Pharmaceutical Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Market Position
The analysis covers comprehensive assessments on the company’s competitive market position, which could be quantitatively and qualitatively determined using the company’s market share, size in terms of sales value and volume, as well as its growth history and anticipated growth prospect going forward. Brand recognition or brand equity is also important particularly for over the counter (OTC) branded products. Strong market position leads to stronger bargaining power to distributors, hospitals, physicians and retailers. In addition, the analysis considers any opportunities for having alliances with other leading global pharmaceutical producers and additional licenses to grab potential new market.

Product Mix and Development
The analysis includes risk assessments on the company’s diversification strategy and policy in terms of demographic profile, products and market segments in an effort to maintain steady revenue and profitability. Pharmaceutical industry is identical with high variety types of product that generates wide range of profits. Management’s strategy to focus on higher margin products is important. We also consider the company’s research and development (R&D) capabilities, including the cost allocation to its total sales and policy related to new products to be invented.

Operating Management
The analysis includes thorough reviews on how well the company manages its daily business operation, as a failure to effectively and efficiently manage the operation would adversely affect the company’s future operating results. The company’s cost control strategy and policy is also diligently assessed, as the company’s strong ability to control costs is crucial, particularly for low margin nature of generic pharmaceutical. Generally, larger players have competitive advantages, as they have stronger bargaining power and economies of scale in purchasing, logistics and advertising. Condition and utilization of the equipment and the integration of technological improvements will also become important factors to achieve the company’s degree of efficiency in its operational activities. The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company’s ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company’s competitiveness. The analysis is helpful to measure operating efficiency.

Marketing and Distribution Channel
The analysis covers thorough risks examinations on the company’s strategies to distribute products (how well the company adopts to the needs of retailers, how well the distribution matches the retail forms, how well the company manages distributors, what kind of linkage/relationship/agreement between the company and distributors) and examinations on others related factors that can ensure continuous product availability in the market in an effort to support sales. The company’s ability to maintain good relationships with its business network (including with distributors and retailers) as well as terms and condition of the cooperation are further assessed in rating determination. Furthermore, risks assessments on the company’s marketing, particularly OTC and ethical products, including commitments on advertising, creativity on advertising, ability to identify targeted customers and markets, ability to capture the trends in consumers’ preferences, as well as ability to keep consistent marketing strategy to build brand loyalty.
FINANCIAL RISK ASSESSMENT

Financial Policy
The analysis includes a review of management's philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management's financial targets (growth, leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company's overall financial risk (historical vs. future). The company's track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.

Capital Structure
The analysis covers careful examination of the company’s historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.

Cash Flow Protection and Liquidity
The analysis covers thorough reviews of the company’s cash flow generation and capability to meet its short-term and long-term financial obligations. The degree of its debt-servicing capability level is measured by the company's interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

Financial Flexibility
The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company's financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company's options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.
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