

The Keys To Ge Li And Wuxi Pharma Tech's Success

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On August 14, 2007, Wuxi PharmaTech surprised many entrepreneurs and technologists who share the same dream as Ge's by his company's astonishing successful initial public offering in New York Stock Exchange. On September 10, Wuxi PharmaTech (WX, NYSE) reached a market capitalization of \$1.7 billions after 7 years of operation. It took more than ten years for Amgen and Genentech to reach the same market capitalization. While we all cheer for Ge's success and wish to be the next in line, many come to me asking the following questions.

What are the key elements behind Wuxi PharmaTech's success? How many other Chinese biotechnology companies can follow the suite? What can we all learn from Ge's success?

1. Strong leadership team. It was said "idea is cheap, execution is the key and team wins". Since the beginning, Ge surrounded himself with good partners such as Xiaozhong Liu (Executive Vice President), Tao Lin (Vice President, Internal Operation) and Zhaohui Zhang (Vice President, Domestic Marketing). Together, this team formulated a business strategy, developed a sound business plan and faithfully executed the plan. Under Ge's leadership, each team member takes the responsibilities in his respective area and collectively forms a fully integrated functional team that is essential for the rapid growth of the company. Without the team efforts, it is impossible to command the explosive growth WuXi PharmaTech has experienced.
2. Focused business model. Service model may not be as attractive in the Western countries than those of product development companies. However, it is a totally different story in China. Among more than 400 biotech companies in Zhangjiang, most are founded by oversea returnees, about 80% of are now CROs. About two years ago, I visited Wuxi PharmaTech and had a very interesting discussion with Ge. My concern was that a "service only" business has less value than a product company and is difficult to be sustainable. While Ge acknowledged my



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opinion, he emphasized the importance of “not to compete with the customers”. It is proven today that his strategy has worked well since a large number of outsourcing deals have been signed with large pharmaceutical companies.

Service business completely depends on outstanding customer satisfaction, i.e., the ability to address customer’s needs and concerns, especially when China is still viewed as a risky place for intellectual property protections. Wuxi has done an excellent job making the customers comfortable about IP protection by investing in the infrastructure to ensure fire-walls between the service teams performing for different companies. Proper documentation, real time data transfer and customer communications have been in place to ensure happy customers.

3. Driving growth as suppose to profit. A business is meant to make profit. However, it is always a challenge for biotech companies to manage cash flow and focus on revenue growth. To be able to continuously find the cash that it is necessary to keep the company going is one of the main challenges to the CEO. There are three types of cash sources: investors who buy the stocks, customers who pay for services and products, and loans that need to be paid back. The company has to do well in order to attract venture investors. The best kind of cash is revenue flow although it is not easy to generate revenue and keep growing it to a critical level, especially at early stage of the company with weak credibility. Ge and his team did everything necessary to ensure the success of the initial projects for customers. Rumor said that they even used two people to perform one FTE (full time equivalent) work. With good reputation on the capability and delivery, the business grew steadier and faster. In the last 5 years Wuxi had an average growth of 100% per year. To achieve such impressive revenue growth, Wuxi must have reinvested all profit back to growing of revenue. Not until last year the company started to make a profit. For the second quarter of 2007, Wuxi had a net profit of \$7M with revenue of \$40M. Such a rapid growth has never been heard of in biotech history.
4. Simplicity in technology and business. Wuxi is now recognized as the best and the largest chemistry outsourcing place. It is unusual to have a simple and scalable technical platform in the biotech drug development industry. Medicinal chemistry is an ideal technology platform to be adopted in China. It is easy to execute, easy to replicate and easy to train staff. In China, probably true in other places too, critical mass is important to have the cost benefits. Normally, an operation of 20 people can hardly bring the cost down due to the low efficiency and productivity. However, when the number of scientific staff increases to great than 50, the efficiency starts to bring the cost benefits and operation efficiency. The simplicity of technology platform also makes the business relatively easy to operate and manage because the outsource work can be tracked and priced in a uniform way. It also makes the sales and marketing job easy. Although each program from different customers is different, the process in which the works are performed is the same. In essence, the sales team sells service as if selling “vacation packages”. This takes out the operational risks and pre-set customer expectations.

Obviously, there are many other important qualities and practices that contributed to Ge and his team’s success. Having a strong mentality to be the industry leader with the long term vision is one. To find the right market place and to be able to execute well is another. To be able to control all risks associated with the business and not let other things distract the main focus is also critical. Is it just luck? Is it because they are at the right place and the right moment? Maybe. But it is definitely much more than pure luck.