Dr Reddy's CEO On Payer Dynamics, China Commitment And Disruption
04 Mar 2019
INTERVIEWS

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Executive Summary

Dr Reddy's CEO tells Scrip in an interview that it isn't business as usual, in general, in the US, where it is refining its proprietary products strategy to focus on 'bigger assets' in the backdrop of the payer environment there. The Indian company is, however, upbeat on plans for China.

Dr. Reddy's Laboratories Ltd. (DRL) continues to chisel and recalibrate its operations in the backdrop of a tough business environment in key markets like the US, but the Indian firm also expects to put the pedal to the metal in China, a market where it has had a long-standing base.

In an interview with *Scrip* at the sidelines of the recently concluded India Pharmaceutical Forum in Mumbai, DRL's co-chair and CEO GV Prasad maintained that only firms that operate in a "lean and mean fashion" will make money in the US - though not quite like in previous times - amid the challenges there. The US currently accounts for close to 40% of Dr Reddy's sales.

Prasad touched upon DRL's push and experimentation around going digital and also underscored that significant disruption appears headed pharma's way with "the first guys likely to get disrupted being retail… the Amazon model."

Teva Pharmaceutical Industries Ltd.'s CEO Kåre Schultz previously described the goings-on in the US market – pricing pressure, buyer consolidation and faster FDA approvals – as a death spiral. (Also see "J.P. Morgan Notebook Day 4: US Generics Steady, UroGen, REGENXBIO, Dr. Reddy's In China, And Investor Sentiment Shifts" - Scrip, 10 Jan, 2019.) What is your current assessment of the US market – we hear about moderating price erosion, exits by some large players in certain segments?

There is pressure, business is not as usual. Pressure because the number of ANDAs filed for each asset has gone through the roof. Many small players have entered and some big players are exiting. So, in one sense, short term there will be a lot of pressure. But in long term, the players who have fixed their operations cost and are able to operate in a lean and mean fashion will make money but not like historically [in the US previously you only had to only be there to make money, he observes]. But then came the whole wave of regulatory actions, the pressures. Overall it has become difficult to compete because the costs have gone up, standards are going up and prices are coming down. It is a challenge but when there is challenge there's also opportunity. But long term, the market needs medicines and people who can make [them] efficiently can compete. Overall, when market competition shakes out, there will be opportunity. But it won't be super-attractive like it was.

In general, at least from the outside, we get the impression that a Dr Reddy's 2.0 version is being readied - leaner, smarter and seemingly more open to calculated risk-taking as we've seen with generic Suboxone. How far down the road is the exercise?

We always were aggressive on the IP [intellectual property] front. The new things are streamlining costs, reducing operating expenses and cutting manpower in some places. These are things we never did in the past - we were always on growth and expansive mode. Today, we are much more cost-focused and this is a reaction to what has happened in the market.

There are a lot of noises around the return on investment for biosimilars in the US market. How does Dr Reddy's expect to build a sustainable business and financial model for biosimilars – or will the company be largely focused on emerging markets for now?

That is a challenge still because the cost of development of biosimilars/clinical trials and reference products are high and then innovators are discounting and holding grip on the market. And then it's not automatically substituted, so some level of brand building/detailing needs to be done. Overall the incentives are not completely aligned yet but this is a situation that cannot persist. At some point payer pressure will break the lock hold of the innovators. We will still develop products for regulated markets but we are going to be more measured in terms of investments and seeking some way of partnering. That's how we will continue because the game is still not settled there.

By the time DRL's rituximab is ready for the US, there could be quite a bit of competition. Is there a go, no-go decision?

Yes, there could be three-four players, so it's something that we are thinking about. It's a go…clinical trials will go [ahead], phase III is started already.

A past McKinsey study said that nearly 70% of US consumers use online channels to manage health and wellness and over 50% of US healthcare providers are digital "omnivores," using three or more connected devices professionally. Is DRL's US sales approach in sync with this trend?

We are not in a B2C [business to consumer] environment there except for a small portion of our business. B2B business there's not much of change that will happen because transactions are few and digitalization is already there. But B2C, we are going to see if we can push some digital initiatives in India because it's the home market and it enables us to form a deeper connection with the consumer (patient) and doctor. We are doing some patient initiatives centered around compliance and our initial pilots and experiments are positive so we will do more in that area.

