



China LSHC Industry – Survey Results: ‘State of Industry’

China Life Sciences & Health Care Team
February 2021



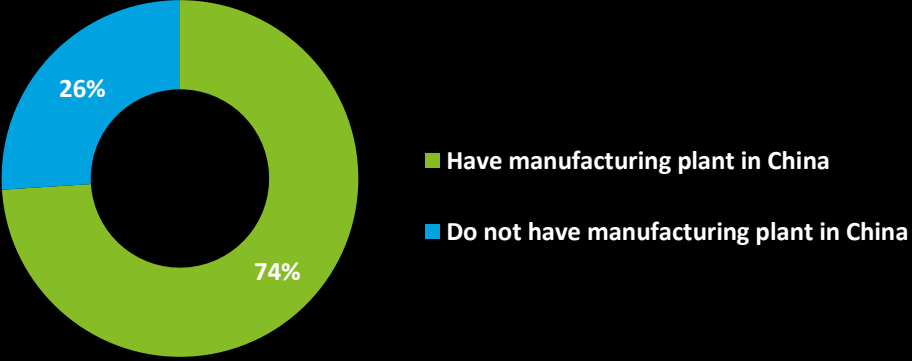
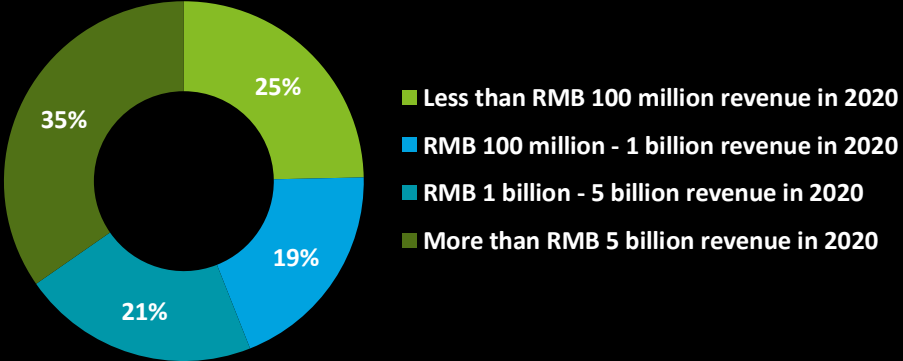
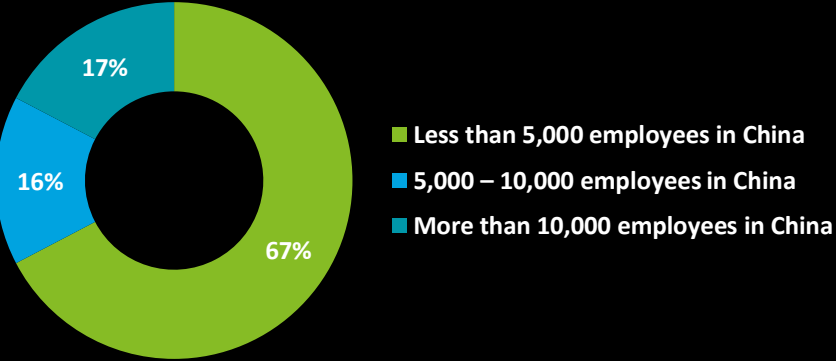
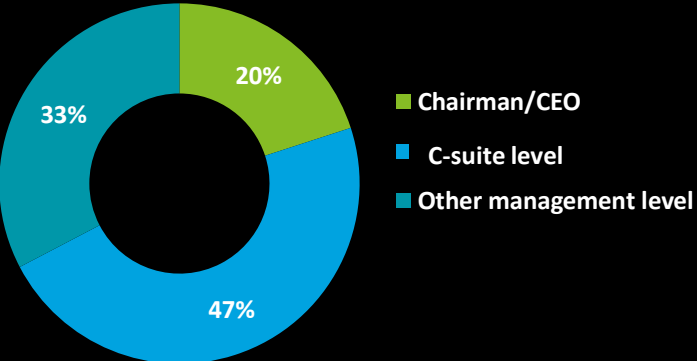
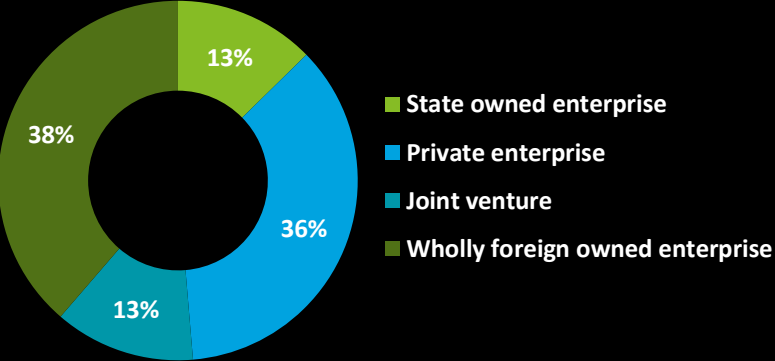
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 - How did 2020 turn out
 - How might 2021 look like
- Concluding Insights
- Appendix

LSHC Industry 2021 Outlook Survey Framework

- Survey conducted between January 11th to 28th, 2021
- Engaged China based Pharma & Healthcare sector operators and investors: 150 respondents

The respondents profile in 2021 is very consistent with the survey run in Feb 2020 (size & origin). In 2021 – 81 respondents were CEO & c-Suite while our 2020 attracted 70 answers.



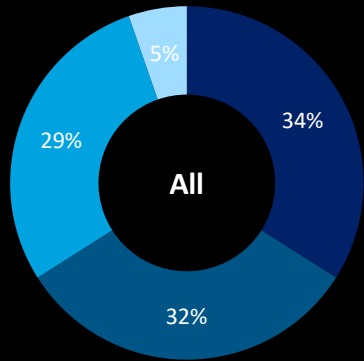
Note: [1] SOE: State-owned Enterprise; [2] POE: Private-owned Enterprise; [3] WOFE: Wholly foreign-owned enterprise;

How did 2020 turn out...

