

## Otsuka IPO could stimulate Japanese healthcare offerings



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If the rumours currently circulating, that Otsuka Pharmaceutical is about to launch itself on the Japanese stock market, have any truth, it would mark one of the biggest healthcare IPOs in the region for the last 10 years and create a company to rival Eisai in size.

It is thought that the group, which was formed in 1921, has hired investment banks Nomura and UBS to conduct the initial public offering, which could value Otsuka at up to \$11bn and see it listed on the Tokyo Stock Exchange by the summer.

However, the fact that Otsuka could be about to float should not be read as a green light for other smaller riskier Japanese biotechs to take the plunge. While the move is a bold one in the still depressed Japanese markets, which have seen initial public offerings dry up dramatically over the last 12 months, what Otsuka has on its side are impressive group revenues.

According to estimates from *EvaluatePharm* prescription and OTC drug sales reached a healthy \$5.32bn in 2009 (see table below), thanks largely to its large portfolio of products that include anti-psychotic drug Abilify.

Top 10 Japanese pharma companies by sales and market share							
Total Rx & OTC Pharmaceuticals				Market Share		Market Rank	
	2009	2014	CAGR (09-14)	2009	2014	2009	2014
Takeda	13,042	12,040	(2%)	18.3%	15.7%	1	1
Daiichi Sankyo	9,397	11,342	4%	13.2%	14.8%	3	2
Astellas Pharma	9,848	10,734	2%	13.8%	14.0%	2	3
Eisai	8,049	7,775	(1%)	11.3%	10.2%	4	4
Chugai	4,399	5,164	3%	6.2%	6.8%	6	5
<b>Otsuka Pharmaceutical</b>	<b>5,318</b>	<b>4,644</b>	<b>(3%)</b>	<b>7.5%</b>	<b>6.1%</b>	<b>5</b>	<b>6</b>
Mitsubishi Tanabe Pharma	4,172	4,556	2%	5.8%	6.0%	7	7
Dainippon Sumitomo Pharma	2,535	3,335	6%	3.6%	4.4%	8	8
Shionogi	1,868	2,407	5%	2.6%	3.1%	9	9
Taisho Pharmaceutical	1,622	1,768	2%	2.3%	2.3%	10	12
<b>Total Japan Market</b>	<b>71,359</b>	<b>76,495</b>	<b>1%</b>	<b>10.9%</b>	<b>9.9%</b>	<b>-</b>	<b>-</b>

This profile, of being a safer company with established products and sales before even considering a flotation, would mirror that of the larger European and US companies that have recently dared to brave the markets, such as Cumberland Pharmaceuticals and Talecris BioTherapeutics, which achieved a valuation of \$950m when it launched last October.

If it does list and estimates for the group's valuation are correct, as the table below shows this would make Otsuka the fifth biggest Japanese company by both prescription sales and market cap, outstripping the likes of Dainippon Sumitomo and Shionogi.

<b>Top 10 Japanese companies by market cap</b>	
	<b>Market Cap (\$bn)</b>
Takeda	35.6
Astellas Pharma	18.3
Daiichi Sankyo	15.5
Eisai	11.4
<b>Otsuka?</b>	<b>11.0</b>
Chugai	10.3
Mitsubishi Tanabe Pharma	8.1
Shionogi	7.4
Kyowa Hakko Kirin	6.2
Ono Pharmaceutical	5.5

What is still unknown is why Otsuka has chosen this time to IPO, however, it is unlikely to have anything to do with the founding family who set up the company in 1921, but are no longer major shareholders. One reason might be to raise funds to expand the group's portfolio. Otsuka is only one of a handful of top Japanese companies whose prescription and over the counter sales are set to fall in the five years to 2014.

The group is also facing higher costs following the re-writing of the group's 1999 US and European co-marketing agreement for Abilify with Bristol-Myers Squibb which will see Otsuka accept a bigger portion of Abilify sales, but also take on initially 30% of marketing costs, that will eventually rise to 50%, until 2015 when the drug is set to lose patent protection.

As such, the cash injection from an IPO could encourage it to follow the lead of some of its bigger rivals and start to seek acquisitions abroad to beef up its pipeline of products.

### **Follow the leader**

If Otsuka's IPO does get away this summer it could encourage other large private Japanese companies to follow suit. Some of the prime candidates include: Teikoku Seiyaku, which was founded in 1918, a few years before Otsuka, and specialises primarily in generic products and in particular transdermal delivery of COX1 and COX2 inhibitors and NSAIDs.

Senju Pharmaceutical, which has 31 marketed products and could also be in the running. However, a more likely candidate to embark on the IPO road is Asubio Pharma, which while having older drugs such as the anti-arrhythmic pilsicainide and the cancer treatment interferon gamma-1a also has a GLP-1 agonist in phase I trials.

Less likely are the groups that have few marketed products. Pfizer spin-off RaQualia Pharma has a single product on the market, the systemic antifungal Anidulafungin, but has a second anti-infective, dalbavancin, to treat complicated skin and skin structure infections resulting from MRSA in adults, in phase III trials.