Price gouging is not in Aspen’s DNA, says founder Stephen Saad, incensed at the thought that his company would exploit the sick. But Aspen’s predicament, and that of all drug firms, boils down to the tension between a drug company’s perceived responsibility to provide life-saving drugs to patients at a reasonable price, and its natural objective to turn a profit.

Stephen Saad’s frustration at Aspen being branded a “price gouger” that drove up the cost of life-saving medicine for profit is palpable. In an interview with the Financial Mail, the 53-year-old says Aspen Pharmacare has been the victim of a “perfect storm” that has led to his company being unfairly cast as a villain.

“That was probably the most disappointing part: you’ve got a company that loves SA, has created thousands of jobs, knows what it does, provided antiretrovirals that many people rely on and created a huge saving for government — and the media turned on us,” he says.

Ripping people off, he says, just isn’t in Aspen’s DNA.

Saad has had perhaps his toughest two months since he and Gus Attard founded Aspen 20 years ago in a small house in Greyville, Durban, and became the dazzling success story of SA entrepreneurism in the new millennium.

From a company with R12bn in revenue, Aspen now clocks up R13bn. It makes pharmaceuticals at 26 facilities on six continents, exports to over 130 countries and produces more than 700,000 tablets a second.

In others became fabulously rich. People who put R10,000 into Saad’s company in 1997 would have made R5.6m including dividends.

The SA case is even more curious. The competition commission’s intention to tackle Aspen felt a bit as if the regulator had simply hitched a ride on Italy’s coat-tails, not wanting to miss out on a potential fine for anti-competitive behaviour.

Saad says what makes it odd is that Aspen is suspected of “excessive pricing” of its cancer drugs, yet drug prices are controlled locally by the single exit pricing (SEP) rules, which means companies don’t have much leeway to rip off customers even if they want to do so.

“Everything is public,” he says. “The whole SEP is on a website. You could easily have looked at that pricing and maybe had a chat to us.”

But this reasoning cuts no ice with the commission, which points to the tension between a drug company’s perceived responsibility to provide life-saving drugs to patients at a reasonable price, and its natural objective to turn a profit.

Just because there’s a medicine regulator doesn’t mean the market is necessarily competitive, he adds. “Product changes, for instance, in SA are regulated but the outcome points to the possibility that there could be overcharging in some segments. In this particular case, there is clear information that there is possible exploitation,” he says.

To some extent, the commission seems to be looking for a magic potion to deal with the nasty consequences of a globalised free market.

The commission laments the fact that Aspen “appears to be the only supplier of a generic version of busulfan in tablet form. No other products containing the same active ingredient appear to have been registered by the Medicines Control Council (MCC).”

But this is because the weakening rand, as well as regulations, hardly encourage multinational drug companies to enter SA.
Quite what the commission can do about the obstreperous general level of global pharmaceutical pricing is anyone's guess. Saad is in a minority of view that Aspen has profited at its customers' cost. You can see it in its numbers — costs are going up higher than sales prices, he says. So while Aspen's profits might still be rising, it is absorbing higher costs, hence its earnings (gin) full from 21% in 2010 to 2% in 2017.

Even Aspen's rivals are taken aback by the attacks on the company. Ascendus Health CEO Karsten Wellner says: "Life (among) investors this week has been very challenging, a disaster. We get the same questions repeated about the company. You can see the argument is doing quite well but it's still a fantastic success story. It's not insane what they're doing compared to some originators."

But Aspen's standstill with various governments seems less about the value in question — its European oncology portfolio accounted for 22% in sales last year, or 3% of Aspen's overall sales — and more about global politics. It is a case of when the world has your back, there are winning elections in the US and the UK; politicians are quick to seize on any profit made by drug companies as immoral. In a recent research report, IPD Morgan ana- lysts warned state health-care systems around the globe are facing a cash crunch; and cutting the margins of medicines is always going to be an easier sell than slaming nurses' salaries. As an example, when the patent expired on a popular drug Viagra, the Canadian health service saved "more than the SA government".

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Big bilking pharma

It’s tempting to view Big Pharma as Dr Evil in the medical value chain, but the resources that are ploughed into developing “blockbuster medicines”, without certainty of success, are colossal. According to PhRMA, which represents pharmaceutical research companies in the US, it takes on average 10 years and US$2.6bn to develop a new medicine, with only 12% of candidates in clinical testing ever making it to the market. PhRMA says in the past 15 years “there were more than 120 unsuccessful attempts to develop medicines to treat Alzheimer’s disease. 96 for melanoma and 33 for lung cancer. Only four were approved to treat Alzheimer’s, seven for melanoma and 10 for lung cancer.”

Of course, if your firm does successfully develop a cure for the conditions that are increasingly set to befall ageing high-income nations, then you are in the pound seats. Lipitor, the anticholesterol wonder drug, for example, raked in sales of over $9bn/year for parent Pfizer before going off patent. Altogether, payments it has received from the generics and focused on a couple of key markets. And you’re paying a $5 multiple for about 20% earnings growth whereas in the past you were paying a lot more,” he says.

Cash is also starting to flow back in. Asked if Aspen might ever need to go to market to raise capital, Saad says: “There is definitely no need for a rights issue as organic cash flows are more than adequate for our debt profile under present circumstances.”

Saad, of course, doesn’t buy the view that Aspen’s glory days are behind it. “We’ve probably got more relevance now than it was five years ago, so your margin of safety is probably (higher).”

Analysts estimate Aspen’s earnings potential return of just over 17% from its asset management, says the company has put into place a for our debt profile under present circumstances...we've achieved in some of our emerging markets with our business model, across a much broader geography. To do that we need to get the fruits of all of that hard work, the revenues and the profits, to work for us. “The only well where they’ve got anasthesiologists, anticoagulants, oncology and others,” he says.

Saad’s company has spoken about how it expects to create R1.8bn in “synergies” by its 2019 financial year from all the assets it’s bought in the past three years. Analysts from JPMorgan say there’ll be “lower opportunities to raise or hold pricing” which could erode Aspen’s ability to hit that target.

Another issue is that Aspen’s big-ticket deals have landed it with a total debt load of R35.7bn — a gearing ratio of 43% of its equity. Analysts from JPMorgan say there’ll be “lower opportunities to raise or hold pricing” which could erode Aspen’s ability to hit that target.

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