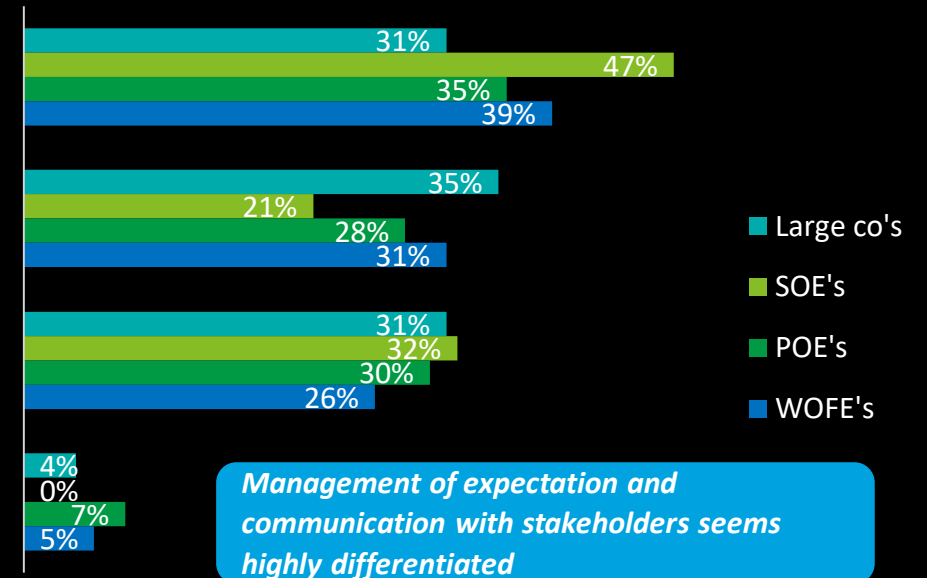
LSHC Industry 2021 Outlook Survey

2020 Performance Review – Question #6

- How did your company perform (top line) in 2020?



- Annual financial performance is better than planned
- Annual financial performance is in line with plans
- Annual financial performance is worse than plans
- No response



Insights

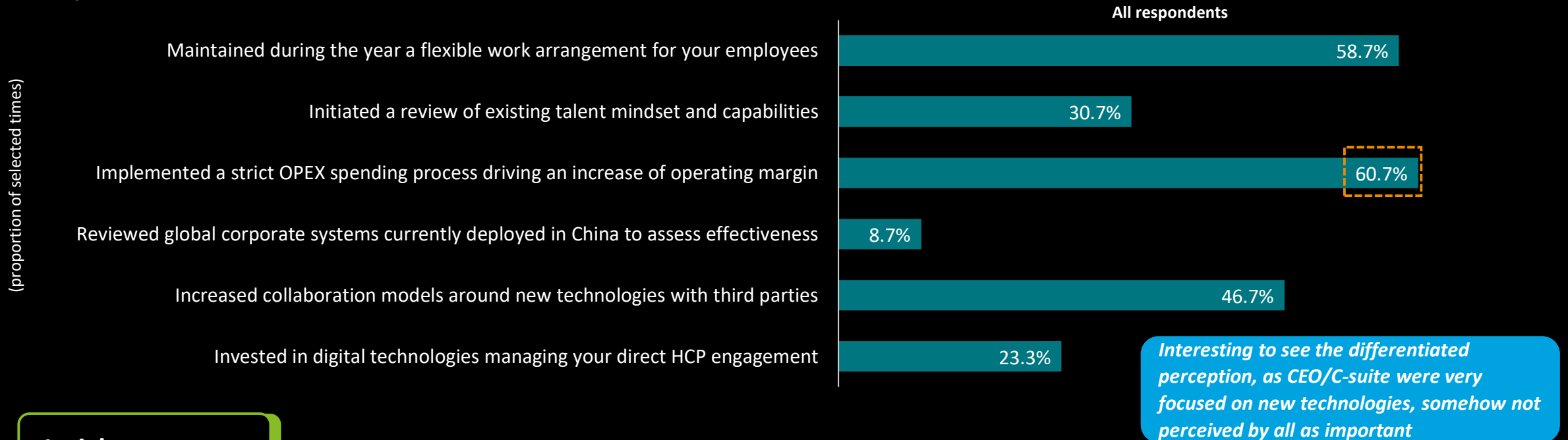
- Over 60% of respondents are still able to maintain the annual financial performance to be in line or better than the annual plan
- Only 26% of wholly foreign owned companies state that 2020 was worse than plans
- Nearly a majority of SOE's (47%) state their annual financial performance was better than planned

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2020 Performance Review – Question #7

- During the recovery, which were the key actions to manage the impacts of the Covid crisis?



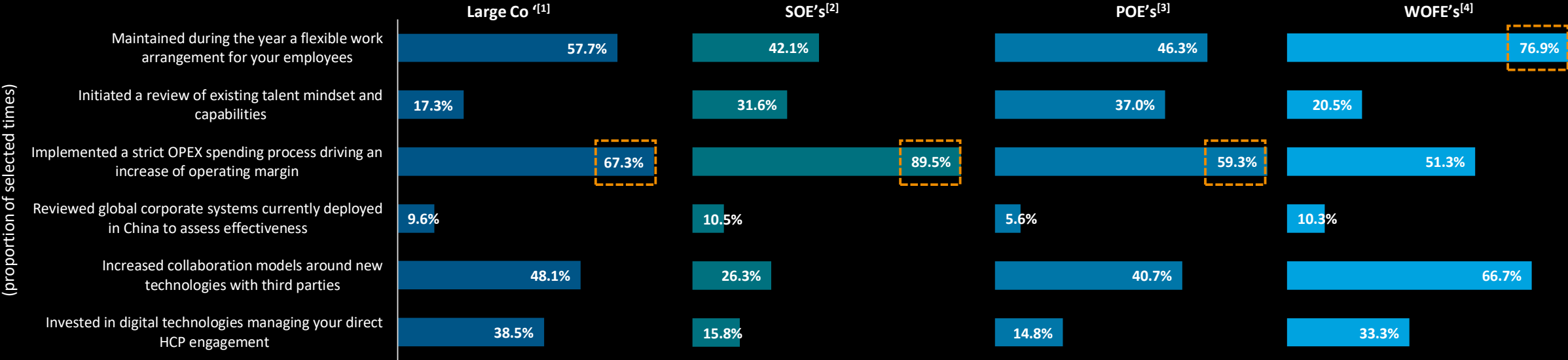
Insights

- The top two key actions included a strict **OPEX spending** process maintaining **flexible work** arrangements
- Collaboration initiatives around **new technologies** were top in mind, and more so for **CEO/C-suite from WOFE who ranked this 2nd with 67%** (see next page)
- Global system deployment **efficacy was not top** in mind during Covid-times

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2020 Performance Review – Question #7 Deep dive

- During the recovery, which were the key actions to manage the impacts of the Covid crisis?



