

China LSHC Industry Survey Result: 2023 State of Industry in China

China Life Sciences & Health Care Team
March 2023

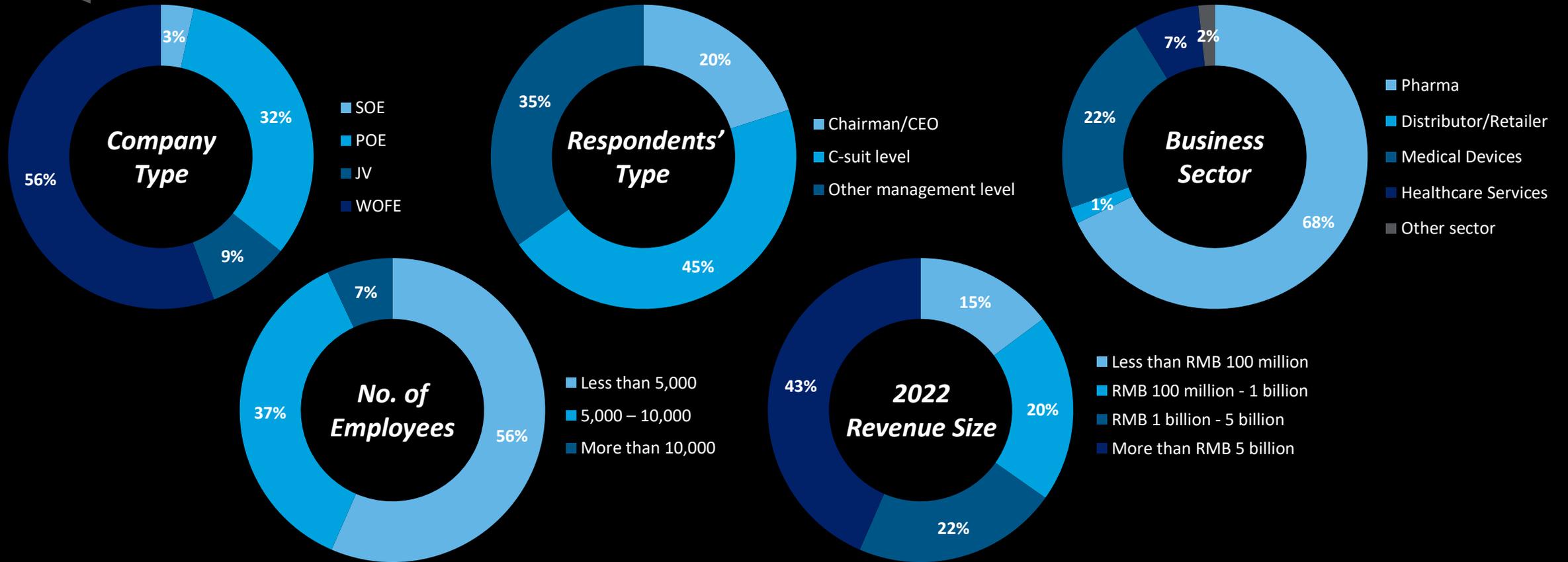


Content

- Framework
- Results – Questions & Deep-dive
 - What happened in 2022
 - What expected in 2023
- Concluding insights
- Appendix

LSHC Industry 2023 Outlook Survey Framework

- Survey conducted between 10th to 23rd January 2023
- Engaged China based Life Science & Healthcare (LSHC) sector operators and investors: 115 respondents

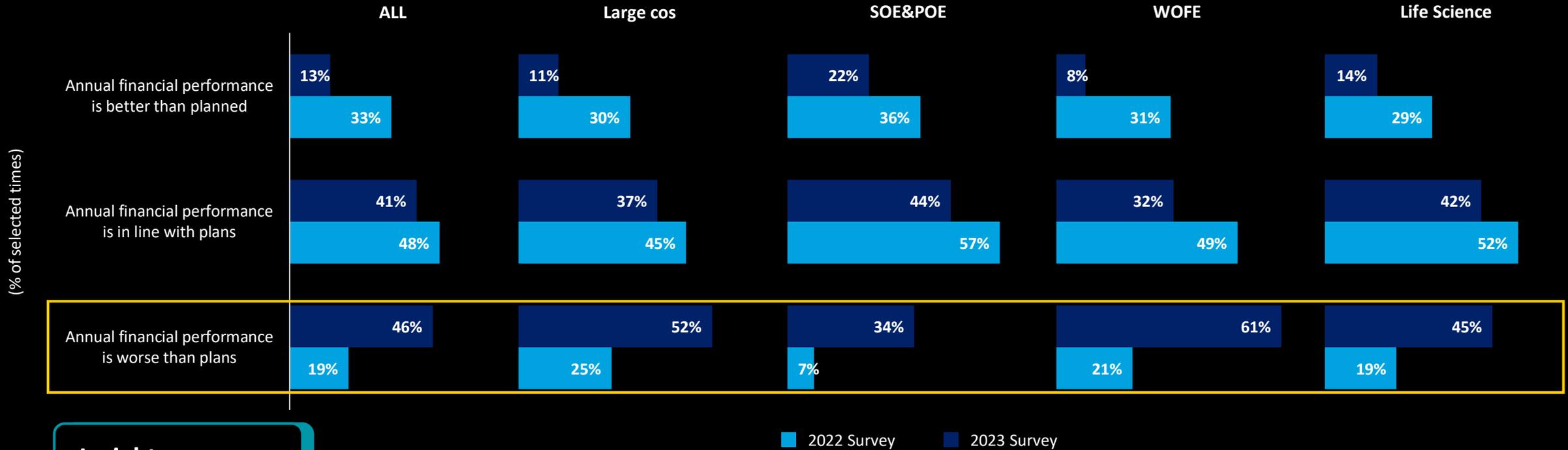


Note: [1] SOE: State-owned Enterprise; [2] POE: Private-owned Enterprise; [3] JV: Joint Venture; [4] WOFE: Wholly Foreign-owned Enterprise

What happened in 2022...

2022 Performance Review

Question #1 – How did your company perform (top line) in previous year?



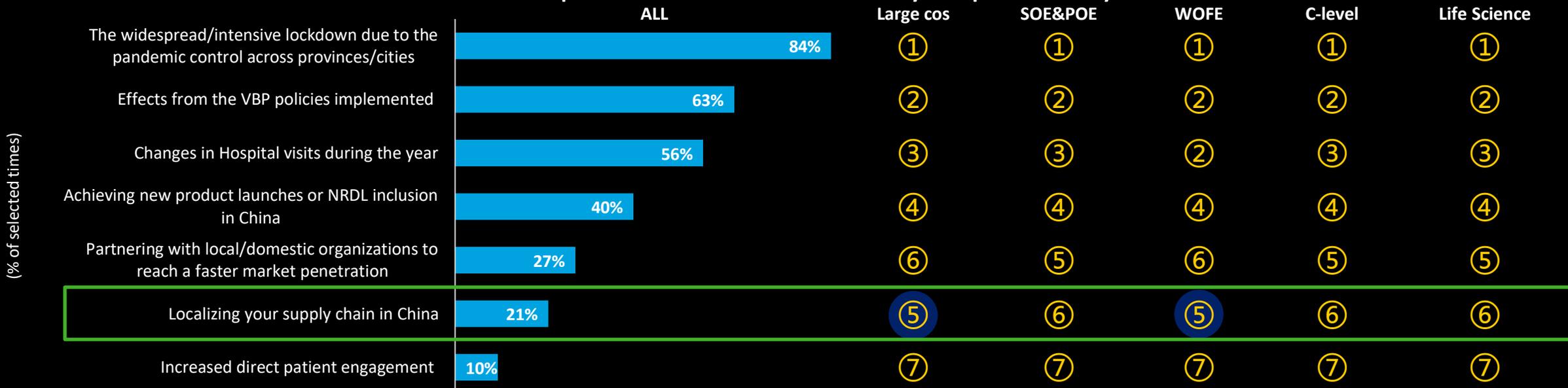
Insights

- Not surprising, 2022 has turned out to be worse than many had expected and planned for
- Local player respondents (SOE & POE) : 22% indicate to have had a better performance than planned, probably more cautious by 2021 year-end already (quite a few of the POE respondents are Chinese Biotech's still in pre-revenue mode)
- Foreign companies (WOFE) felt largest impact on 2022 very special business conditions in China, with 61% doing worse than expected

Note: [1] Large cos: enterprise with revenue above RMB 1 billion; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise; [5] Life Science: Pharma & Medical Devices

2022 Performance Review

Question #2 – Your 2022 business performance was mainly impacted by...



