Straight talk with… **Shlomo Yanai**

Shlomo Yanai has led the world's largest generic drug manufacturer, Teva Pharmaceutical Industries, as its chief executive officer since March 2007. Last year—barely his third in pharmaceuticals and his sixth in business—he was named the world's most influential pharma CEO by *World Pharmaceutical Frontiers* and Israel's top business executive by the Tel Aviv financial newspaper *Calcalist*. A twice-wounded veteran of the Yom Kippur War of 1973, Yanai served in the Israel Defense Forces for 32 years. This interview was conducted in Hebrew by **Haim Watzman**, who also translated the discussion into English.

What does Teva need to do to retain its position in the long run?

We anticipate significant growth in the generic market in the years to come, especially in what we call 'generically developing' countries, which include both developing countries in Eastern Europe and countries such as Italy, Spain and Japan—which, for example, has only 17% generic penetration, as opposed to 70% in the US. The proprietary side of our business will change from a solo act—today most of these revenues come from our multiple sclerosis drug Copaxone—to a symphony in which we will be marketing a number of our own drugs.

The generics business is facing a challenge when it comes to the growing importance of biologic drugs. These are harder and more expensive to make and standardize, meaning that the profit margin is smaller.

We think otherwise. As technology advances, so does the capability to produce these biologic generics for less—much less than the originals. We have an advantage in biologic generics because we already have an opening into the markets, and the barriers for competitors are very high. I should mention that biologics also offer an opportunity, through technological improvements, to create generics that are not only the same as the original branded drug but actually better.

How will changes in the American health care system affect Teva? On the one hand, efforts to reduce health care costs will no doubt create a greater demand for generics. On the other hand, this huge market will be able to jawbone prices down and reduce your profit margins.

Health care reform in the United States will bring coverage to 31 million people who didn't have it before and whose ability to pay high prices for drugs will be limited, so they will naturally turn to generics. It's true that there will be downward pressure on prices, but there always has been. We need to ensure that our growth outpaces price erosion. Another factor in our favor is quality. Insurers are willing to pay a premium for drugs whose quality, from raw materials to sales, can be guaranteed. Competitors who don't offer equivalent quality will have to leave the market or make the necessary investments.

The press has recently been full of stories about claims by some patients and physicians that some generics are not working like the drugs they copied. New trials are underway of your generic antidepressant Budeprion XL 300, a copy of Wellbutrin XL 300, after anecdotal reports of adverse effects.

There still is no proof of any problem. The reactions cited in the press are no different than those reported for any drug. Every medicine goes through a 'phase 4' after final approval, when it is released and we track its results as it is administered to a large population. Side effects are always reported in the margin. Some people don't react well to a given drug, so the doctor tries another one. Both the drugs are good drugs, but people are different.

Let's turn to your proprietary drug business. Your blockbuster, Copaxone, will soon go off patent. Will Teva be in a situation where one of its own proprietary drugs will be 'genericked'—in other words, have to compete with another company's generic version?

We still see some good years ahead. We don't think we'll see generic competition before 2014 because of the difficulties of production—a generic producer will have to do clinical trials. But even without generic competition, we need to assume that the drug will reach market saturation soon. So we need to produce new drugs, and we have a number in the pipeline.

You owe Copaxone to basic research carried on at the Weizmann Institute of Science. Should Teva do more to support basic research at Israel's universities?

Basic research is infrastructure, and, as such, it is the role of the state and the academy. We have connections with the universities, of course. But there is a contradiction between the mission orientation of industry and basic research, which must be completely free of industrial constraints. I don't think the universities should manage start-ups, and I don't think industry should be involved in basic research.

You're unusual in having come into the pharmaceutical industry from a military career. Most people who have done military service say it changed them. Do you think that your service as a soldier gave you tools that make you a successful CEO?

I hate generalizations and stereotypes. Each case is unique. In my personal case, I think it did contribute a lot. I learned there how to manage complex, multilayered organizations, and the importance of being mission oriented. In fact, an army doesn't work like many people think it does, just by handing down orders. It's a system of human beings, with differing opinions and its own internal politics, just like any human organization.