speed. India and China will rise as the preferred R&D destination. The year 2009 will also see reduced research and development spending and fewer and expensive capital raising

If I look at the projections that I have done in the last 10 years, I have been spot on. They have all been 100 percent correct. Earlier, in 2008, I said this will be a boom year for mergers and acquisitions and it was. One of my projections for 2008 that shocked many was the implosion of the capital market and the bust after that. We have been very accurate in our projections on industry, change in the economic environment and so on.

I see year 2009 to be a challenging year. I am not writing the obituary for the year or for the industry or the transactions. In currency terms, there will be more transactions done, more deals done globally but these will be of different scale and not of the same type in dollar terms. These will be very different from what we have seen so far.

**Forced M&As will rise**

To be able to say what is going to happen in the R&D and M&A arena in 2009, you have to put the backdrop in perspective. You have to consider the last year. In 2008, there were two halves-the first half where the economy actually tanked, and the second half where we had to deal with the massive downturn. In the second half of 2008, we had a substantially reduced capital regime where we had just one IPO in the US and a few elsewhere in the biomedical arena. We had a reduced capital spending period and broadly tougher economic environment. We had relatively few big deals and R&D spending had come down.

In 2009, we will see reduced R&D spending, lower, fewer and more expensive capital raising activities. Power of the entrepreneurs to raise capital will be greatly reduced.

Going forward, we will see consolidation. We will see M&As forced on companies on some reasonably attractive terms. However, there will be some others who will file for bankruptcy and call it quits. We will see attractive deals in the higher end of spectrum and the action moving to the global stage like Indian companies doing business with Indian companies and Indian companies doing business with Chinese companies.

**Business models will changeÂ**

The pharma model that you and I have known historically is in for a big change. We will see big companies disintegrating or selling away parts of their companies or spinning-off parts of their company into new companies. We will see integration of different slices of the value chain and change in business models. We will see companies merging with equals and keeping products that sell and getting rid of products that don't make sense. We will also see big companies buying big and small companies, biotechs buying small companies and small companies itself coming together.

We will see consolidation all across along with a high level of M&A activity.

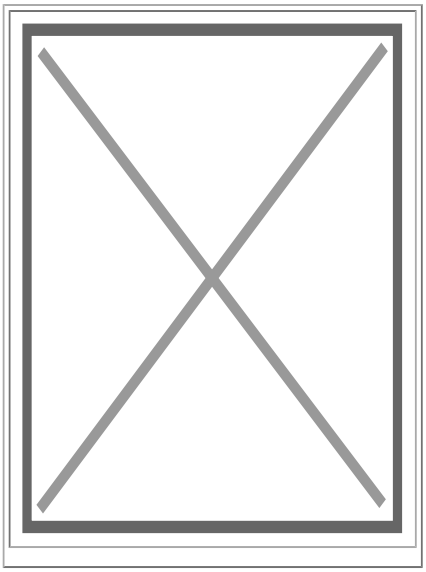
**Outsourcing to Asia will rise**

Outsourcing to Asia will pick up speed. We will see more healthcare expansion in Asia-India and China in particular. We will see more entrepreneurship and innovation in Asia. Both large and small markets in Asia will benefit from a relatively changing world.

**Obama to inject life into the industry (exclusively as told to Sanjeev Jain, )**

The Obama administration will be positive for the US and the world. The new administration will bring in positive changes. Healthcare reform is on priority for the Obama administration. These will give stimulus to the industry.

## Healthy growth ahead, in spite of slowdown: KPMG



The Asia Pacific (APAC) pharma and biotech segments of the life sciences Industry has attracted substantial interest from global players in the industry and already is, (inclusive of Japan), the third largest regional market after North America and Europe. The percentage of Asia's population defined as elderly is increasing very rapidly. There are industry estimates which suggest that as much as $50 billion will be injected into the Asia Pacific life sciences markets from both public and private sources over the next few years. The race is clearly on among Asia Pacific countries as they seek to position themselves as genuine global pharma and bio-environments.

The success of Asian pharmaceutical companies can be attributed to their low cost, high quality advantage that made them leading suppliers/ exporters of Active Pharmaceutical Ingredients (APIs) and formulations globally. The biopharma segment accounts for a major share in the APAC biotech market and the region is expected to become a major destination for stem cell research and biogeneric manufacturing. It is also expected to play a dominant role in the antibody therapeutics development. Major focus is being centered on gene therapy, agri-sciences, bioinformatics, genomics and proteomics.