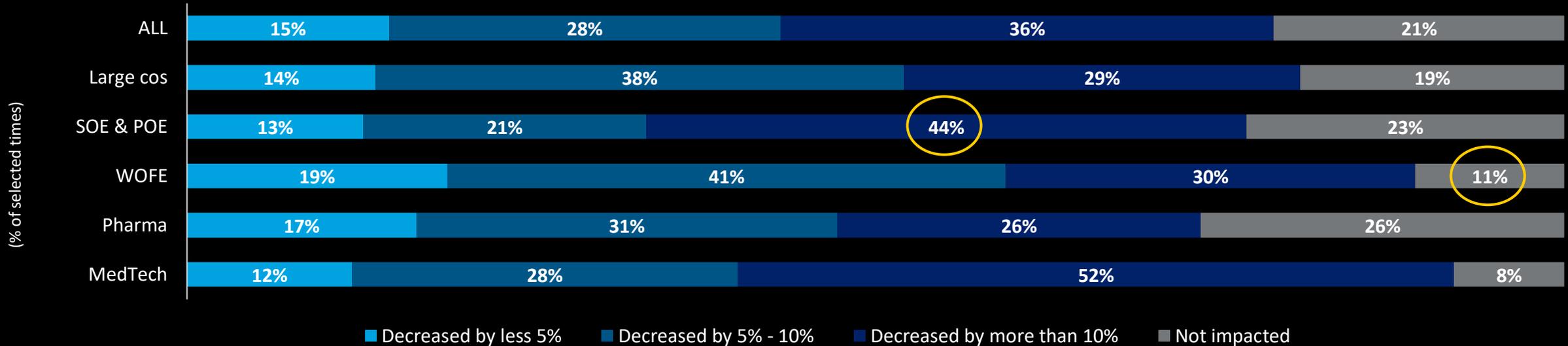
Insights

- Similarly, the covid-management and its lockdown phases have been sighted as the most impactful factor from all
- The medical pricing reform (VBP, etc.) continues to take the lead among all other factors, this is particularly critical to POEs (71%), Large cos (69%), and Life Sciences cos (63%).
- Localizing (or widening) of the supply chain has elevated for ‘Large Co’s & WOFE’s’, in line with recent overarching guidance provided by China’s highest political organizations (and eventually benefiting from local-preferential policies)
- The impact of ‘hospital visit changes’ has received more attentions among WOFEs compared to the prior year’s survey

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2022 Performance Review

Question #3.1 – among those who said ‘Yes’ to business performance been affected by China nation wide covid management issues, their revenue has been impacted with...



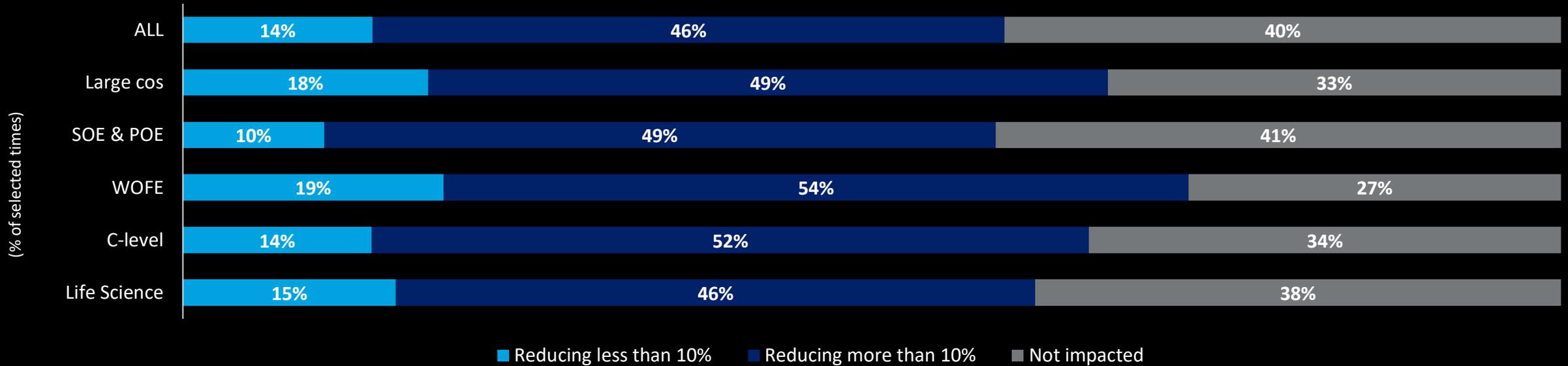
Insights

- Nearly 80% of all respondent’s state that they had their revenues decrease due to the lockdown - 36% having a >10% decrease
- Domestic companies (SOE&POE) have the highest ‘no impact’ rate with 23% (10 out of 40) – but also the highest ‘decrease >10%’ portion
- Larger companies seem to have absorbed better the market moves, with 10bps more in the mid-range (38% versus 28% for ‘all’)
- Foreign companies (WOFE) experienced the largest negative growth, with just 11% respondents confirmed no impact from the lockdown

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2022 Performance Review

Question #3.2 – among those who said ‘Yes’ to business performance been affected by China nation wide covid management issues, their new patient onboarding has been impacted with...



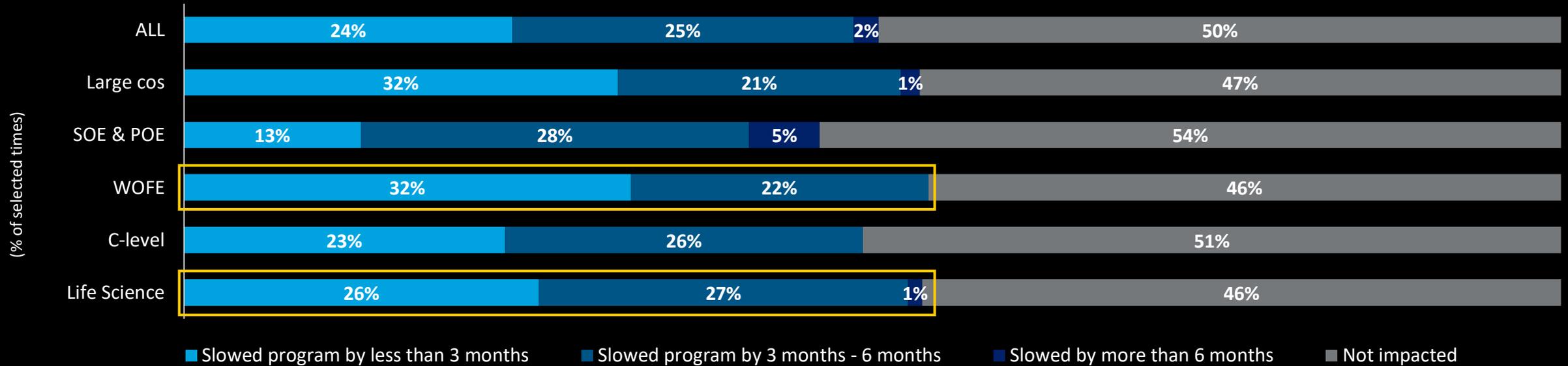
Insights

- The new patient onboarding was also heavily impacted by the lockdown with around 60% of respondents have said yes, resulting from the restrictions to visit offline medical institutions
- Over 45% of respondents confirmed to have ‘reduced more than 10%’ for all types of respondents, with the WOFE has the highest portion of 54% (64% for foreign companies CEO ie. 2 out of 3 !)
- The ‘Life Science’ companies (exc. Distributors, retail & healthcare services) show somewhat less impacted with 38% with ‘no’

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2022 Performance Review

Question #3.3 – among those who said ‘Yes’ to business performance been affected by China nation wide covid management issues, their clinical trial programs has been impacted with...



