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2016 Review: Price Pressure Marks A Turbulent Year In Japan

by Ian Haydock

If one theme dominated the Japanese pharma market in 2016 it was reimbursement pricing, with the regular price cuts in April being followed by political pressure over high-priced oncology drugs, and then major new reforms by the end of the year.

After the last set of reforms a few years ago, the drug reimbursement pricing environment in Japan has been relatively stable, marked by higher prices for innovative new therapies and punctuated by regular – but predictable – industry-wide reimbursement revisions every other April.

But spurred by rising political and public concerns over highly effective, but also highly priced, new therapies for cancer and hepatitis C, and the first real impact of these on the national healthcare bill, 2016 will be remembered as the year that new waves began to roil the calm sea.

April saw drug reimbursement prices under Japan's national health insurance scheme cut by around 6% across the board, in a biennial attempt to bring levels in line with actual (discounted) market prices.

But two new *Gilead Sciences Inc.* products for hepatitis C - *Sovaldi* (sofosbuvir) and *Harvoni* (sofosbuvir plus ledipasvir) - also had their prices slashed by around 32%, triggered by new provisions that allow such one-off reductions for products that have grown far beyond official forecasts at the time of launch.

Later in the year, the price of *Ono Pharmaceutical Co. Ltd.*/*Bristol-Myers Squibb Co.*'s cancer drug Opdivo (nivolumab) then came under intense public, political and media scrutiny after rapidly increasing use for lung cancer contributed to a 9% jump in prescription drug costs in the fiscal year to March 31. There were even projections that the PD-1-targeting antibody could single-handedly bankrupt the system if its costs weren't contained.

This eventually led to Opdivo's reimbursement price being unceremoniously slashed in half in November under the repricing provisions for big-selling medicines.

Reform Push

Apparently responding to the furor, and perhaps also looking to score a few political points, Prime Minister Shinzo Abe later that same month ordered a rapid and fundamental review of the drug pricing system by his Council for Economic and Fiscal Policy, with the first recommendations emerging at the end of year after just a few weeks of debate.

A shift to more frequent, annual price cuts was the main proposal to emerge, an idea long opposed by the research-based pharma industry, which had earlier warned that such a move would undo all the policy gains of the past few years.

In its eyes, these have most notably included the adoption of a pilot scheme to award special "innovation premiums" to novel new drugs and to exempt such products from regular price cuts during their patent life. Continuation of this "stable and predictable" environment, and the formal adoption of the premium, were viewed as critical to encouraging development and innovation.

While it remains to be seen whether the shift to annual price cuts will be balanced by other new measures – which is often the case in Japanese policy-making – industry has little choice but to comply while trying to make its views heard during the reforms, which it saw as too rushed and too exclusive of stakeholders.

Generics, PMDA

Besides moves to control spending on new drugs, there were developments on the other side of the coin to further encourage the uptake of generics. In the first half of the year, the official target for generic share was raised, to 80% by volume of the substitutable market for which generics are available by the end of March 2021.

This compares with the previous target of 60% (on the same basis) by the end of March 2018 that was set back in April 2013. Generic drugs' current volume share of Japan's substitutable market is around 50%.

Meanwhile, Japan's regulator, the PMDA, put in another solid performance during the year, issuing a string of approvals for new drugs and making steady progress towards reducing average standard review times to its target of 12 months.

Official data for the fiscal year ended March 31 showed that it approved 116 new drug applications, comparable to the 118 in the previous year.

The agency no longer significantly lags global counterparts such as the US FDA and the EMA in Europe, and in fact issued several global first approvals during 2016, including for the interleukin-17 receptor A antibody brodalumab for psoriasis in July.

Meanwhile, its "Sakigake" system of expedited consultations and reviews for high-need pioneering drugs – akin to the US FDA's Breakthrough Therapy" designation – introduced in April 2015 continued to make strides, with around 20 products now being considered under the scheme status.

In a move to extend its expertise and influence and raise regulatory standards across the Asia region, the PMDA set up a new Asian training center at its Tokyo headquarters in April.

Commercial Activity

2016 was a relatively quiet year in Japan in terms of the transformational mergers and acquisitions, with no mega-deals clinched during the period.

Even so, *Astellas Pharma Inc.* was again active in signing or completing several smaller acquisitions in the several hundred million dollar range, including of *Ganymed Pharmaceuticals AG* and Ocata Therapeutics. There was also a notable unraveling of some alliances, with *Otsuka Pharmaceutical Co. Ltd.* ending its ophthalmic partnership with *Acucela Inc.*, and *Eisai Co. Ltd.* selling off *AkaRx Inc.* to a private equity group.

Major companies including *Takeda Pharmaceutical Co. Ltd.* and *Daiichi Sankyo Co. Ltd.* continued to divest non-core assets and molecules as they strived to sharpen their focus on core therapeutic areas.

Speculation that Takeda was on the prowl for certain gastrointestinal assets from *Valeant Pharmaceuticals International Inc.* - or even the whole company - remained unconfirmed by any deal by the end of the year. In the meantime though, Japan's largest pharma firm is raising a potential war chest of close to $900m from the sale to *Fujifilm Holdings Corp.* of its majority-owned Wako Fine Chemical subsidiary in Japan.

As part of new CEO Christophe Weber's continued efforts to fundamentally reshape Takeda, the company also unveiled a massive R&D reorganization in July under which it will simplify global sites and outsource much of its development activities to an external partner.

There was also a notable trend towards the divestment of mature products by research-based firms in Japan, with several pulling out of this increasingly competitive and less profitable business.

In the wake of Takeda completing the divestment of a basket of older products to a new Japan

joint venture with *Teva Pharmaceutical Industries Ltd.* in April, major Indian firm *Sun Pharmaceutical Industries Ltd.* struck up an alliance with *Mitsubishi Tanabe Pharma Corp.* for a selection of mature drugs acquired from *Novartis AG* Japan, and *Lupin Ltd.*'s *Kyowa Pharmaceutical Industry Co. Ltd.* operation picked up a group of older brands from *Shionogi & Co. Ltd.*

While there was the usual panoply of licensing in an out deals and R&D collaborations during the year, it was hard to pick a stand-out therapeutic trend, although oncology was a focus of many.

This was in line with continued efforts by Japan's major firms to build their pipelines and expertise in this area, with Daiichi Sankyo in particular bringing in world-class foreign executives to help with its push, which is being stoked by a string of acquisitions over the past few years.

Companies dipping a toe into digital health initiatives included Astellas, through a new US investment venture that will put money into broad initiatives, and *Eisai Inc.*, which is building a monitoring and compliance architecture for dementia patients in Japan.

From the editors of PharmAsia News.