



MIRAE ASSET LENS ISSUE 6 **Part II**

How to Make Money in China Healthcare Space

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How to Make Money in China Healthcare Space

China – Strong Growth So Far, But Still Underpenetrated

The China pharmaceutical market has grown at healthy pace of 22% CAGR over the last 10 years.¹ This was driven by favorable dynamics including growing per capita income thereby increasing affordability, rising disease incidence driven by lifestyle changes, an aging population, and early detection of diseases (leading to longer duration of treatments), among others. Even after this high growth phase, China remains an underpenetrated market for various therapies and we continue to expect modest to strong volume growth over the ensuing years.

Healthcare Demand in China

Source: Forbes, SCMP, WHO, Mirae Asset

1/3

China's share in
diabetes patients
globally (> 110 Mn)

27%

China's share in cancer
deaths in 2012 (2.2 Mn)

230mn

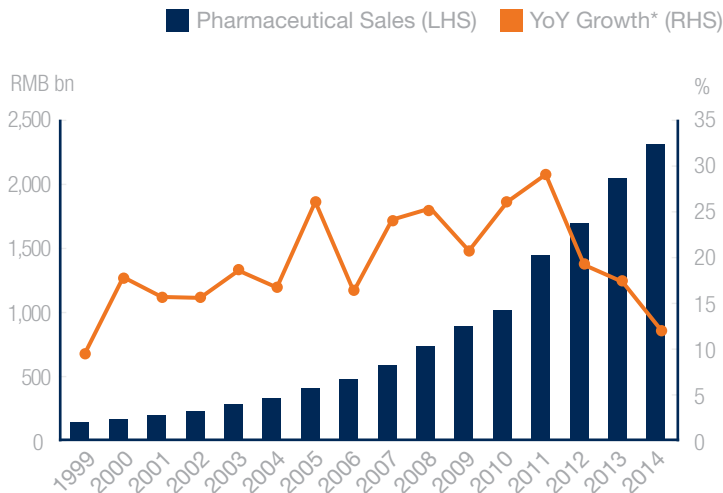
of cardiovascular disease sufferers in China

¹ National Health and Family Planning Commission of the People's Republic of China, Citi Research, Mirae Asset Global Investments (2015)



Overall China Pharmaceutical Market Trend

Source: National Health and Family Planning Commission of the People's Republic of China, Citi Research, Mirae Asset Global Investments (2015)



Growing incomes, rising lifestyle diseases that are detected earlier, and an aging population are driving pharmaceutical sales in China.

* Government reported growth rate

We Prefer Chronic Therapies

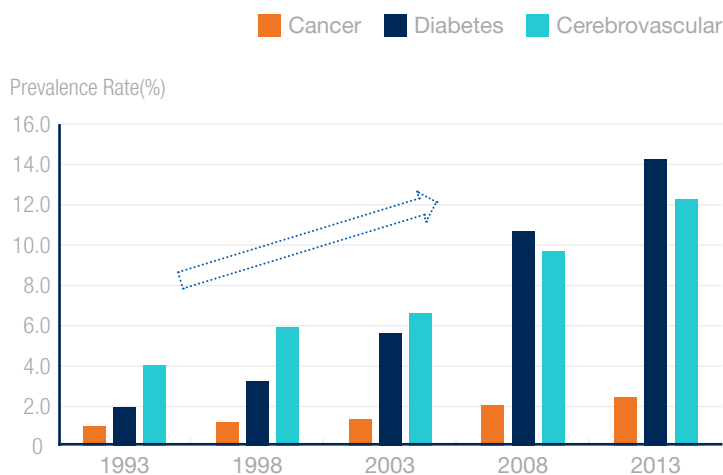
Given the nature of diseases, the treatment for chronic therapy treatments usually span over a number of years. Patients in general tend to stick with same brand that they have become accustomed to. Select products in these therapies are complex in nature – such as inhalers, extended release products, oncology, long acting injectables – implying low competition and better pricing power. In addition, the incidence of lifestyle driven diseases is increasing at a faster pace than overall industry growth. This coupled with aging population implies a sweet spot for companies present in chronic therapies.

The therapies include those that treat cardiovascular, hypertension, diabetes, and central nervous system ailments among others. The charts below highlight a percentage increase of the population impacted by select diseases over time.