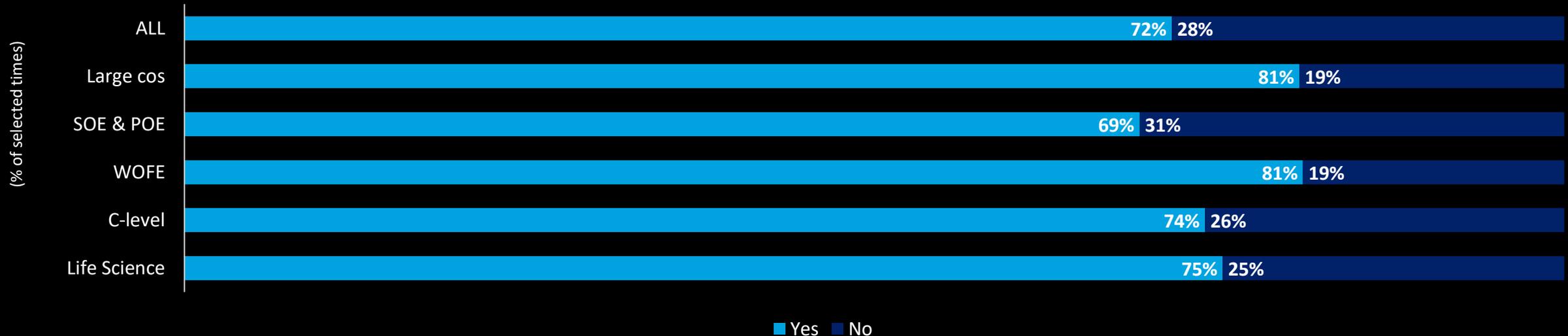
Insights

- On clinical trials, the survey shows that really 50% somehow an impact ie. slowing progress
- Larger companies and foreign companies answered having the most impact as 50% have delays 3 months and more. Focusing down to CEO's only (not shown above) 64% of foreign companies a delays above 3 months or more.
- In contrast, local players are relatively less impacted on the clinical trial programs. Only 41% of POE C-level respondents mentioned that there's a slowed clinical trial program

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2022 Performance Review

Question #3.4 – among those who said ‘Yes’ to business performance been affected by China nation wide covid management issues, they have found harder access to hospitals/doctors for the use of prescription drugs



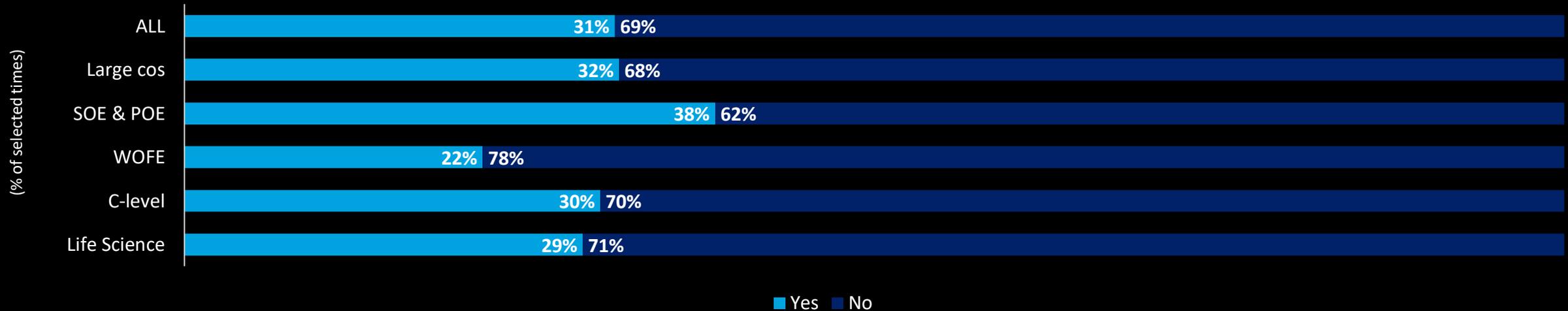
Insights

- The lockdown has a direct impact to offline access to medical personnel and institutes – over 70% of respondents have found Rx business been impacted with harder patient-doctor engagement
- The issue is more severe to large cos and WOFE, with both have over 80% respondents selected ‘Yes’. In contrast, local players are less impacted – with only 69% respondents confirming impact. (foreign pharma cos usually rely more on the in-hospital channel for Rx distribution compared to local ones).

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2022 Performance Review

Question #3.5 – among those who said ‘Yes’ to business performance been affected by China nation wide covid management issues, their talent engagement has been impacted with increasing staff turnover



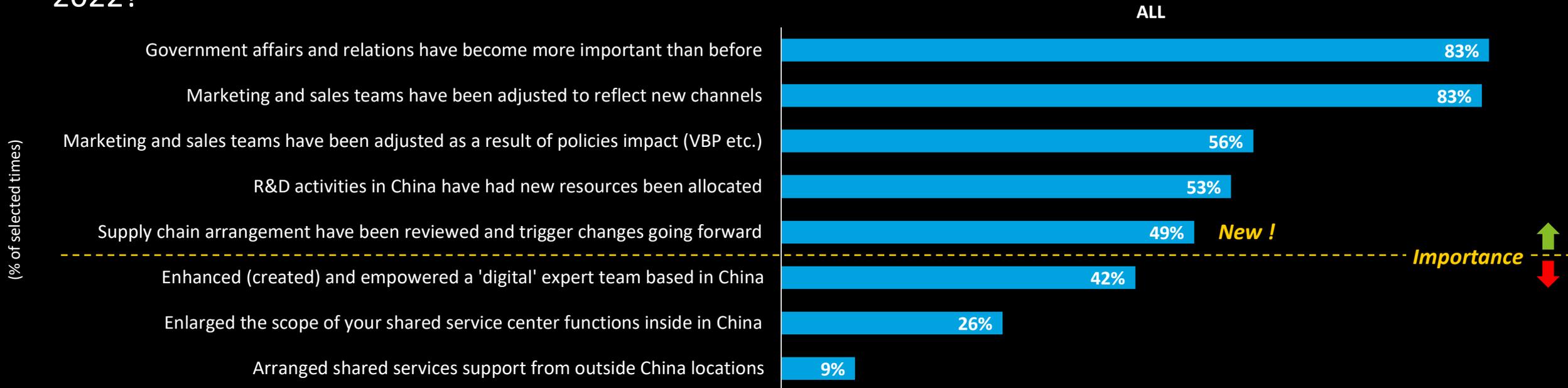
Insights

- During these past 3 years, talent attrition has seen some stabilization, and 69% of the respondent stating having no higher turnover than before
- Foreign companies (WOFE) were less impacted in the talent management compared to local players (SOE & POE). Flexible work arrangements as well as higher emphasis on employee well-being in foreign cos has resulted in a better workforce stability, compared to domestic companies.

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2022 Performance Review

Question #4 – Within your organizational & business model which are the key changes implemented in 2022?



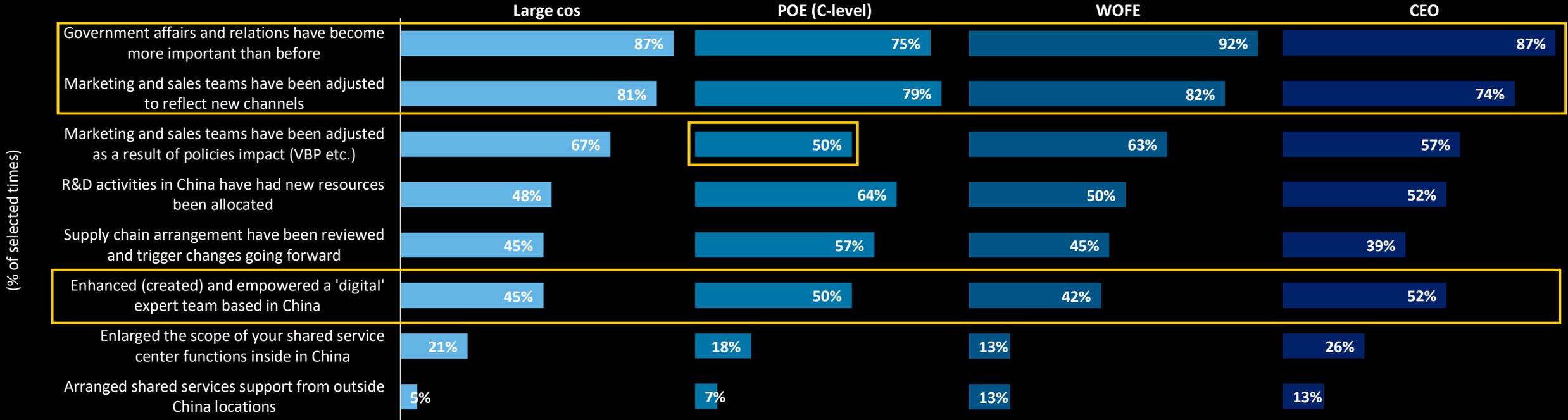
Insights

- In line with our 2022 survey results : commercial team organization and and government affairs remain the top two factors to most of respondents. Important to note that the importance of 'government affairs and relations' has raised to 1st position compared coming 2nd in prior year.
- Supply chain arrangements have risen as corporate management themes, with nearly 50% looking at existing set-up.