Insights

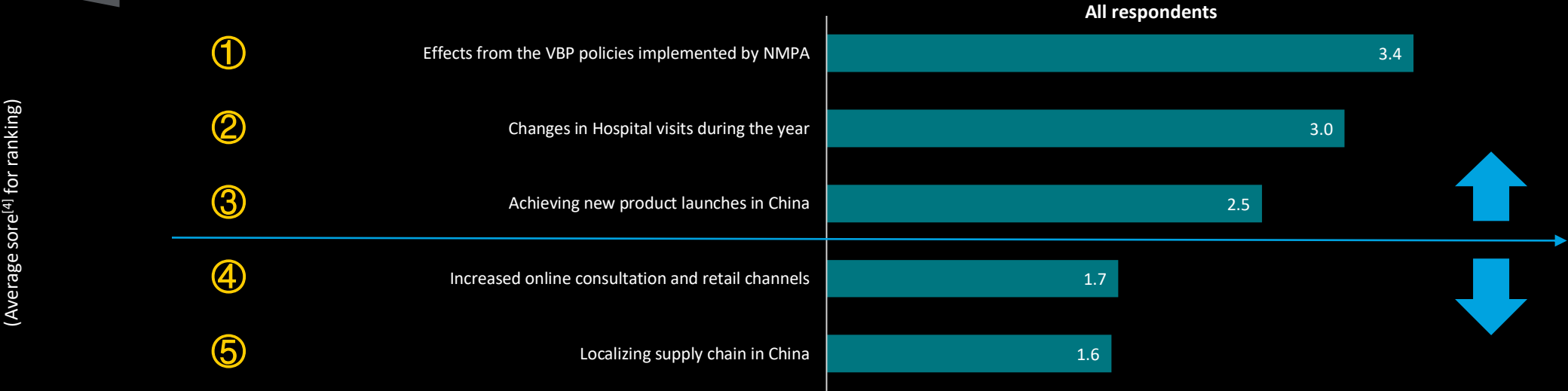
- Larger Companies focused on **OPEX spending controls** to protect their bottom line profits
- As expected **flexible work arrangements** were implemented by all throughout the year (in line with snapshot survey in 2/2020)
- Investment in **commercial & marketing digital technologies** varied significantly across the respondents

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2020 Performance Review – Question #8

Your 2020 business performance was mainly impacted by ? (ranking of importance)



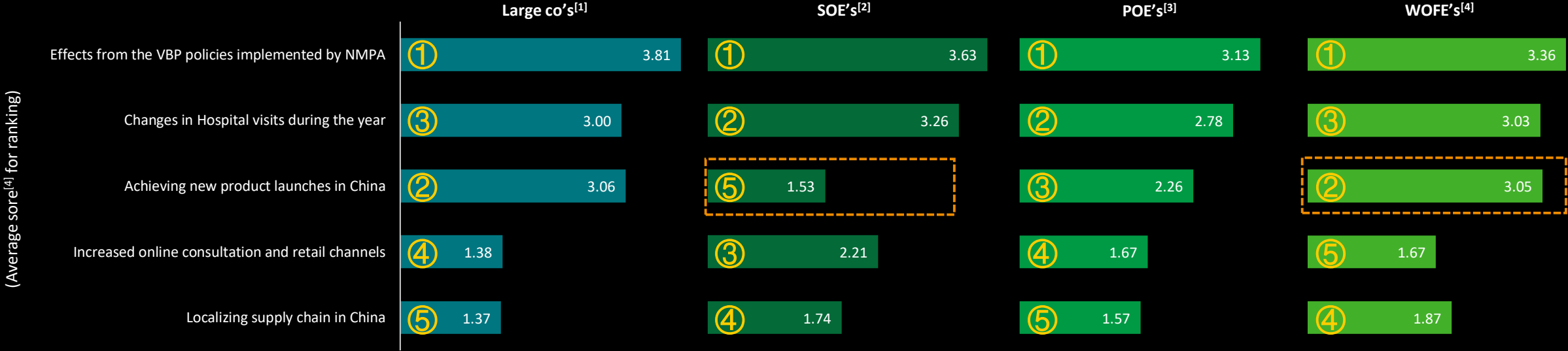
Insights

- Regulatory related (VBP), hospital visits (main promotion channel) and keeping new product launches on track were top three factors on commercial impact
- Online channels and reviewing supply chain structures were considered as a much lesser importance

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2020 Performance Review – Question #8 Deep dive

- Your 2020 business performance was mainly impacted by?



The innovation cliff between SOE's and foreign players is very visible looking at the focus on product launches

Insights

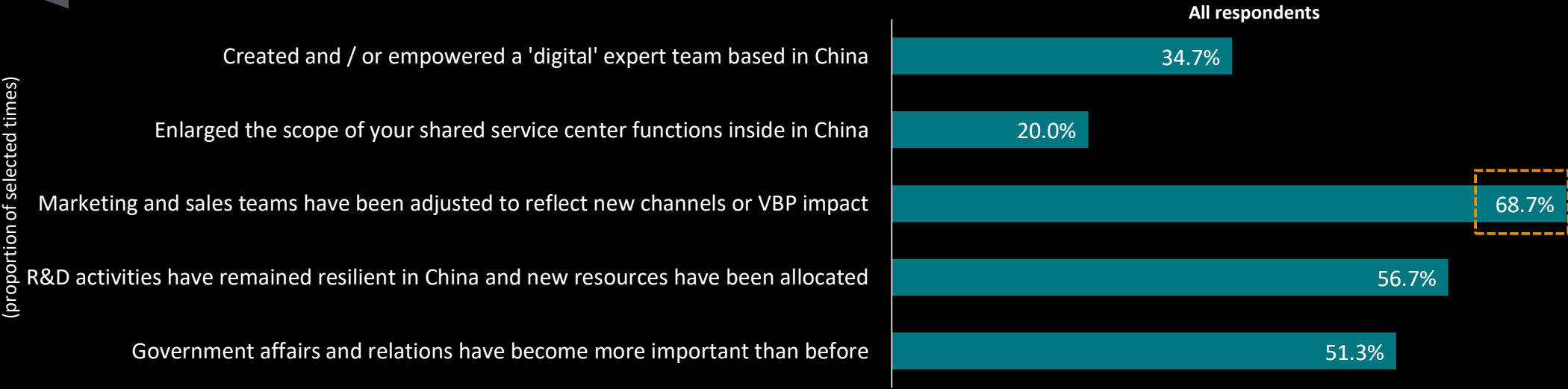
- The VBP policies & implementation is the top impacting factor to all respondents
- Product launch was viewed by the larger co's and foreign pharma's as key to their business performance in 2020

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2020 Performance Review – Question #9

- Within your organizational & business model which are the key changes implemented in 2020?