“ In China, the incidence of lifestyle driven diseases is increasing at a faster pace than overall industry growth. ”

Percentage of Population Affected by Select Diseases

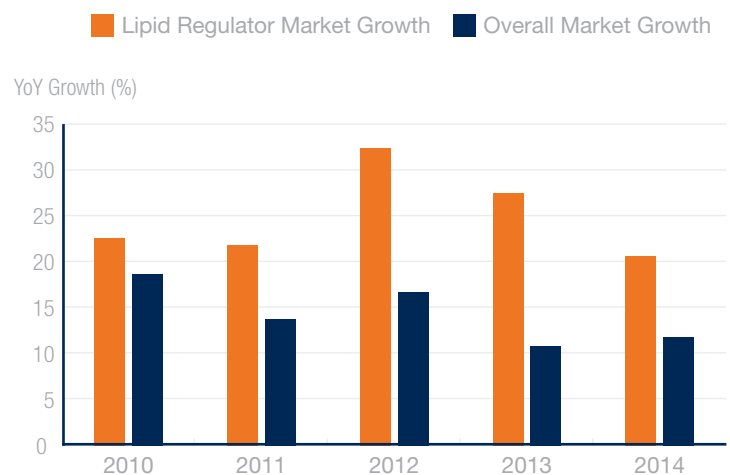
Source: Citi Research, National Health and Family Planning Commission



Better standards of living and sedentary lifestyles are driving the incidence of related diseases in China over the past two decades.

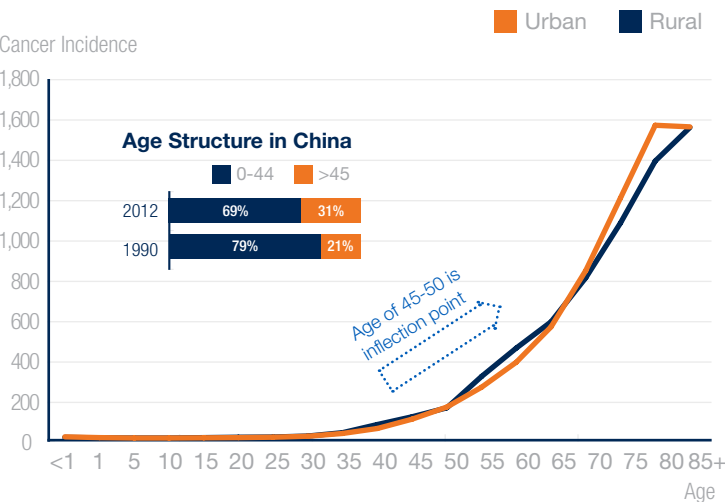
Lipid Regulators Growth vs. Overall Market Growth

Source: Luye, IMS CHPA



Cancer Incidence by Age

Source: Citi Research, National Health and Family Planning Commission



As the age pyramid in China shifts into the elder years, the population is facing new health issues.

Longer Development Cycle for New Chemical Entities & First-to-Market Generics...

Typically a New Chemical Entity (NCE) takes about 7-14+ years and FTM (first-to-market) generics take about 5-9 years for their respective development and approval cycle. In addition, a NCE would enjoy patent protection for several years. Near term companies whose product portfolio consists of NCEs/FTM generics would be more resilient given patent protection and gradual build-up of competitive intensity. At the same time, mid-longer term companies, which continue to invest in their R&D pipeline (NCEs/FTM generics), would benefit from the mid-to-long-term trends of mushrooming patient numbers.

Drug Development and Approval Cycle in China

Source: Citi Research, China Food and Drug Administration, Mirae Asset Global Investments (2015)

CFDA	New Chemical Entities(NCES)	First-to-Market(FTM) Generics	Generics
Preclinical	1-2 Years		
Clinical Trial Application	12-14 Months	26-28 Months	Longer Vs. FTM Generics
Clinical Study	Phase 1 / 2 / 3	BE / PK Study or Case-By-Case	BE / PK Study
New Drug Registration Production	24-32 Months	34-42 Months	Longer Vs. FTM Generics
Entire Process	7-14+ Years	5-9 Years	Longer Vs. FTM Generics
Commercial Upside	Multi-Year Patent Protection Premium Pricing Highest Margins	Low Competition High Margins	High Competition Fierce Price Erosion

The multi-year nature of the drug pipeline in China enables first movers to capture profits with greater visibility of new entrants.

....However, We Remain Cautious on Tenders

China follows a tender mechanism for the procurement of drugs in public hospitals. As a background, every province follows a tendering process every 3 years or so, favoring lowest price bidders. Public hospitals (pharmacies dispensing drugs in hospitals) can purchase only from the winning bidders. We have witnessed severe price cuts in acute therapies, where competition has stepped up.