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2022 Performance Review

Question #4 – Deep-dive



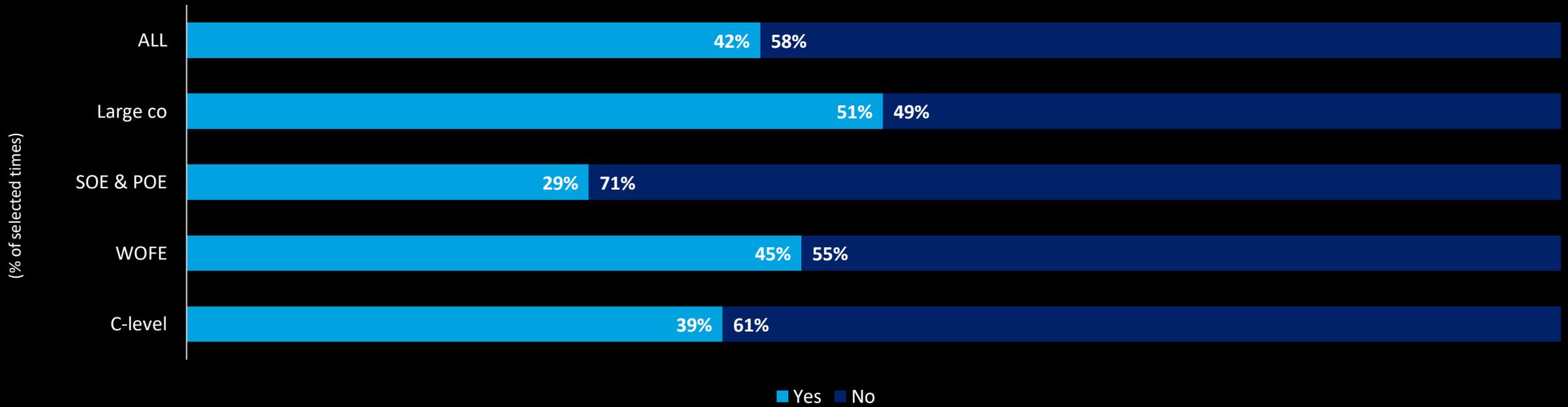
Insights

- Across all companies, government affairs have risen to be 'top in mind' to be successful in China. Further, there is good alignment beyond all respondents with the CEO-suite only.
- POE's for many in a different stage of development, the main theme was how best to adjust and optimize marketing & sales team
- Digital investments that had seen tremendous emphasis in 2021 & 2022, seem to have been tackled and managed by most, and are now 'business as usual' in China

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2022 Performance Review

Question #5 – With the strengthen in the restriction in data privacy and export from China, has your organization been impacted?



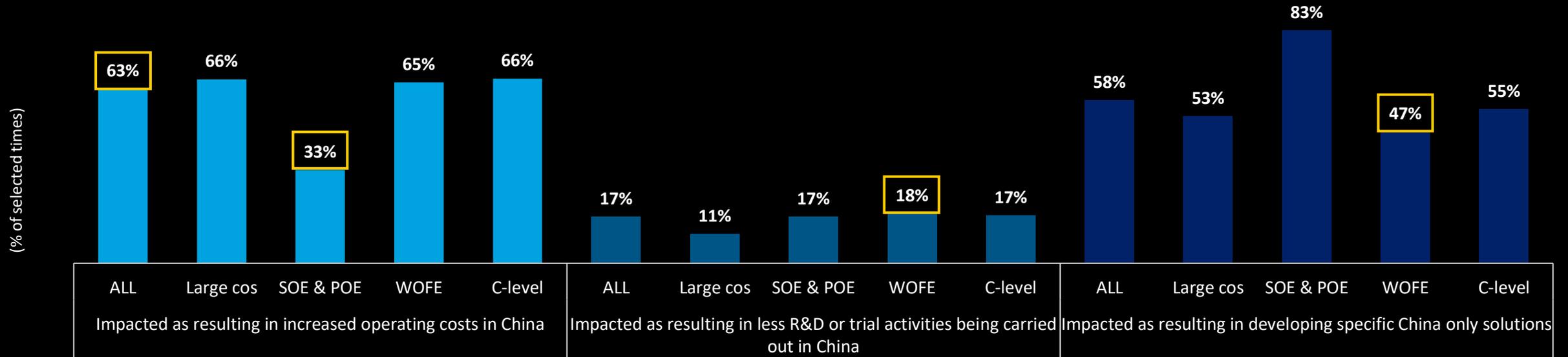
Insights

- The impact of restriction in data privacy and cross border exchange, keeps stable from prior year (43% versus 42% this year)
- However, compared to our prior survey, the impact on WOFE has been reduced significantly from 89% to 45% – indicating that foreign companies have adjusted (or are adjusting) to the new regulatory landscape in China and developed China-specific strategy to better fit in the market

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2022 Performance Review

Question #5 – Deep-dive – among those who said ‘Yes’, on the data constraints - are impacted in...



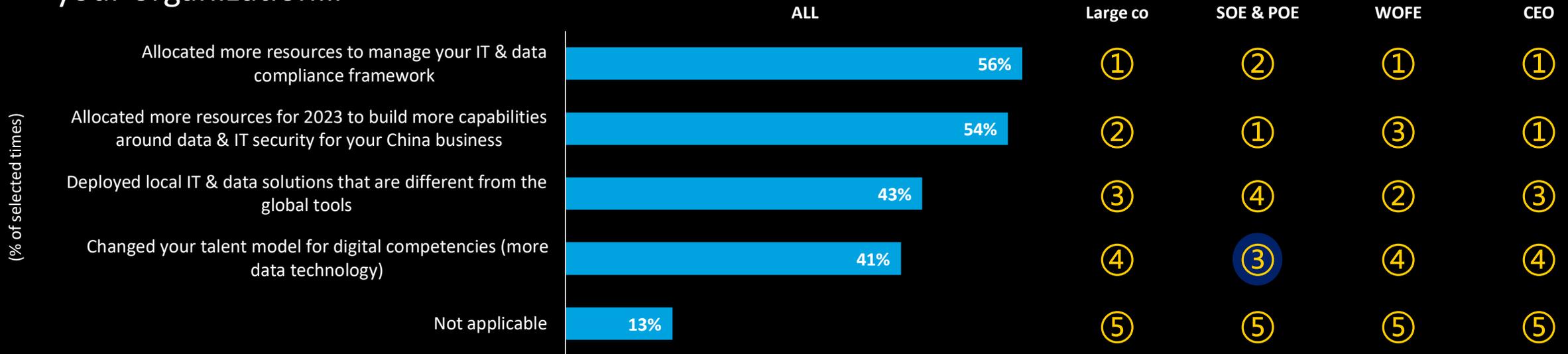
Insights

- Nearly 2 out of 3 respondents sighted an increase in operating costs relating to the data management constraints (63%) – while for SOE & POE that was felt by only 1 out of 3
- For foreign companies, just 18% state that their R&D or CT activities are impacted and just 47% have engaged in ‘China specific’ solutions. Naturally SOE & POE consider their China solutions as their basis (hence the 83%)
- Interestingly, 64% of all respondent CEO (23) emphasized the need to find ‘China specific solutions’ to manage these constraints

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2022 Performance Review

Question #6 – Considering China's pace to technology changes and digital patient engagement, has your organization...



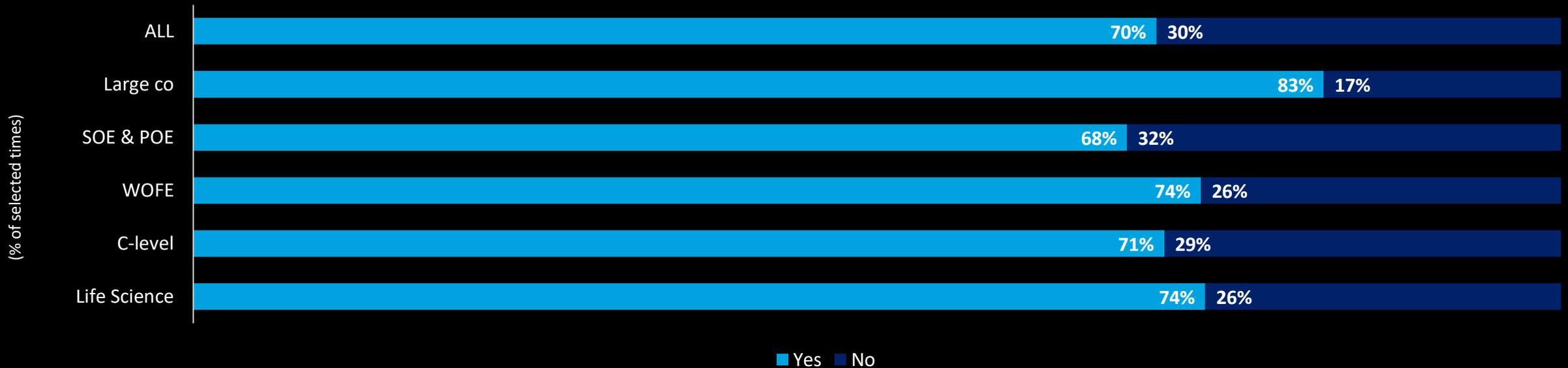
Insights

- Investment into the digital space, remains top in mind to all companies, SOE & POE indicate to allocate more for 2023 going forward. Foreign companies will be keeping allocating resources at similar levels (also for compliance purposes).
- For foreign companies, deployment local tools – different from global tools, is no longer a taboo
- Talent model changes going forward for SOE & POE – similar to the allocated level of resources, it is looking more like a catch up with what others have been doing already

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2022 Performance Review

Question #7 – For new market channels beyond the traditional ‘in-hospital channel’, has your company increased investment on these new channels?