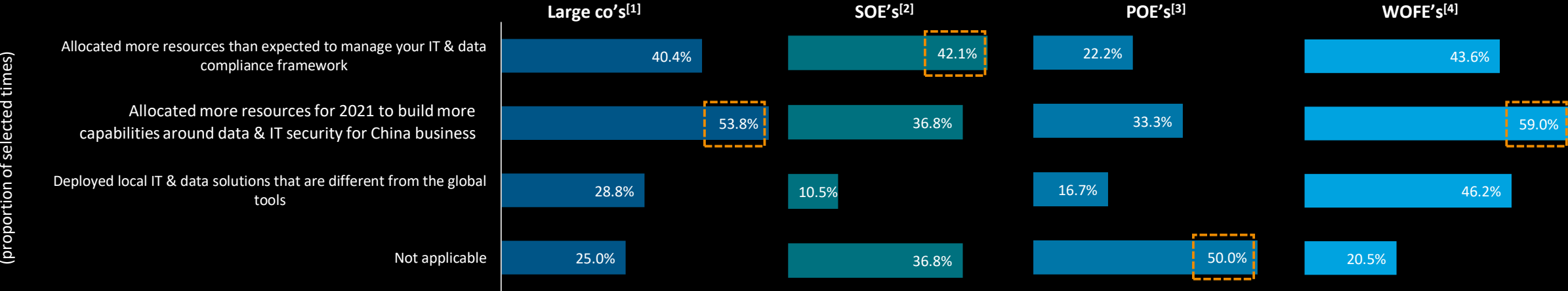
Insights

- As expected and anticipated, **marketing & sales teams remained a focus as VBP** changed the engagement needs
- **R&D capabilities and GA's teams** have been even more important than before
- While the industry is embracing its '**digital revolution**', only 35% of respondents have cited this a focus in 2020

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2020 Performance Review – Question #10 Deep dive

Considering China's very specific data and security environment, have you done any of below implementations?



Insights

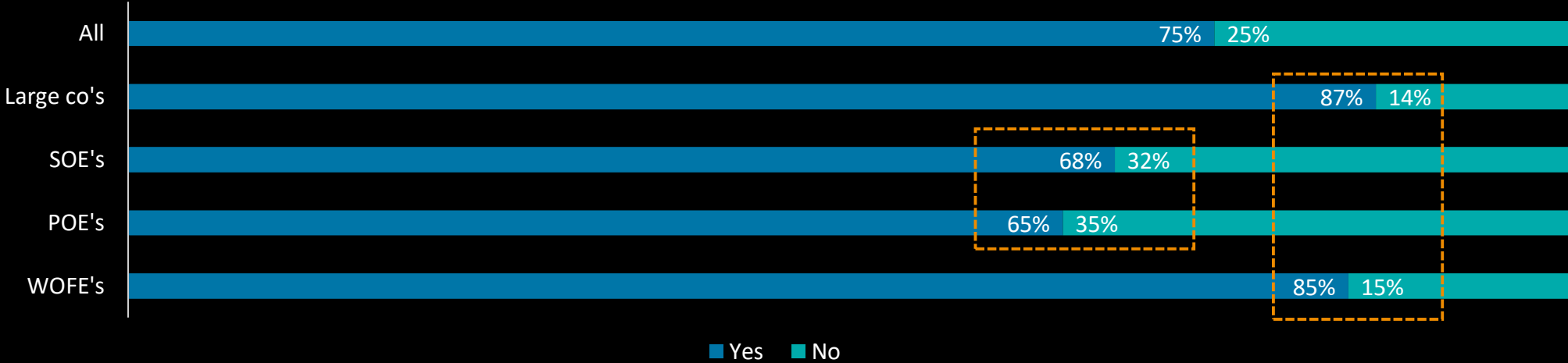
- Around half of all, except POE's, have allocated more than expected resources in IT & data compliance framework
- **A majority of large co's and WOFE's will allocate more resources in 2021 in the IT & data security and compliance development in response to the rapid growth in digital healthcare in China**
- For POE's and SOE's, resource allocation in IT security development seem of a lesser business priority (2020 and 2021)

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2020 Performance Review – Question #11

- Online/internet business channel plays critical role during the crisis period, does your company consider to increase investment on these new channels?



Insights

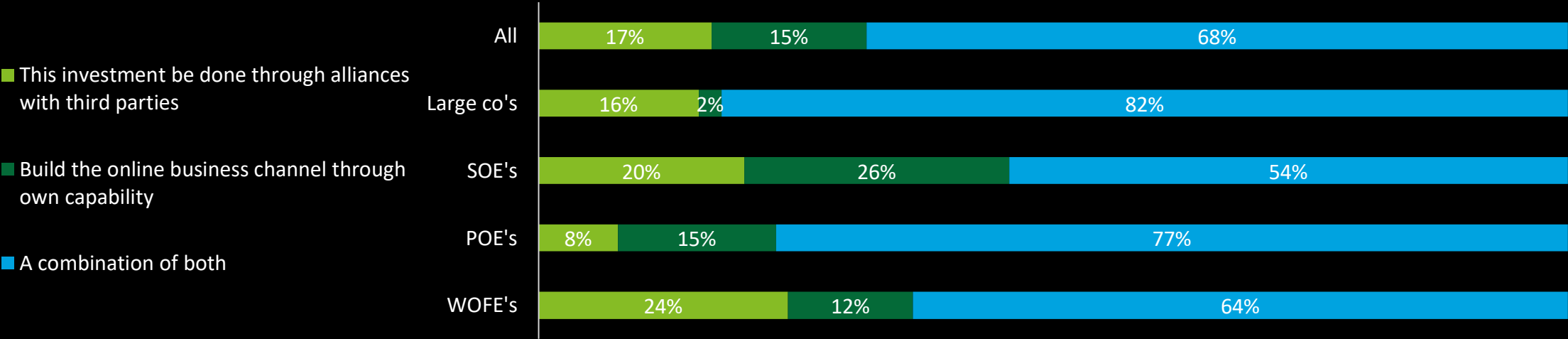
- 75% of respondents are investing or willing to increase the investment in the online channel development
- Willingness in increasing the investment into online/internet channels among POE's and SOE's is significantly lower

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2020 Performance Review – Question #11 Deep dive

• The preference in the online channels development mode among all players are quite different...



