



The Changing Face of South Korean PHARMA

A growing market, regulatory changes, and a new global competitive environment are changing the face of the Korean pharma industry.

W

ith a population of close to 50 million people and an established economy, the Republic of Korea is now recognized as a de-

veloped world market.

According to GBI Research, the South Korean pharmaceutical market is the 10th largest pharmaceutical market worldwide.

Jeung Wook Lee, a partner in EY's South Korea office, says the country's pharma market is growing at an annual rate of around 10%, and this is expected to grow more in the coming years due to an aging population and an increase in chronic illnesses.

According to Macoll Communication Consulting, an inVentiv Health affiliate, the country's elderly population will reach 12.69 million (24.3%) by 2030, leading to an increase in chronic diseases. Ouk Heo, executive director at Macoll, notes that the average annual medical facility visits numbers 14, while visits by the elderly is 27, significantly higher than the OECD average of 7 to 8.

"This means there are opportunities for global players to enter and expand their business in the Korean market, especially for the area of original products in which local players are not yet competitive," Mr Lee says.

Market Size and Challenges

The Korean pharmaceutical market grew 5.2% year-on-year to \$17 billion in 2010, growing at a rate of around 10% over the past five years, Macoll researchers note.

"The consumer power to purchase has increased with higher income levels and improved NHI (healthcare) coverage, making Korea one of the few Asian countries that is able to purchase new drugs," Mr. Heo says.

Pharmaceutical companies do face several challenges, among them strengthening regulations; forced lowering of drug prices by the government; and an emphasis on generics produced after expiration of patents.

Macoll experts say the drug pricing policy reorganization and the pharmaceutical industry advancement plan was introduced to the Bureau of Health Insurance Policy Committee in August 2011 and in February 2012, the government announced a decrease in drug prices by an average of 14%. The result is that the price of 47% of the drugs covered by the National Health Insurance (NHI) — 6,505 drugs — has decreased by 53.55% before the expiration of their patents.

"This restriction in prices is expected to impact the overall market size of the Korean pharma industry for at least the next two to three years," EY's Mr. Lee says.

Mr. Heo notes that after the price reduction, the growth rate of sales of the top 155 domestic pharmaceutical firms was 0.49%, the lowest in the past 10 years. In addition, the operating profit fell by 31% and the net profit by 21%. The R&D investment for new drugs also decreased by a third, down from last year's KRW 59.5 billion, which has decreased the overall size of pharmaceutical industry.

The Korea Pharmaceutical Manufacturers Association has reported that Korean pharma

companies are looking to overseas markets to bolster their bottom lines in response to profit losses from the government's policy.

One example is South Korea's Daewoong Pharma, which announced the acquisition of Chinese drug firm Liaoning Baifeng and a plan to build a pharmaceutical factory in Shenyang, northeastern China.

Other challenges include getting drugs listed on the NHI, since drugs are assessed by two organizations, the NHIS and the HIRA, Macoll experts say.

According to Professor Hyun Taek Shin of the Sookmyung Pharma University, challenges with having drugs reviewed based on cost analysis, or pharmacoeconomic value, limits access to drugs, and he has suggested anticancer agents and the anticancer agent supplement system should be guaranteed in the pharma-economic value system, which would better align with other developed countries.

At the same time, however, improved intellectual property rights (IPR), changing demographics, and government support have contributed toward making the South Korean pharmaceutical industry attractive for multinational companies, the GBI Research report notes. The South Korean government has signed free trade agreements (FTA) with the United States, Europe, and India that are aimed at improving the IPR framework in the country and making the pharmaceutical industry more attractive for foreign investment, GBI notes.

While the FTA might put some downward pressure on the generics-dominated domestic pharmaceutical industry, it is ultimately ex-

South Korea at a Glance

Total Population: 50,133,000
Gross national income per capita (PPP international \$): 30,370
Life expectancy at birth m/f (years): 77/84
Probability of dying under 5 (per 1,000 live births): 5
Probability of dying between 15 and 60 years m/f (per 1,000 population): 102/42
Total expenditure on health per capita (Intl \$, 2010): 2,181
Total expenditure on health as % of GDP (2010): 7.2%

Figures are for 2009 unless indicated.
 Sources: Global Health Observatory
 2011 Census Data

pected to bolster the South Korean pharmaceutical industry by increasing transparency in government policies and enforcement, and price competition in the private sector.