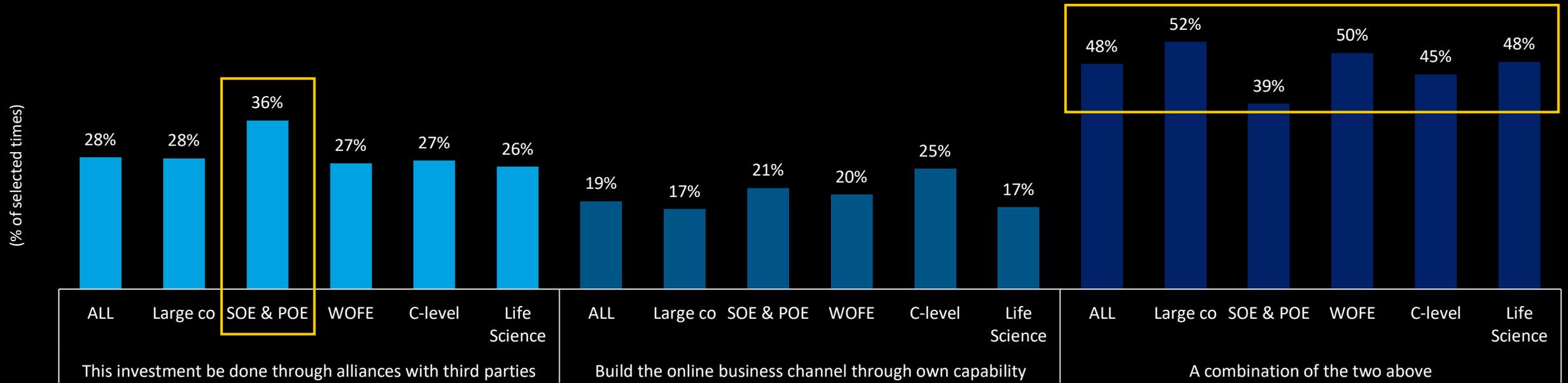
Insights

- Consistent with prior year’s survey results – the majority of respondents indicate that the investment into new channels will increase
- What differ from last year is that more local players (SOE & POE) have become much willing to increase the investment into new channels, grow from 47% to 68% in this year’s survey result
- In contrast, large cos and WOFEs have lowered their investment focus from our 2022 survey – slightly decreasing from 89% to 83% and 89% to 74% respectively – compared to the prior year

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2022 Performance Review

Question #7 – Deep-dive – among those who said ‘Yes’, the investment has been increased in...



Insights

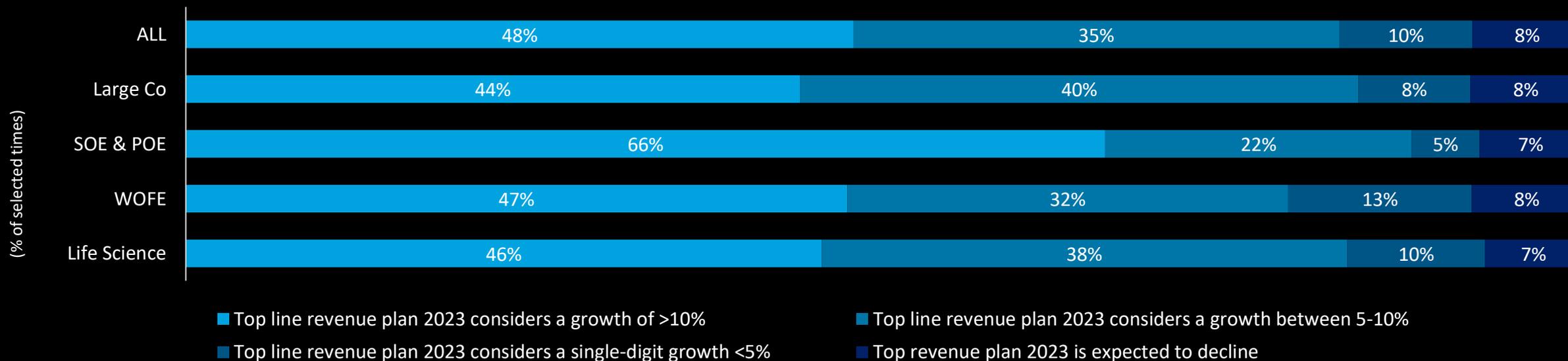
- Respondents seem all aligned with 50% or so, all favoring a mix between ‘in-house’ and ‘external partnering’ solutions in order to embrace and use best China’s unique digital & technology eco-system
- SOE & POE have a slightly larger appetite to partner with third parties and form alliances (36%) versus foreign companies (just 27%)

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What expected in 2023...

2023 Future Outlook

Question #8 – How do you foresee your China business outlook 2023?



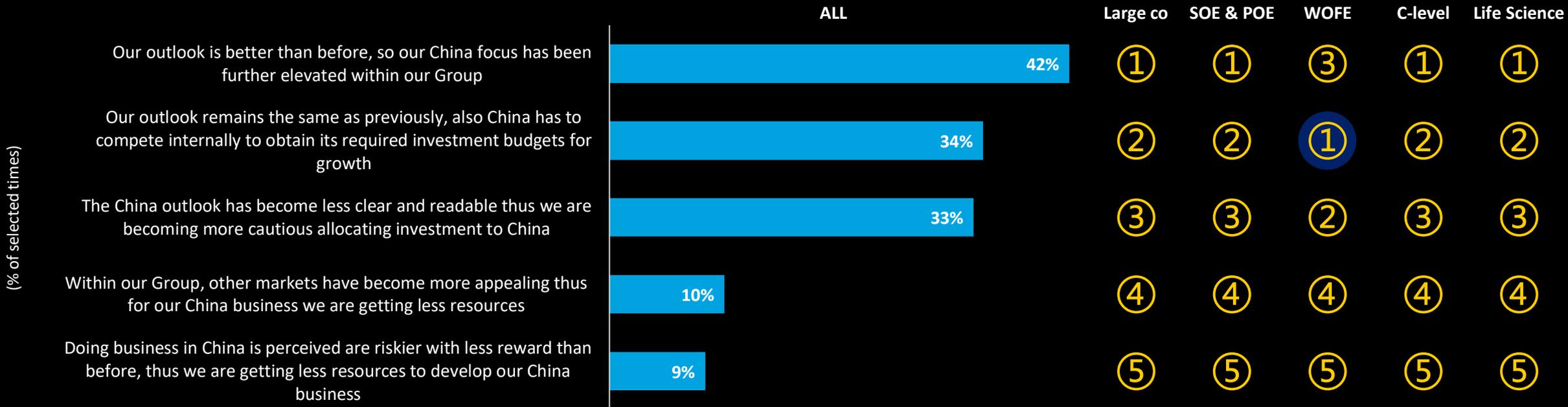
Insights

- Everyone remains rather optimistic – as >90% of all respondents are looking for growth in 2023
- Nearly 50% are looking for growth higher than 10%, bullish after December 7, 2022. Interesting to note that domestic market players (SOE & POE) are having the brightest expectation with two-third have forecast a 2023 revenue growth over 10%.
- Larger & Foreign companies have a more balanced outlook across all growth ranges, with even 8% predicting for a decline.

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2023 Future Outlook

Question #9 – How is your current overall business outlook for China (next 3-5 years)?