Insights

- All types of respondents that are more willing to invest through both self-development and collaboration, especially large co's
- In comparison, domestic players have a stronger intention in build the online channel with their own capability, while WOFE's are more into the co-development mode

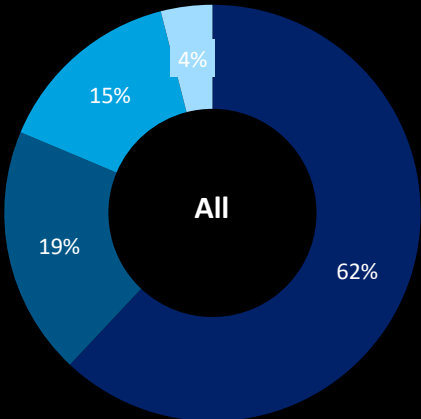
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How might 2021 turn out...

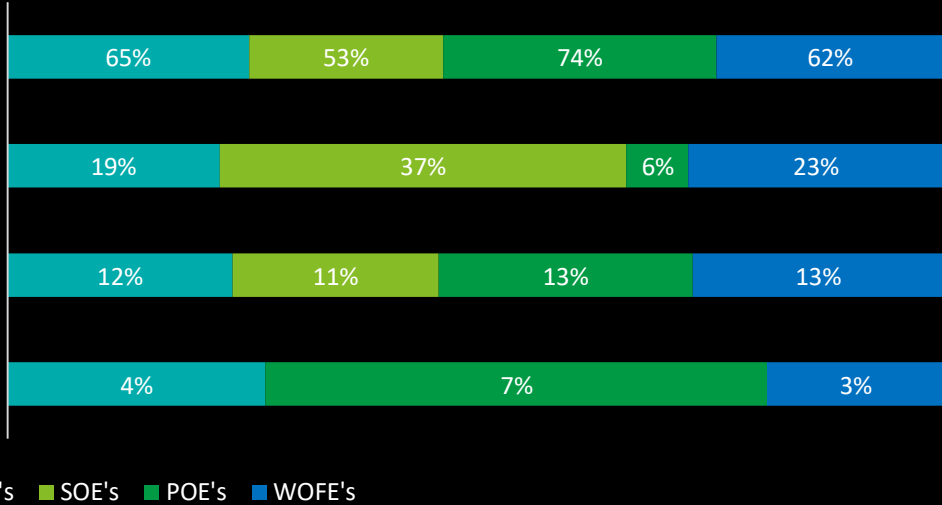
LSHC Industry 2021 Outlook Survey

2021 Future Plan – Question #12

• How do you foresee the Covid pandemic on your China business outlook?



- Top line revenue plan 2021 considers a double digit growth $\geq 10\%$
- Top line revenue plan 2021 considers a single-digit growth $< 10\%$
- Top revenue plan 2021 is flat
- Top revenue plan 2021 is in decline



Insights

- A large majority (62%) see a rather bright outlook and forecast a $\geq 10\%$ growth in 2021 (**only 19% see no growth or decline in 2021**)
- **POE's have the most ambitious outlook**, while a total of 85% of WOFE's expect growth

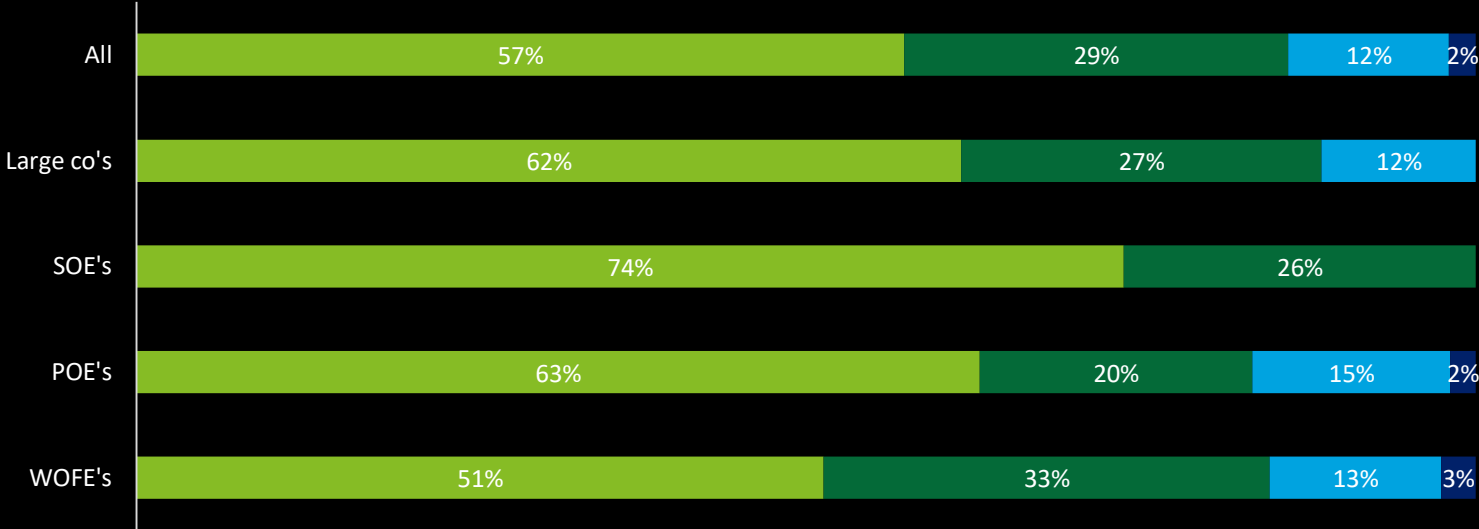
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2021 Future Plan – Question #13

Has your overall business and portfolio strategy changed for China in the next 3-5 years?