So, are the days of large sales forces perhaps numbered?

We don't know yet, we are still in initial days of experiments but there is a relationship value still. Whether it will completely switch to digital and do away with reps….I don't know but we are enhancing the relationship with digital. Firstly, the sales rep is fully equipped with digital tools, then we are trying to see if we can find ways to connect with the physician and patient and us and are running some pilots there. It's too early to say which way it will go. But whatever business you are in, it's going to be digital and we'll have to build that digital capability within the organization. Right now, you are focused on the back end, quality, manufacturing, sales force, but ultimately the connect to the customer will be enhanced by digital and move primarily to digital…. it's only when. Like someone said, we tend to overestimate the speed of change in the short term and underestimate it in the long term.

DRL appears aiming for a sharp step up in China. How does it plan to leverage on its long-standing base there?

We are 'silently' understanding, in greater depth, the market. We are filing for products, we will use our existing channels for some therapies and products and will also build partnerships. In China, you can't just use one way to enter the market. And we will be ready if the market switches to central procurement, bidding-based procurement. We are committing ourselves to China in a big way and will do what we can. Every market has its challenges and the policy environment in China is going to

be more dynamic but it is a fact that it is a billion-plus population and they will need lower cost medicines and if we do that well, it's an attractive market.

We've seen some potentially large deals for India-developed R&D assets over the recent past – do you believe the general narrative around Indian R&D is poised for change? Or will incremental innovation, repurposing be mainstay?

Initially we felt that incremental innovation would have value, based on convenience arguments, but those are going away. Either you have to be very innovative and target a very large unmet need or the convenience has to be very compelling. Incremental benefits will not sell in the payer environment today. We are shifting our focus … a little bit to focus on bigger assets today (referring to DRL's proprietary products business in the US). But we also want to bring innovation to other markets, so we are still debating that. Repurposing is probably good but the unmet need must be big. We are moving from incremental improvements to larger unmet needs. The innovation may be incremental but the need has to be large. For instance, our own product 3mg sumatriptan [Zembrace SymTouch (sumatriptan injection) 3 mg/ 0.5 mL] - the asset replaces a higher dosage product with a lower dosage one and it has lower side effects, convenience and lower dose. That asset had some appeal but it won't be a very sizeable asset. Whereas we now have a nasal spray [TOSYMRA nasal spray – that is formulated using a proprietary novel excipient known as Intravail to achieve blood levels similar to a 4-mg sumatriptan subcutaneous injection] which is equivalent in action and efficacy to the injection. There's much bigger benefit there. The other areas we are focusing on is a CTCL [cutaneous T-cell lymphoma] asset that is really targeting an unmet need. Similarly, we are looking at much greater efficacy or benefit profile, otherwise payers are not going to pay a premium. Even in the case of innovators, follow-on drugs are not reimbursed easily.

What's the next big thing that you envision in the pharma industry in the backdrop of significant strides around AI, gene therapy, the health venture launched by Amazon.com Inc., JPMorgan Chase & Co. and Berkshire Hathaway Inc.? Where are we heading?

I don't know where we are heading, but we are heading to a different place. I think pharmaceutical companies are just going to be one link in the chain. Digital, wearables, smart sensors, data patterns, algorithms are all going to have a significant impact on healthcare. Someone I spoke with raised the question of whether our industry is going to become irrelevant like Kodak … that's something which worries us. Do we have an answer on how to compete? I don't know yet. I think the first guys to get disrupted will be retail… the Amazon model. But the future is going to be very different. You'll have electronics, connected devices, data … all the things that are disrupting other areas which will certainly disrupt the pharma industry. Amazon will be a platform for something. There are some interesting experiments we are seeing…the 'Uberization' of doctors has started - it's started in the US and it's going to happen in other places. The hospital is going to move to the home with the kind of mobile technology that is available and your health is not going to be sporadically monitored. It is going to be continuously monitored and there's enough evidence in that. It's going to be very metrics driven healthcare in the future.