Growth in the scientific advancement and capabilities clubbed with a very large patient pool (Asia accounts for more than 60 percent of the world's population) marks Asia as one of the preferred partner of choice. The APAC region as a whole and predominantly India and China have emerged as favored off shoring/ outsourcing destinations for various pharmaceutical activities like Contract Research and Manufacturing Services, (CRAMS), and Clinical Trial Services. Given the opportunities on offer, many countries in the APAC region have expressed their intent to become pharma and/ or biotech hubs and countries like Australia, Japan, South Korea, China, Singapore, India, Taiwan, Malaysia, Hong Kong and others have set up growth plans for this sector. They have set up pharma and biotech clusters, sometimes with government support for research, in order to enhance their industry capabilities. For example, China is already the largest vaccine manufacturing country in the world. Many big Indian pharma companies have also started venturing into biotech.

India has the third largest pool of technically qualified manpower, which augurs well for the need for larger numbers of skilled human resources, which will be required to keep fuelling the growth in these knowledge-based industries.

Apart from this, the regulatory environment in Asia Pacific countries particularly in India, China and Japan are at par with global standards as well as the availability of skilled manpower and infrastructure has also contributed towards the success of this region. The recent reforms in the area of Intellectual Property (IP) protection have further instilled confidence and MNCs are now investing heavily in this region.

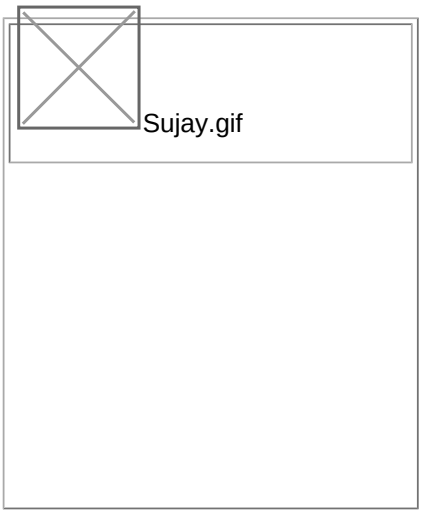
The APAC pharma market is expected to grow by 9 to 12 percent over 2006-2010 as compared to North America and European markets that are expected to grow at five to eight percent. Some of the key markets within the Asia Pacific region include China, India, Japan, South Korea, Taiwan and Australia. Smaller regions like Singapore, Malaysia and Vietnam are also budding markets within this region.

The biotech market in the APAC region is further expected to grow by 10 percent in 2008, with Japan making the largest contribution. Some of the key markets in this region include Japan, China, Australia and India. The Korean government is aiming to join the world's top seven biotechnology powers by 2010, Taiwan is earmarking three percent of GDP for life science development and Singapore wants to have an increasing share of the global scientific community. China is also making a concerted effort to raise the standard and profile of its local biotechnology industry.

The APAC region has also succeeded in capturing a larger pie of the global pharmaceutical and biotech industries on account of a large number of global pharma companies resorting to cost cutting measures due to mounting cost pressures and relocating their manufacturing and research bases to this region. Even as MNCs are setting up their operations in Asia, the domestic APAC companies are constantly expanding their global reach and are acquiring a larger share in the international markets.

Crystal ball gazing into 2009, one can expect the market to grow further in spite of the global economic slowdown on the basis of increase in the demand for pharmaceutical and biotech products that would largely be driven by rapid growth of population and longer life expectancy coupled with changing lifestyle pattern due to increased urbanization and changing demographics will contribute to a healthy clip inÂ  sales growth.

## Outsourcing to Asia will intensify:PwC


Sujay.gif

With the US downturn, the movement of business to Asia will intensify. Cash rich Big pharmas will be making an effort to boost their stagnating R&D pipeline and will be the key driver in increased outsourcing to Asia. Contract Research and Manufacturing Services space (CRAMS) will also see a spurt in investments.

In the M&As arena big pharma will be focused on two things: augmenting their R&D pipeline and increasing their exposure to India and China. With valuations correction and stock prices coming to their realistic prices, a good number of deals are just waiting to happen.

If you look at international scenario, acquisition activity has been quite strong when it comes to MNCs buying out smaller yet innovative biotech or pharma companies and could even see big pharma firms acquiring or merging with equally big rival. This is a very likely possibility in 2009.

Another possibility is consolidation amongst small and medium sized firms. Among the SME players, merging their strengths to survive is a route many will take. They will take this route to progress their research and compounds to positive results.

Year of Consolidation 









Nandita Singh, Narayan Kulkarni,  Sanjeev Jain & Shruthi Ram