- Our outlook is better than before the Covid outbreak, so our China focus has been further elevated within our Group
- Our outlook remains the same as previously, also China has to compete internally to obtain its required investment budgets for growth
- The China outlook has become less clear and readable thus we are becoming more cautious allocating investment to China
- Within our Group, other markets have become more appealing and seem less risky going forward, thus we are getting less resources to develop our China business



Insights

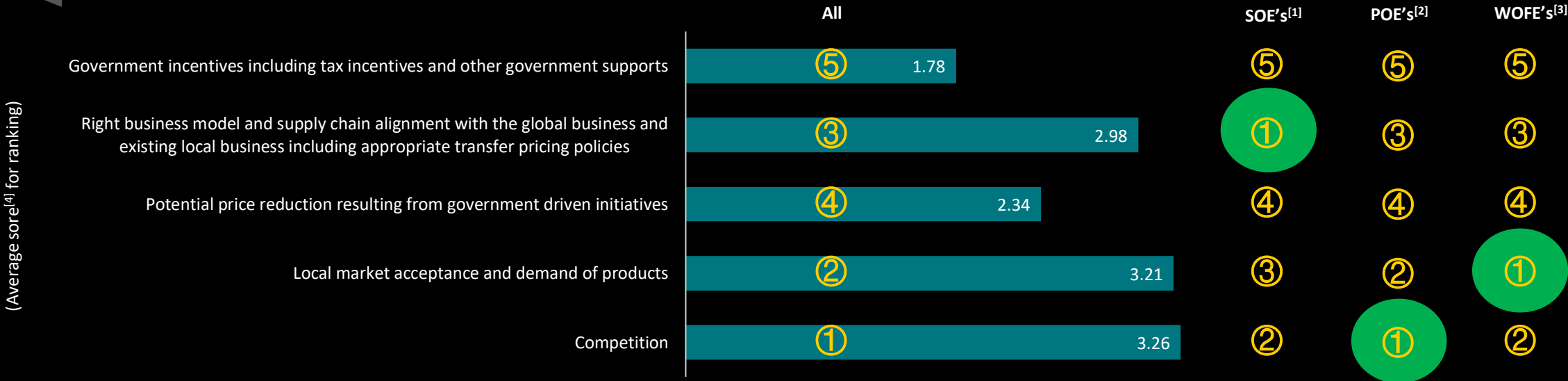
- A majority (57%) has a better outlook in China market and may further elevate the China focus
- SOE's are having the most optimistic attitude and aggressive in elevate the China focus and followed by POE's, expecting further local preferential policies to be published in 2021 and onwards
- Only a very small group (2% = 3 respondents) considers the China market to be less attractive going forward

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2021 Future Plan – Question #14

- What do you think are the most relevant considerations from your perspectives when introducing new products into China?



Insights

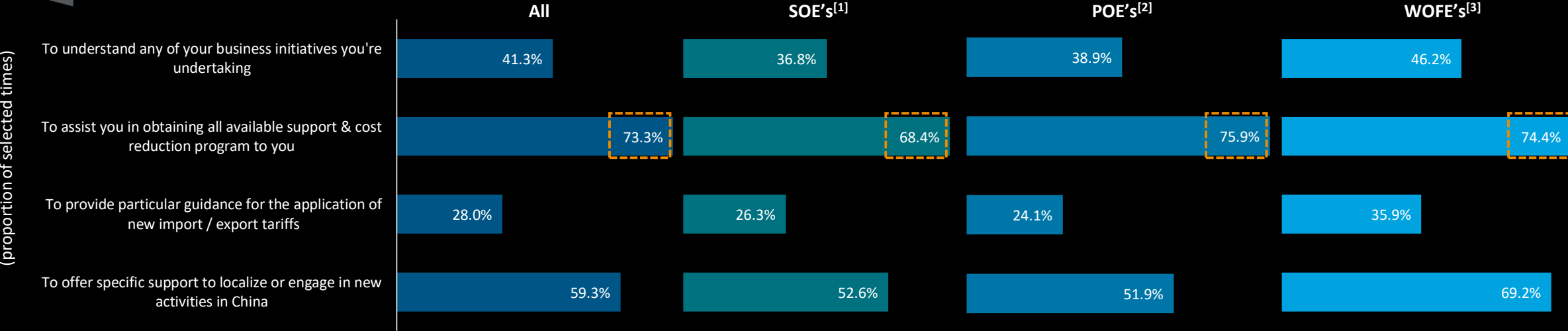
- Overall, the **competition** in China market is the top consideration to all respondents, along with **local demand & market acceptance**
- SOE's highlight a particular need for supply chain arrangements and eventual **global dependency**

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2021 Future Plan – Question #15

- Have government administrations increased their engagement to...



Insights

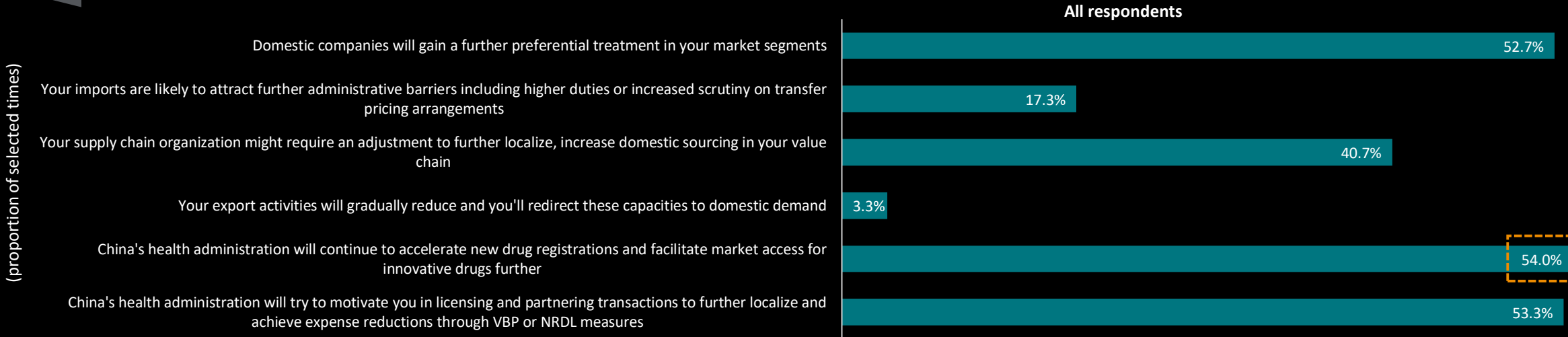
- Very consistent views on government administration support across all respondents
- WOFE's perceive a specific push** to further review localization and engage in 'new activities'
- The import & export tariffs application guidance from the government seem to take relatively less attention from all

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2021 Future Plan – Question #16

- With China's dual circulation strategy, do you expect that...