Alliances and R&D

Since 2000, alliances between global

pharma companies and local companies have been on the rise, Macoll experts comment.

“Global pharmaceutical corporations are resorting to joint ventures and partnerships between Korean pharmaceutical companies as a means to increasing R&D efficiency and cost-saving measures,” Mr. Heo says. “These partnerships have been formed in various parts of the value chain, from sharing sales channels and co-production to joint R&D efforts.”

Among companies that are investing in Korean companies are Pfizer, Merck, GSK, Novartis, AstraZeneca, Sanofi-Aventis, and Otsuka, he says.

“They are also expanding investments in areas that could make significant contributions to reinforcing the technological competitiveness of the country, such as clinical trials, scientific research with universities and research institutes, nonclinical and early clinical research and investments in bio venture firms,” Mr. Heo says.

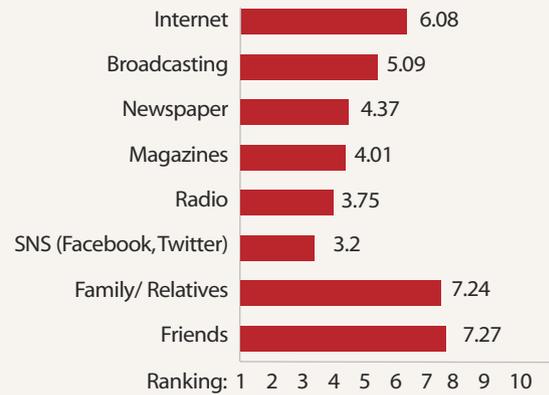
However, Mr. Lee points out that the fact that major global pharma companies are entering the Korean market through M&A or alliances with local players is reshaping the Korean market dynamics by increasing global companies’ market share and creating unease among local companies.

“Restrictions placed on rebates are still expected to impact local players’ sales activities

harshly, which creates an opportunity for global players entering the Korean market, particularly in light of the Korea-US FTA enactment,” he says.

The government is making concerted efforts to incentivize the local pharma industry, announcing a Pharma 2020 Vision, which is a series of five-year plans that will be focused on supporting the growth of pharmaceuticals which is designed to place Korea in the top seven pharmaceutical countries by 2020. The

Most Trusted Media Outlets



Source: Song Nak Jung, Injae University Paik Hospital



CHAMPIONS OF THE NEW AGE

The Seventh Annual Meeting of The PMRG Institute
 October 20-22, 2013 Hyatt Regency Jersey City

VISIT WWW.PMRG.ORG FOR FULL AGENDA AND REGISTRATION INFORMATION

Following The PMRG Institute...

Don't miss our exclusive one-day workshop with Dr. Andrew Abela on how to deliver an "Extreme Presentation."

Workshop date: 10/23/13; Registration deadline: 9/13/2013

Patient Information

According to a report by Song Nak Jung from Injae University Paik Hospital, Korean medical consumers use the Internet more than the four traditional types of media (newspaper, broadcasting, radio, and magazine) to obtain medical information.

The study analyzed 469 medical consumers older than 30 who have visited university hospitals. In terms of the most helpful media, the Internet scored the highest, followed by broadcasting, newspapers, magazines, and radio.

On a scale of 1 to 10, hospital websites (6.28) and the boards on Web portals (6.13) were where people received the information the most, followed by Internet Q&A services (5.36), Internet news (5.35), the webpage of MOHW or HIRA (5.34), online communities such as web cafes or clubs (5.03), personal blogs (4.53). However, medical consumers still do not make much use of social media such as Facebook (3.33) or Twitter (3.15) to obtain medical information.

“The high penetration rate of Internet and wide usage of smartphone allows easy access to the medical information and resulted in the reduction of effect of traditional media,” Mr. Jung says. “However, unlike the newspapers and broadcasts that have high credibility, medical information from the Internet does not provide much credibility, so it is difficult to simply compare them.”