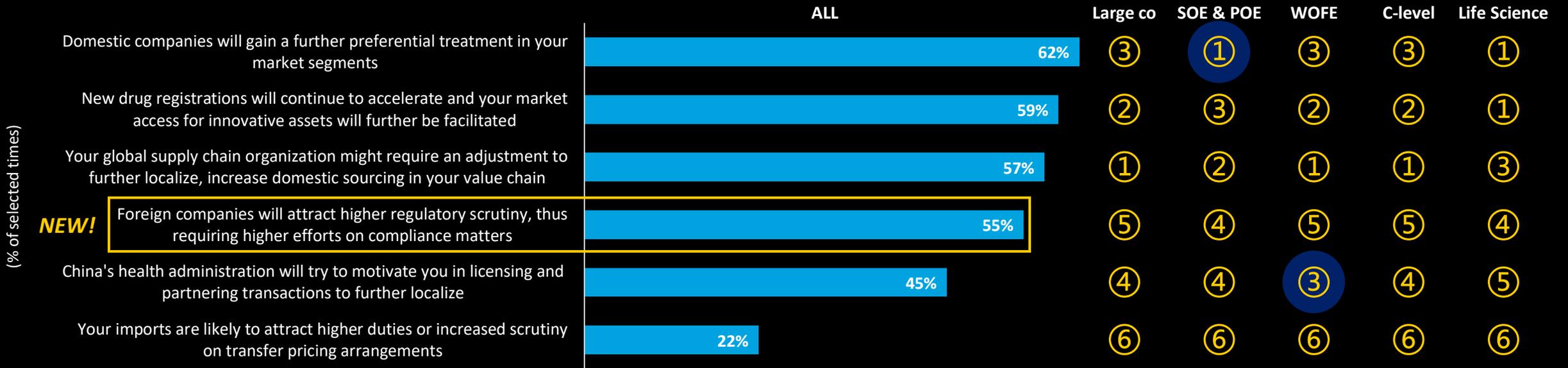
Insights

- Compared to our last year survey, we are noting a slight decrease on China’s market importance, reducing slightly from 47% to 42%. Also, 10% declare the investments are shifting to other addressable markets within their group, up from 2% in last year.
- Foreign companies, consistent with prior year, remain cautious on the future opportunities in the China market, and 34% state that the market has become ‘less readable & predictable’. CEO’s however remain very confident, as only 4% state of having the risk of getting less resources as the market attraction is reducing.

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2023 Future Outlook

Question #10 – With China's regulatory environment keep adjusting, do you think that...



Insights

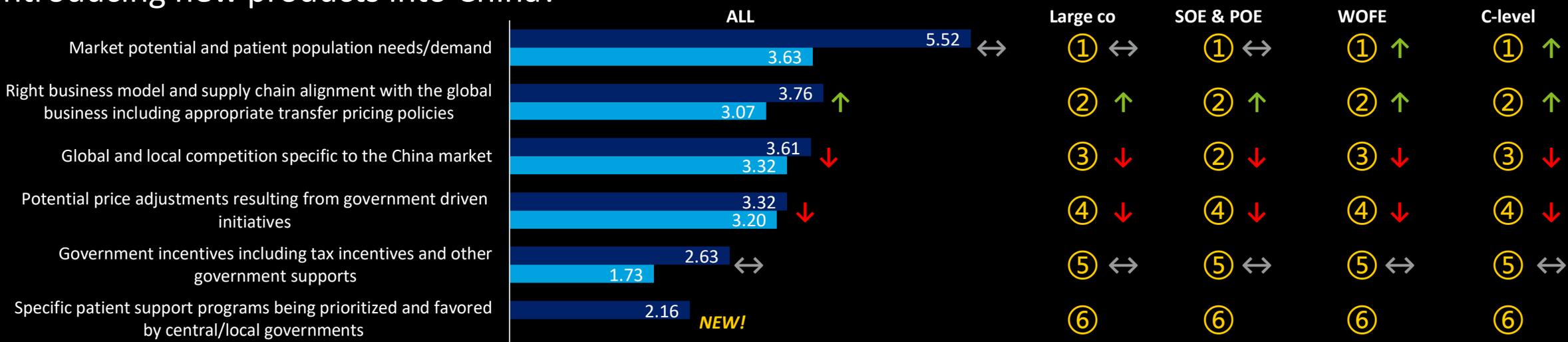
- Innovation and new drugs remain the focus for all respondents (60%), except SOE & POE (50%) and CEO from Foreign companies that rank this as highest impact going forward (80%).
- SOE & POE remain very confident that the market trend and environment will favor them in the longer term
- For Foreign companies, consensus is that the regulatory framework will have their supply chains to become more local, probably while widening the value chain domestically (71% of WOFE’s and 63% from Large Co’s). Further, Foreign companies are expecting (and planning for) a higher regulatory scrutiny and will increase emphasis on compliance.

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2023 Future Outlook

Question #11 – What do you think are the most relevant considerations from your perspectives when introducing new products into China?

(Average score for ranking)



Insights

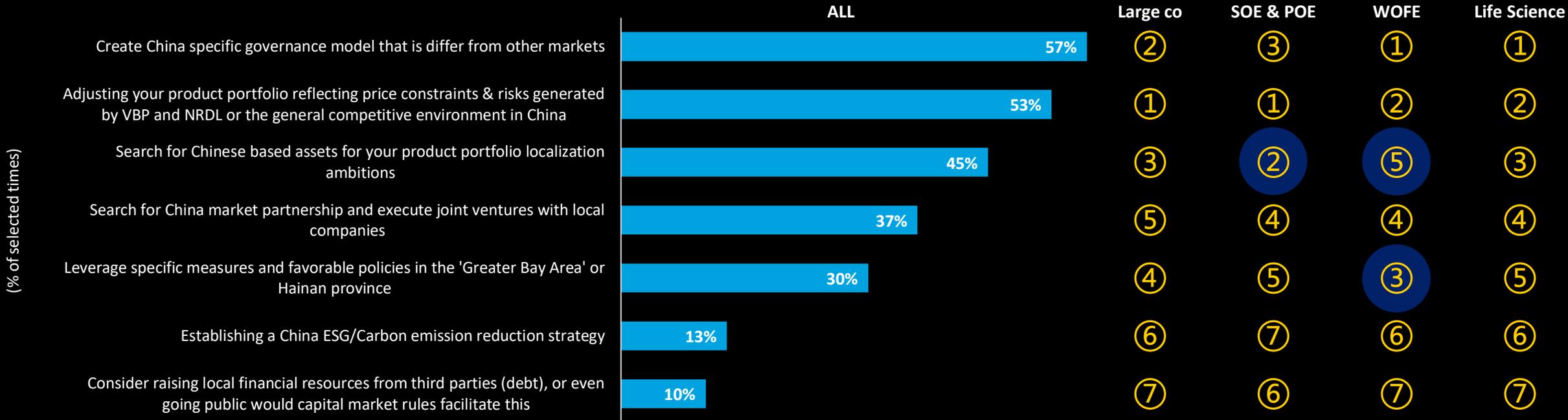
Rank change: ↑ increase ↓ decrease ↔ No change

- The ‘true market demand’ is the top consideration to all – same as the survey result in the last year, particularly to WOFE and top management team (C-level) respondents
- The importance of development of China-specific business model and supply chain arrangement has been raised over the past year, resulting from the rapid changes of the regulatory landscape in the China LSHC market
- The ‘competition’ and ‘medical pricing reform’ remain important yet the ranking have both degraded as the medical pricing reform has become the new-normal already and all types of companies are getting better in the pricing strategy resulted in the importance degraded

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2023 Future Outlook

Question #12 – In your latest China market strategy, have/are you considering the following actions:



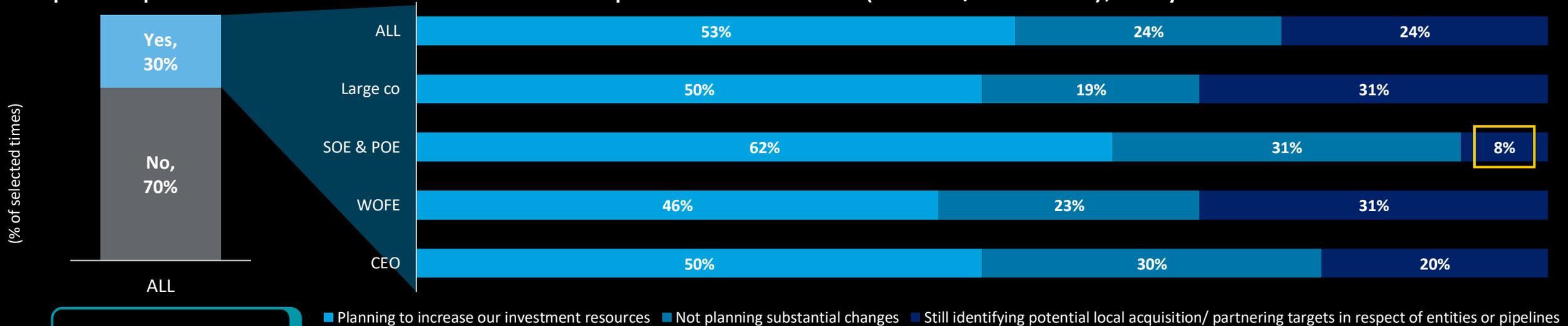
Insights

- The rank of 'China-specific solutions' has been raised from the second in last year to the top in this year – marking the 'unique' feature of the China LSHC market being further emphasized. This is especially important to WOFE (61%) and Life Science cos (58%)
- Local players (SOE & POE) are more focusing on the forming of partnerships while WOFE is more focusing on the leverage of the regional policy benefits to accelerate the market access

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2023 Future Outlook

Question #13 – Many pharma and medtech companies have created specific investment vehicles to participate into the China’s innovation space as investors (direct / indirect), do you have?