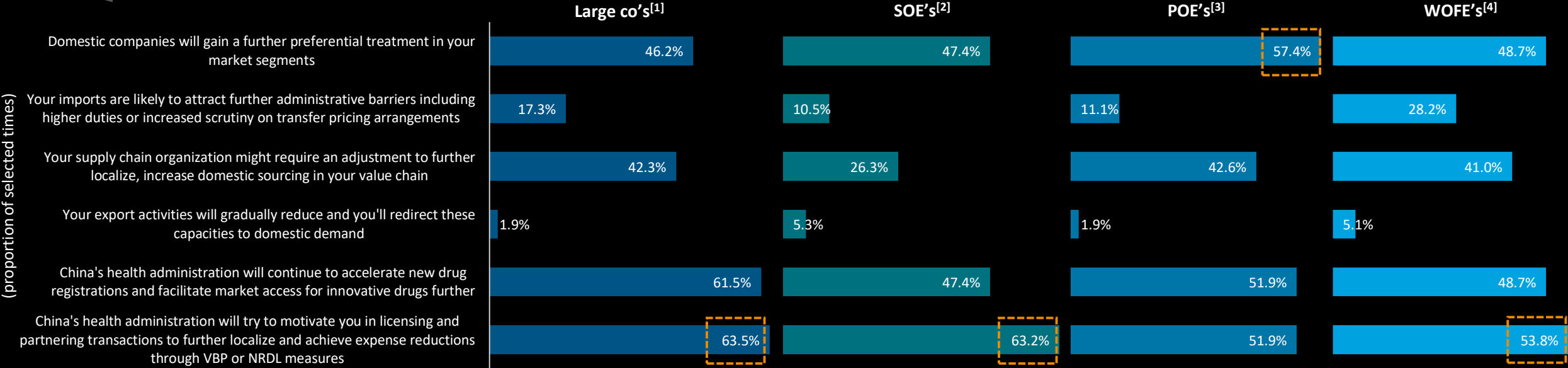
Insights

- With the government’s purpose in bring up more innovation and first-in-class products in China, the new drug registration and market access timeline are expected to be further shorten and accelerated under the dual circulation strategy
- The dual circulation strategy is also expected to bring a more frequent and boarder coverage of VBP implication and NRDL updates which will further eliminate products that are unable to offer a lower price

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2021 Future Plan – Question #16 Deep dive

- With China's dual circulation strategy, do you expect that...



Insights

- All industry respondents are sharing the similar expectations, POE's are slightly more expecting in the preferential treatment
- WOFE's are also having a higher expectation in further regulatory & government measures to impact the industry

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Key Insights and Outlook

From 2020 to 2021...

LSHC Industry 2021 Outlook Survey

Let us look back... the highlights from 2020 included

Our predications 2020 (February 2020)



Future of work is closer and will arrive faster



New technologies will accelerate the move to a healthier China



Partnering and building new business model will be key to capture markets

What happened actually...

A large majority of respondents have confirmed that flexible work arrangements were kept throughout 2020. There is little reason to believe that this will change going forward

China's digital acceleration in healthcare delivery modes, have allowed patients and medical teams to increase mutual trust and reduce risk perceptions, maintaining and enlarging access to better health & well-being services

These initial technology players are learning fast and will continue to disrupt business models in the future

LSHC Industry 2021 Outlook Survey

In Summary: China Insights and Outlook for 2021



Government involvement will continue to increase speeding up domestic innovation and competition, to the benefit of Chinese patients



New business models and digital technologies will make Chinese patients to become highly engaged well-being focused consumers



China's market will continue to grow faster than most mature markets and will be impossible to be ignored

LSHC Industry 2021 Outlook Survey

In Summary: China Insights and Outlook for 2021

Key Insights

- Potentially a more frequent and boarder practice of VBP and NRDL coverage, the market will become highly centralized, also pricing strategies and cost controlling will become even more important in the future.
 - Outward looking scenarios planning with high agility will be a key for success for all players.
-
- With the covid-19 outbreak, business models are changing and the adoption of digital channels has accelerated, thus blurring the lines between 'consumers' and 'patients'.
 - Collaborations between LSHC companies and third parties, such as technology companies, are popping up, thus requiring adjusting skills & mind sets of existing teams.
 - IT innovation and data security will become a higher priority ever than before.



Government and regulators speed up their 'Healthy 2030' plans and objectives.



Rapid development of online modes & channel is bringing B2C models to the industry, and increases emphasis on regulation in data security and compliance.

LSHC Industry 2021 Outlook Survey

In Summary: China Insights and Outlook for 2021

Key Insights

- The government is aiming to promote local first-in-class products over me-too/me-better, and we are seeing more relevant policies and initiatives in supporting the domestic players.
- Many domestic players are enhancing their R&D and product portfolio through partnering, and seeking for more preferential policies to be announced in 2021.
- Looking towards a long term sizable market too large to be ignored, foreign players have started to further develop a China-centric market access and pricing strategy, meanwhile proactively in looking for local support from the government affairs and relation enrichment.



The China pharmaceutical industry is experiencing high-speed, China-speed transformation led by the government.

Companies need to keep adjusting their business strategy, with new innovation on all fronts, ensure capturing and winning in the China market.

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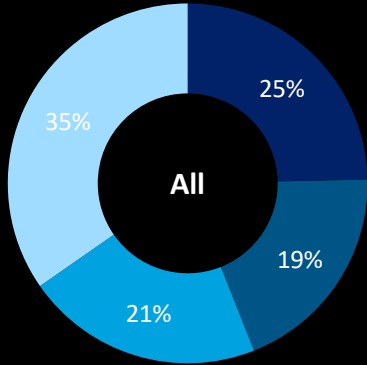
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Appendix

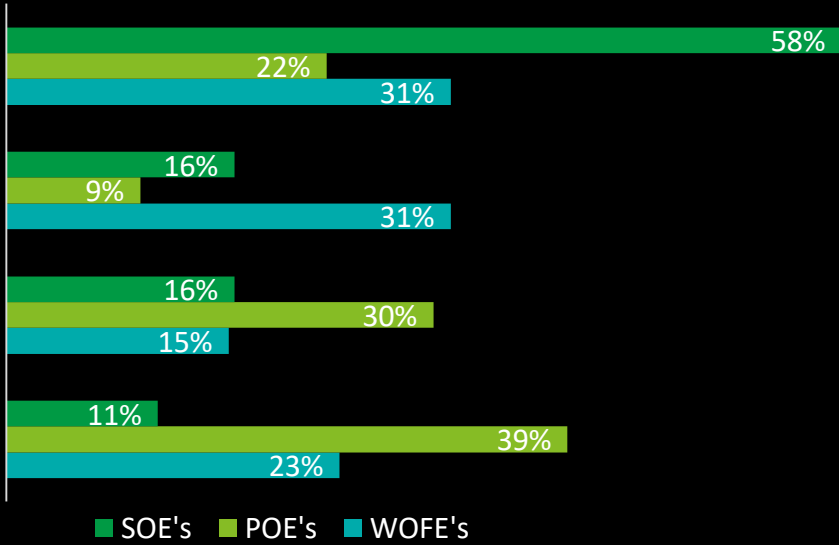
Appendix: LSHC Industry 2021 Outlook Survey