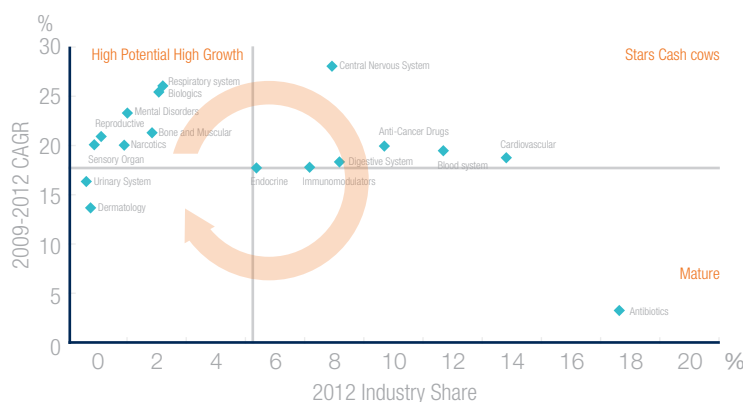
How to Identify China Healthcare Winners

The overall industry is benefiting and evolving off the back of fundamental drivers such as growing per capita income, lifestyle changes, an aging population, and technological advancements. The key to capitalizing on this investment theme is to identify companies with the following:

- **Focus on high growth therapies.** The diagram below highlights high potential/ high growth therapies, including central nervous system, respiratory, biologics, anti-cancer, and cardiovascular, among others;
- **Presence in complex products**, with some technical and/ or manufacturing knowhow as an “economic moat” to new entrants, implying lower competition;
- **Products with exclusivities/patent protection.** This reduces the risk of severe price cuts/erosion and provides high earnings visibility in the near term. Overall the development cycle for a NCE can be 7-14+ years and for a FTM generics could be 5-9 years. This provides moderate visibility for the medium-term;
- **Strong R&D capability and ample pipeline of products.**

China Pharmaceutical Market Landscape

Source: Citi Research, Mirae Asset Global Investments (2015)



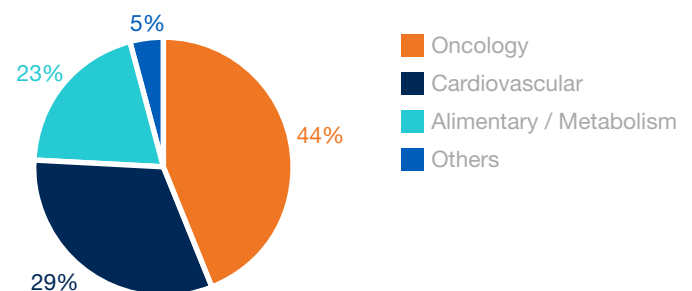
The pharmaceutical lifestyle commences with high potentials characterized by meteoric growth that reap benefits from an expanded market share and eventually slow down into maturity.

Implementing the above framework, we have identified two key winners in the Chinese pharma space:

- **Luye** - Focus on high growth and complex therapies – oncology, central nervous system, and cardiovascular. In addition, it has over 80% of 2013 revenues contributed by 7 significant drugs, most of which enjoy patent protection, exclusivity, and low competition (as per company disclosures).
- **CSPC** - Business model shift from low margin (antibiotics) to high margin product portfolio, including CCV (cardio-cerebral vascular) and oncology.

Luye Revenue Breakdown by Therapy

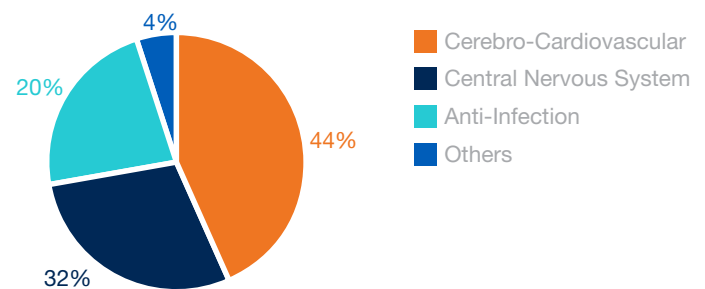
Source: Mirae Asset Global Investments, Luye Company Filings (2013)



Note: Figures may not sum to 100% due to rounding.

CSPC Revenue Breakdown by Therapy

Source: Mirae Asset Global Investments, CSPC Company Filings (2013)



High Contribution from Chronic Therapies



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