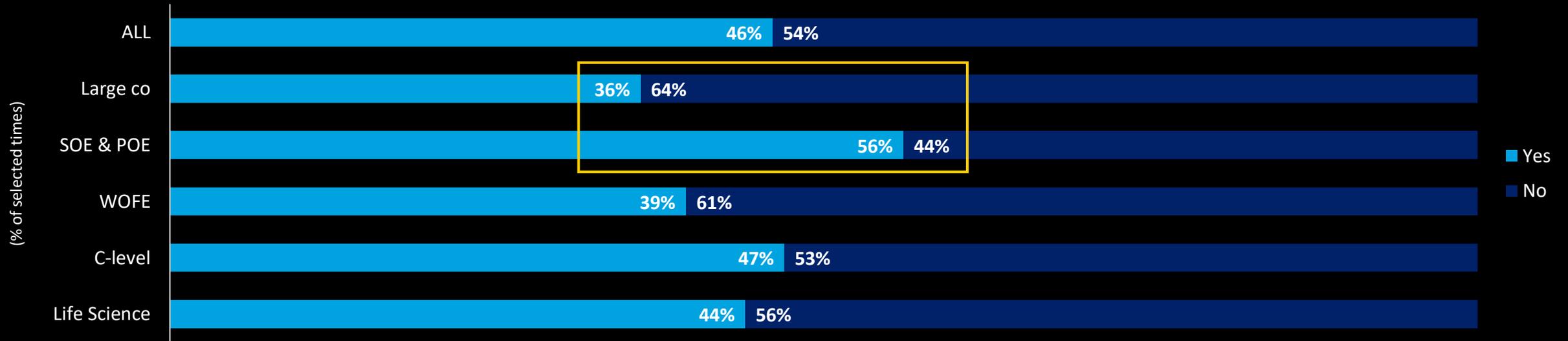
Insights

- Over two-third of all respondents answered ‘No’ in creating China-specific investment vehicles – this is mainly affected by the adjustment of the valuations of biotech cos in China throughout the 2022
- For those who answered ‘Yes’, they indicate the investment is going to be increased, particularly from local players (SOE & POE)
- Large cos and WOFEs are also relatively favor entering China’s innovation space through a collaboration with/ acquisition of local player(s) as this could help foreign companies to effectively reduce the regulatory risks
- In contrast, local players are less favor in enhance the innovation presence through acquisition and partnering. This is mainly due to local players are not that strong in cash flow as foreign players.

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2023 Future Outlook

Question #14 – Do you expect that your business strategy and investment for China market will change in response to the opening of China border in January 2023?



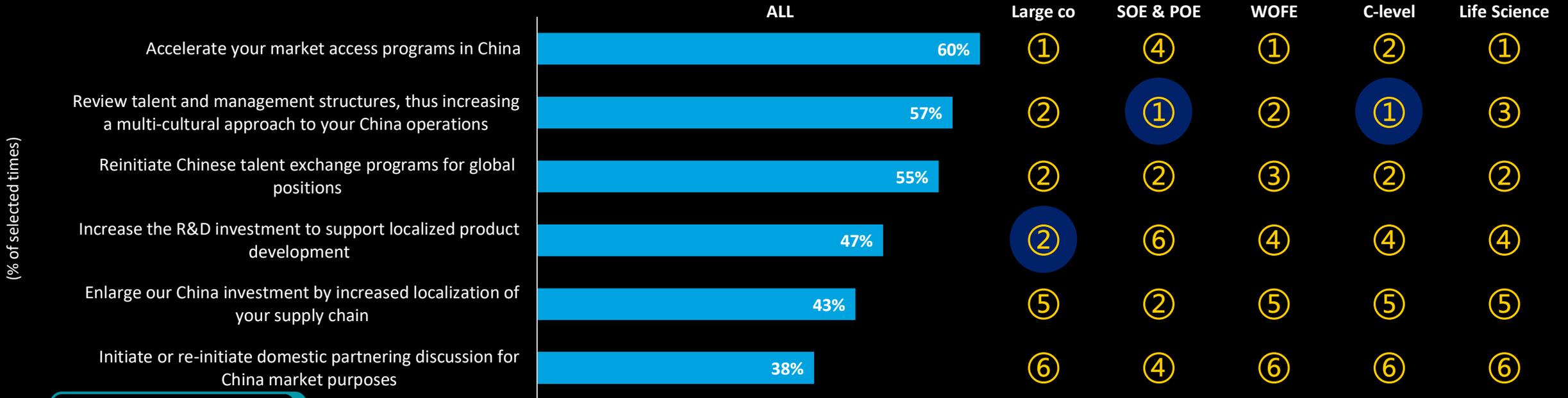
Insights

- Overall, nearly half of respondents are likely to have business strategy and investment change for China after the border open, particularly for local players (SOE & POE)
- In contrast, over 60% of 'Large Co's' and Foreign companies respondents indicate that there will be no immediate business strategy and investment changes. We are already seeing a number of corporate HQ teams travelling to China, and if adjustment come, that will certainly become apparent only later this year or for 2024.

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2023 Future Outlook

Question #14 – Deep-dive – among those who said ‘Yes’, the changes are likely to be located in...



Insights

- Accelerating market access, bringing new assets to market is the top key issue for Large cos (70%) and foreign cos.
- SOE & POE’s are more focusing on the talent and management structure changes, which was the same trend found among top management team respondents (CEO respondents: 67%)
- The localization is another key topic that large cos are majorly focusing on – in order to leverage the policy benefits for homegrown products in China

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In conclusion...

2023 China LSHC Industry Outlook Survey

Look back to 2022 predictions

Predictions



The influence power of government sectors is still increasing, especially with the medical pricing reform and data protection regulation updates



The pace of innovation growth has been accelerated as a result of the formulation of various partnerships and R&D investment



More and more LSHC companies are formulating more and more China-specific business model and strategy

What happened



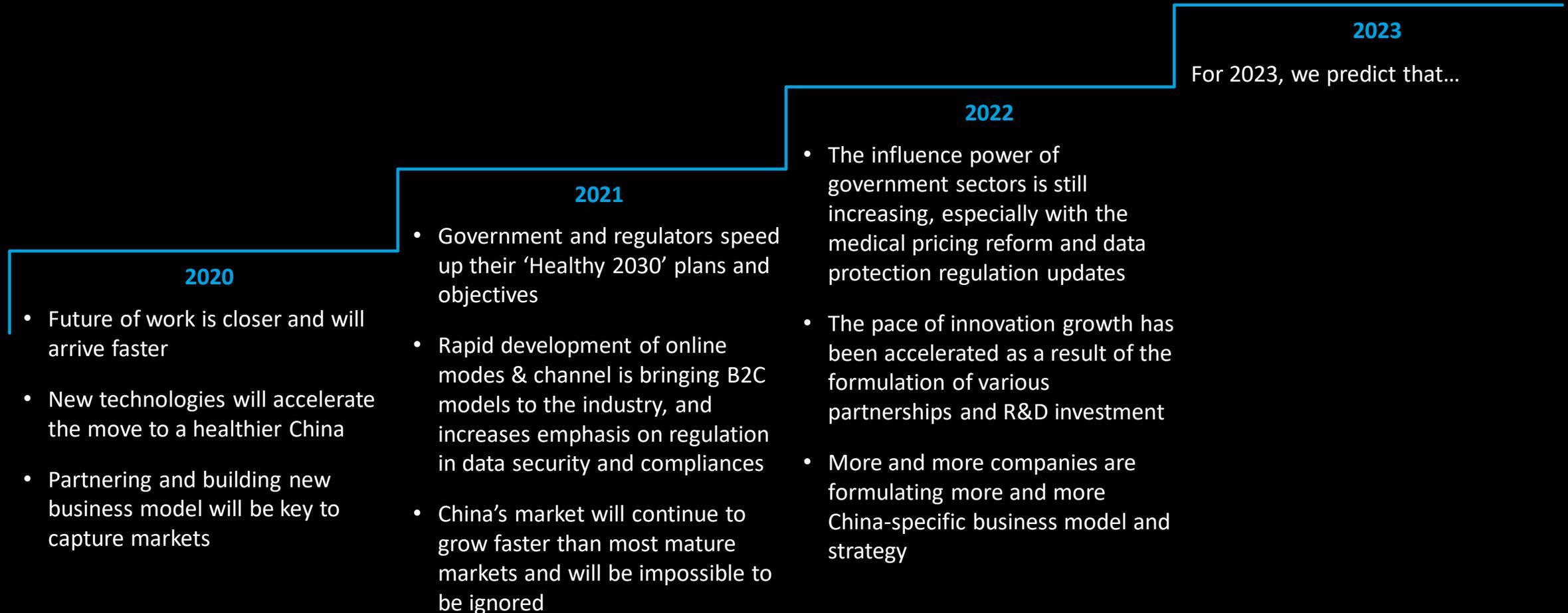
- The first outbound data transfer case after the issue of *Measures for Security Assessment of Data Export Security* was approved in 2022
- In 2022 NRDL update, the no. of newly listed drugs through negotiation has reached a new high of 108 drugs. The new NRDL is expected to save over RMB 90 billion, tripled from the last update
- The total license-out deals value in 2022 reached a new high of 17 Bln USD, increased by 23%. The number of deals also reached 48, 6 more from 2021
- The new drugs R&D investment has increased from USD 8 billion in 2016 to USD 28 billion to 2022, showing the elevation of R&D capacity of China's medical industry
- The no. of accepted registration applications has reached a new high of 12,244 applications (GR: 5.8%) in 2022



- MNC players have strengthened the transformation from global imports to local incubation of innovation assets
 - ✓ Established local incubators and accelerators to support the growth of local biotech cos
 - ✓ Transferred/ opened global innovation centers in China

2023 China LSHC Industry Outlook Survey

What Deloitte foresees for China LSHC industry...



