Media: The Star
Date : 5-May-2008

The Star, Interview

THE CEO INTERVIEW

Apex evolves into brand ownership

It plans to seek partners and joint ventures with marketing and distribution capability

By JOSEPH CHIN
joechin@thestar.com.my

APEX Healthcare Bhd is pushing ahead with its strategy to become a pharmaceutical and consumer healthcare products-based company which owns the rights and intellectual property of the brands.

Apex's plan is to seek partners and joint ventures with marketing and distribution capability. Where it lacks the marketing reach, it will acquire strategic stakes in companies with the network and rights to consumer healthcare products.

Managing director Dr Kee Kirk Chin said the latest corporate exercise was to invest RM292,000 in Singapore's Chastal Marketing. Chastal had rights to 12 countries for three products – lozenges, mints and condoms – that went on sale in Malaysia last month.

"Chastal is already selling in six countries. It has proven expertise in mass market consumer marketing, and by working with its highly skilled team, we can also benefit from the same marketing expertise to help increase sales of our own range of consumer healthcare products," he said.

In an interview with *StarBiz*, Kee said he expected Chastal to contribute to the Apex group's earnings from 2009 onwards.

He also said Apex, with RM11.67mil cash as at Dec 31 last year, was "always evaluating possible acquisitions and investments".

These investments would be those that could bring the best brands through its comprehensive channels to the customers, he said, citing Chastal as a good example.

In 1962, Apex started as a retail wholesale pharmacy. Six years later, it started pharmaceutical manufacturing.

However, its approach in manufacturing and distribution had to keep up with globalisation, Kee said. This saw Apex focusing on marketing its brands to customers via its comprehensive channels.

Apex has evolved from a pharmaceutical manufacturer and distributor into a brand owner that markets its own products to consumers. Its brand of generic pharmaceuticals is sold under the *Xepa* trademark and its second line of generic drugs products under the name *Avex*.

"We have distribution operations in Malaysia, Singapore, Indonesia and the Fujian province in China," Kee said.

Apex acquired 25% in the Luyan Fujian Group, a pharmaceutical and healthcare distributor in Fujian province. It also bought 20% of PT Pentavalent, a pharmaceutical distributor in Indonesia.

Kee said the RM10mil investment in Luyan – a pharmaceutical and distribution business with 42 retail outlets – was paying off. In terms of return on investment, it was achieving 15% to 16% while the group average was 12%.

"Luyan will grow on the back of the China boom and the increasing demand in China for reputable and effective pharmaceutical and healthcare products," he said.

As for the Indonesian operations, Kee said the earnings were not material as yet and he expected the contribution to flow through only from 2009.

Apart for branding, Apex has also boosted its local drug manufacturing under unit Xepa-Soul Pattinson Sdn Bhd at its new plant in Malacca to produce syrups, creams and sterile eye drops.

On generic products, Kee said Avezol – an anti-fungal drug – was the first product under the *Avex* brand. Three more products had been approved by the Government and "we expect three more to be approved in 2008".

"This year, for our pharmaceutical products line-up, we expect to launch at least 12 generic products. These products are for Malaysia," he said. Apex was also registering the products in Singapore, Hong Kong, Vietnam and other countries.

On Apex's earnings outlook, Kee said that over the past eight years, compounded annual growth rate for pre-tax profit was about 9% and "our shareholders certainly expect us to exceed this".

In the financial year (FY) ended Dec 31, 2007, Apex's earnings rose to RM17mil from RM13.38mil in FY06 on the back of higher sales.

"Sustainable growth has come from the sale of *Xepa* products, strong performance from pharmaceutical wholesale, improved performance from distribution in Singapore despite challenging conditions, and increased contributions from China. We hope to maintain our growth in 2008," Kee said.

On Apex's trade receivables, Kee said they were RM64mil for 2006 and RM62.45mil for last year and the company was focusing a lot on receivables management to improve its cash flow.

"We have put in additional resources to monitor the receivables, which are about 90 days and within industry norms. While we are quite comfortable with this, we want to bring it down," he said.

He added that 75% of the products sold were pharmaceuticals and the receivables were from this category of buyers: pharmacies, clinics, hospitals and medical centres.

The company also had a well-diversified customer base where no one customer accounts for more than 5% of total receivables or for more than 5% of its products.

On off-patent drugs, he said Apex was tracking products coming off patent, the timeline for going off-patent, and which product had the big market share for the company to create a generic version.

"We must be in touch with what the market wants, what doctors and pharmacists are using, while the second requirement is to get talented managers to manage the local operations.

"If we can continue to attract the very best people, we will continue to do well," he said.

Dr Kee Kirk Chin

»If we can continue to attract the very best people, we will continue to do well«

DR KEE KIRK CHIN