Respondent Profile

- What's the range of your enterprise revenue in 2020? (RMB)



- More than RMB 5 billion revenue in 2020
- RMB 1 billion - 5 billion revenue in 2020
- RMB 100 million - 1 billion revenue in 2020
- Less than RMB 100 million revenue in 2020



Comments

- Overall, the respondents population comprised 52 from companies that generated over 5BnRMB revenue in 2020
- POE's respondents profile, including start-up & biotech's have a larger portion of smaller companies

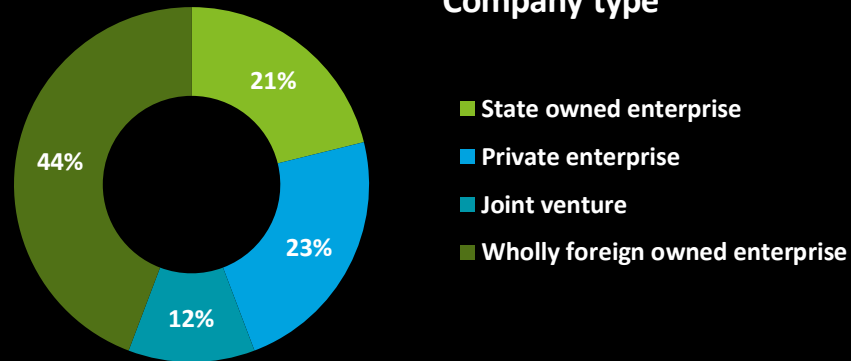
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Appendix

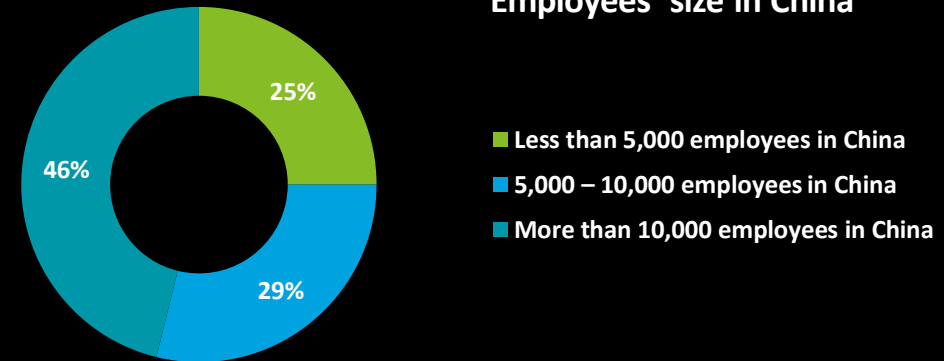
Large companies' population composition

- Large companies (52/150) composition: companies with revenue above 5BRMB

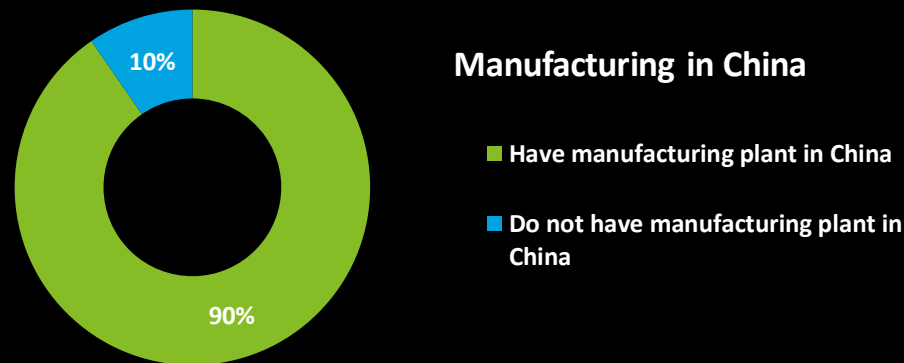
Company type



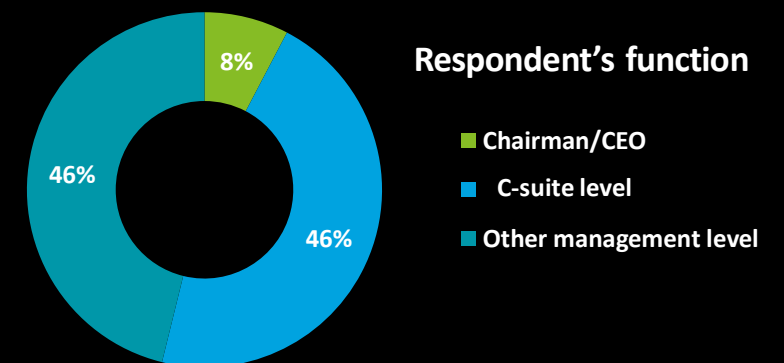
Employees' size in China



Manufacturing in China



Respondent's function



Appendix

Calculation model for question #8 and #14

- 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 5
 - Rank 1 = 5 score; rank 2 = 4 score; rank 3 = 3 score; rank 4 = 2 score; rank 5 = 1 score
- The average weight score calculation formula: $[(\text{rank 1 \#}) * 5 + (\text{rank 2 \#}) * 4 + (\text{rank 3 \#}) * 3 + (\text{rank 4 \#}) * 2 + (\text{rank 5 \#}) * 1] / (\text{total respondent \#})$
 - For example, the option A was selected for 12 times: rank 1 for three times; rank 2 for four times; rank 3 for twice; rank 4 for twice; rank 5 for once
 - the average weight score of option A will be: $[(3 * 5) + (4 * 4) + (2 * 3) + (2 * 2) + (1 * 1)] / 12 = 3.58$
 - The average weight score of option A will be 3.58
- A higher average weight score represent a higher importance degree of the subject to respondents



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