2023 China LSHC Industry Outlook Survey

In Summary: China insight and outlook in 2023



2023 China LSHC Industry Outlook Survey

China insight and outlook in 2023

Key Insights

- The release of '10 New Measures' has brought a new look to the LSHC market as well as more uncertainties that examine the resilience capability of LSHC companies in China
- How to adjust the business model and strategy timely to keep up with the policy and regulatory changes is one of the key challenges to all
- Digitalization of operations, investment in technologies and talent have become more than ever critical to be successful in China



Digitalization and building a 'China-fit' eco-system has been the emphasis for many players during these 'covid-years'. This trend will continue.

- With the re-opening of borders, many market participants are looking forward to re-build their multi-cultural teams, thus fostering exchange and generating innovation.
- In addition, with the innovation pace to be accelerated once again, the new product launch strategy will become more critical for future growth onwards.



The battle for global talent will re-start in 2023 and the speed of innovation in China will rise and accelerate once again. New product launch will become the key growth driver.

- Most market players expect that market regulators will continue to strengthen their supervision through a number of lenses and activities, now that the 'pandemic-times' are over.
- While data and cross-border transfer is the immediate urgency that many are coping with, new technologies and new ways of operating business compliance activities will emerge.



Business compliance activities during these covid-years have been neglected or reduced. We shall see more emphasis of those going forward as regulators increase their activities.

2023 China LSHC Industry Outlook Survey

China insight and outlook in 2023

Key Insights

- Survey results show that a larger number of industry players have seen their speed to market decelerate, with patient onboarding and clinical trials being delayed, but not disrupted.
- As part of a wider localization strategy, the search for local assets, certainly encouraged by a more favorable environment to locally rooted products, will more than likely lead to wider cooperation arrangements and or partnering models.



China's innovation landscape has many players with unique and niche capabilities. Localization ambitions will allow for some to emerge as core market expansion solutions to foreign players.

- With more homegrown preferential policies been introduced in the recent years, the pace of production and supply chain localization is expected to further accelerate for foreign players in China.
- Further, initiatives across the globe reviewing the key and core dependencies on key ingredients, pressures arising from sustainability and carbon reduction programs (reducing logistics paths), will provide grounds for enlarging the value chain locally.



Supply chain localization has become more important especially for high volume products and increased domestic competition. With a favorable momentum, now is the time to review all options.

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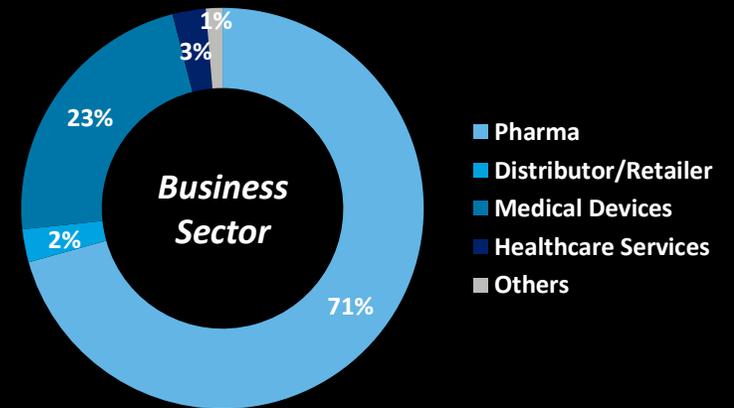
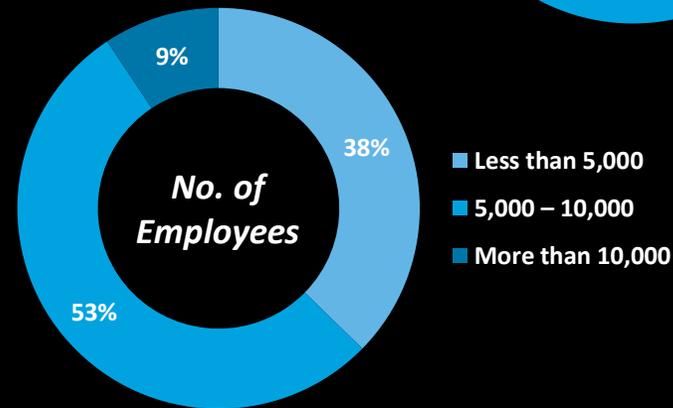
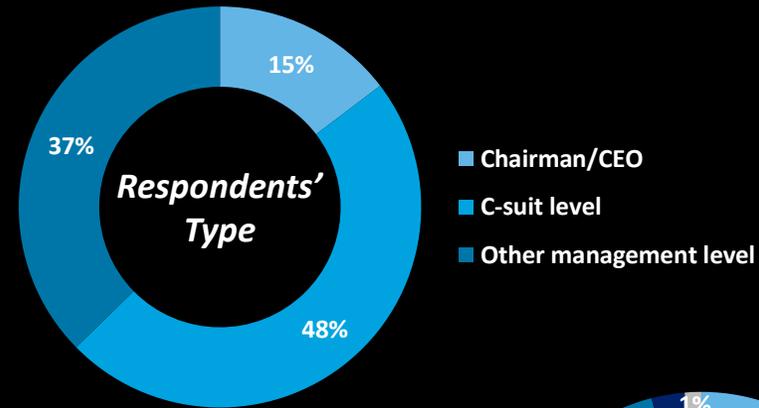
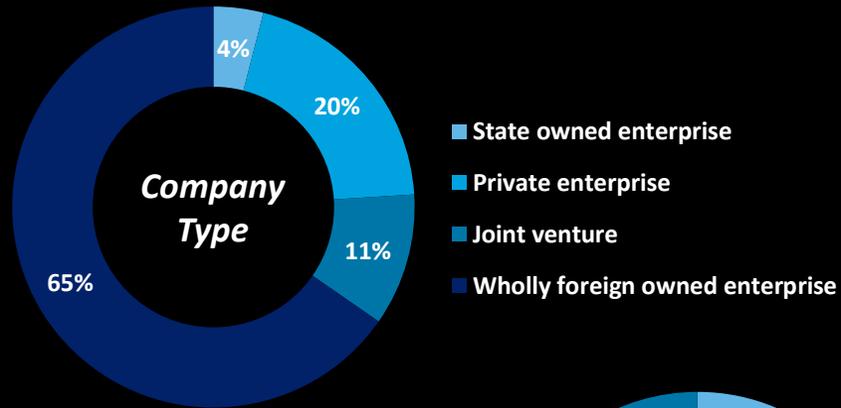
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Appendix

Appendix

Large companies' population composition

- Large companies (75/115) composition: companies with revenue above 1 Bln RMB



Appendix

Calculation model for question #11

- The average score was calculated based on the weight of its rank in each answer
- The weight for each rank is different and is descending from rank 1 to rank 6
 - Rank 1 = 6 score; rank 2 = 5 score; rank 3 = 4 score; rank 4 = 3 score; rank 5 = 2 score; rank 6 = 1 score
- The average weight score calculation formula: $[(\text{rank 1 \#}) * 6 + (\text{rank 2 \#}) * 5 + (\text{rank 3 \#}) * 4 + (\text{rank 4 \#}) * 3 + (\text{rank 5 \#}) * 2 + (\text{rank 6 \#}) * 1] / (\text{total respondent \#})$
 - For example, the option A was selected for 13 times: rank 1 for three times; rank 2 for four times; rank 3 for twice; rank 4 for twice; rank 5 for once; rank 6 for once
 - the average weight score of option A will be: $[(3 * 6) + (4 * 5) + (2 * 4) + (2 * 3) + (1 * 2) + (1 * 1)] / 13 = 4.23$
 - The average weight score of option A will be 4.23
- A higher average weight score represent a higher importance degree of the subject to respondents



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