Source: Macoll Communication Consulting, a member of the inVentiv Health Communications Global Network.

government will spend 10 trillion won (\$8.9 billion) on the project to develop 20 new drugs over the next five years in collaboration with local pharma companies. There are also plans to form a fund of 500 billion won to help the local pharmaceutical companies expand their presence in the global drug market by acquiring promising overseas drug makers.

Mr. Lee says until recently, Korea's pharma market has been dominated by generics.

“However as its competitive environment changes and local players keep investing in R&D to develop bio-original or similar medicines, the portion of original products is expected to grow rapidly, up to 50% by year 2016 from 17% currently,” he says.

Indeed, Korea has developed expertise in the pharmaceutical biological technology area, Macoll experts say, and Korean researchers have been involved in the development of the world's first stem cell therapy and xenotransplantation of pancreatic ducts.

In late July it was announced that a Korean research team had found a possible cause for amyotrophic lateral sclerosis (ALS), or Lou Gehrig's disease: a kinase called mammalian sterile 20 (STE20)-like kinase 1 (MST1). The discovery by Professor Choi Eui-ju and his team at Korea University, which suggests the activation of MST1 may be responsible for oxidative stress-mediated cell death in motor neurons during ALS pathology, opens the door to possible treatments for the rare disease.

Clinical Trials

Korea is rapidly becoming a major hub for clinical trials, helped by good medical facilities, sufficient population size, and a friendly government policy, Mr. Heo says.

In fact, 2010 data show Seoul is ranked second to Berlin in clinical trials, a huge improvement from 77th in 2005.

“Korea's success can be attributed to its unique positioning in the Asian market,” Mr. Heo says. “Despite the need for clinical trials targeting Asians, China and India lack medical infrastructure, Japan imposes harsh regulations, and Singapore lacks the population. Seoul's depth in terms of health professionals, abundance of clinical trial subjects, and administrative backup to conduct clinical trials positions it well for clinical research.”

He adds that even though Korea as a whole only makes up 2.5% of world's clinical trial market in terms of value, Phase I and II trials are becoming increasingly popular in Korea, growing from 87 cases (21.8%) to 99 cases (22.6%) in 2010.

Health Spending

Healthcare spending is on the rise in Korea, although medical costs remain lower than the OECD average, says JungHwa Lee, general manager, Kantar Health Korea, who notes that in 2010 medical costs accounted for 7.1% of the Korean GDP, which was 2.4% less than the OECD average.

“There are reports of a slowdown in growth, but due to continued increases in income observed in the general population, medical spending is also expected to increase,” she says.

Healthcare costs are covered by the NHI system and the Medical Aid Program; NHI covers 97% of all citizens, with financing help coming from employee/employer contribu-



“Due to economic growth and the environmental changes that follow, the prevalence of chronic diseases is continuously increasing and the aging population is also growing.”

JUNGHWA LEE / Kantar Health Korea

tions while the Medical Aid Program is a public assistance initiative, according to experts at IMS Health.

Experts predict that total healthcare expenditure in Korea will reach \$246 billion by 2030.

Due to economic growth and the environmental changes that follow, the prevalence of chronic diseases is continuously increasing and the aging population — accounting for 11.5% of the population — is also growing, Ms. Lee notes.

“With the elderly accounting for 14.8% of the total medical spending (46.1 trillion won), the growth in spending can be anticipated along with the growth in the aging population itself, which will contribute to overall market growth,” she says.

The government has announced several plans to increase spending on health, Kantar Health's Ms. Lee says. The National Immunization Program (NIP) has been expanded every year since 2009. There is also increased focus on treatment for severe and incurable diseases. On June 25, Health and Welfare Minister Chin Young announced a new health insurance plan that expands to include four major illnesses: cancer, heart disease, cerebrovascular diseases, and rare and intractable diseases.

With the new health plan, the individual patient's share of costs will be significantly reduced up to one third of current costs, a Ministry of Health and Welfare official notes.

In addition, selective services, including those using new technologies and elective surgeries, are to be covered by health insurance, expanding from 75% to up to 83% in 2016. 