COVID-19: Pharma Industry Survey Results
China Life Sciences & Health Care Team
February 2020
Agenda

• Framework
• Results: Question & Deep-dive
• Key insights
• Appendix
COVID-19 Survey Framework

- Survey conducted between February 13 to 17, 2020
- Engaged China based Pharma & Healthcare sector operators and investors: 104 responses

- State owned enterprise: 13%
- Private enterprise: 37%
- Joint venture: 12%
- Wholly foreign owned enterprise: 39%

- Chairman/CEO: 23%
- C-suite level: 31%
- Other management level: 46%

- Less than RMB 100 million: 26%
- RMB 100 million – 1 billion: 34%
- RMB 1 billion – 5 billion: 23%
- More than RMB 5 billion: 17%
COVID-19 Survey
Question #1

- How did your Company respond to the crisis

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>WOFE's*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establish a crisis management team to allow a faster decision making</td>
<td>67%</td>
<td>81%</td>
</tr>
<tr>
<td>Track health, location and travel data base for all employees</td>
<td>84%</td>
<td>89%</td>
</tr>
<tr>
<td>Implement flexible work arrangement for your employees</td>
<td>90%</td>
<td>93%</td>
</tr>
<tr>
<td>Set a business continuity &amp; recovery plan</td>
<td>65%</td>
<td>70%</td>
</tr>
<tr>
<td>Adjust business performance target in 2020</td>
<td>28%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Insights

- Flexible work arrangement policies were top of mind in order to provide a safe working environment, like working from home, as well as allowing operations to continue to the best possible.
- Implement government required tracking systems were a priority thus putting HR and IT teams in the forefront. 23% participant’s tracking systems included third parties (eg. dedicated sales team, logistics, IT vendor etc.)
- Least concern was around adjusting 2020 targets: yet it may depend on the progression of the crisis

* WOFE = Foreign Owned Companies with revenues above 1BRMB, (27/104)
COVID-19 Survey
Deep-Dive #1: Tracking Health status systems

• Eco-system based risk management differences are apparent

Insights

• 30% of larger companies had health tracking & monitoring systems rolled out to third parties
• Only 15% of SOE’s had done so...
• Risk management cultures differ very much, large companies are more vigilant

* Large Co’s = Companies respondents with revenues above 5BRMB, (35/104 – see appendix for details)
COVID-19 Survey
Question #2

• Within your business priorities, what are the most difficult challenges to overcome during this crisis? (Please prioritize top 3) [Multiple choices]

- Manufacturing capacities will be an issue to meet the sales target - 23%
- Warehousing and Logistics can’t deliver products to the market - 37%
- Marketing and sales activities can’t resume due to the restriction - 76%
- R&D activities can’t resume, such as clinic trial - 30%
- Employees remote working is less effective - 39%
- Market fluctuation with changing demands - 43%

Insights

• Market & sales activities were the ones most affected – as HCP facing engagements, medical & drug presentations events as well as simply Hospital physical access are currently impossible; and at current stage, HCP’s less interested in non-crisis-related e-detailings
• Adjusting business operations to ‘new market demand’ were 2nd top in mind to the executives
COVID-19 Survey
Deep-Dive #2: Business priorities concerns

- Eco-system based risk management differences are apparent

<table>
<thead>
<tr>
<th>Issue</th>
<th>Large Co’s*</th>
<th>SOE’s</th>
<th>WOFE’s*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing capacities will be an issue to meet the sales target</td>
<td>20%</td>
<td>8%</td>
<td>22%</td>
</tr>
<tr>
<td>Warehousing and Logistics can’t deliver products to the market</td>
<td>34%</td>
<td>31%</td>
<td>33%</td>
</tr>
<tr>
<td>Marketing and sales activities can’t resume due to the restriction</td>
<td>34%</td>
<td>91%</td>
<td>96%</td>
</tr>
<tr>
<td>R&amp;D activities can’t resume, such as clinic trial</td>
<td>34%</td>
<td>15%</td>
<td>26%</td>
</tr>
<tr>
<td>Employees remote working is less effective</td>
<td>26%</td>
<td>54%</td>
<td>26%</td>
</tr>
<tr>
<td>Market fluctuation with changing demands</td>
<td>49%</td>
<td>54%</td>
<td>56%</td>
</tr>
</tbody>
</table>

Insights

- SOE’s are significantly more concerned with employee productivity
- ... while much less around resuming manufacturing capabilities
- Foreign market players are much more concerned about the marketing & sales activities resumption

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COVID-19 Survey

Question #3

- On what aspects does this crisis impact your enterprise most? (Please prioritize top 3) [Multiple choices]

Insights

- Supply chain management issues with logistic issues (inter-provincial transports, availability of transport services and their employees…) as well as access to raw materials (inventory management – minimum inventory levels constraints) are the obvious crisis impacts to most respondents.

- Cash flow and financing concerns are of importance to > 50%

- Business channels ie. the relative limited use of ‘online’ access models in the sector were sighted by half of the respondents as an area of concern (and likely to topic for change going forward)
COVID-19 Survey
Deep-Dive #3: Which area the crisis impact your company most

- On what aspects does this crisis impact your enterprise most? (Please prioritize top 3) [Multiple choices]

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Large Co's *</th>
<th>SOE's</th>
<th>WOFE's *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacture capability deployment</td>
<td>17%</td>
<td>23%</td>
<td>11%</td>
</tr>
<tr>
<td>Supply chain management</td>
<td></td>
<td>69%</td>
<td>63%</td>
</tr>
<tr>
<td>Business channels model</td>
<td></td>
<td>51%</td>
<td>70%</td>
</tr>
<tr>
<td>Human resources allocation</td>
<td></td>
<td>40%</td>
<td>30%</td>
</tr>
<tr>
<td>Financing pressure from income, cash flow and cost</td>
<td></td>
<td>34%</td>
<td>37%</td>
</tr>
<tr>
<td>Customers retaining and growing</td>
<td></td>
<td>31%</td>
<td>37%</td>
</tr>
</tbody>
</table>

Insights

- SOE’s are more concerned about cash flow and profitability, while allocation of HR resources seem a lesser concern
- Foreign companies believe that their business channels model is most impacted (sales force set up etc..)

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COVID-19 Survey
Question #4

• How will your company do in short term to mitigate the impact to your business? (Please prioritize top 4) [Multiple choices]

- Implement new technologies (web/mobile based) to sustain client services: 38%
- Strengthen supply chain management: 43%
- Speed up digital transformation: 39%
- Speed up new product launch: 28%
- Invest more on online business: 42%
- Optimize human resources: 38%
- Strengthen collaboration with local government and hospitals: 50%

Insights

• All topics really apply…
• Strengthening local government relationship and hospitals is the highest short term priority
• The ‘new technologies’ focus: engage clients and distribute & access patients & clients through online channels is a clear focus
COVID-19 Survey
Deep-Dive #4: Larger companies seem to embrace faster the idea of new technologies

- How will your company do in short term to mitigate the impact to your business? (Please prioritize top 4)  [Multiple choices]

<table>
<thead>
<tr>
<th>Implement new tech (web/mobile) to sustain client services</th>
<th>Large Co’s*</th>
<th>SOE’s</th>
<th>WOFE’s*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>57%</td>
<td>38%</td>
<td>52%</td>
</tr>
<tr>
<td>Strengthen supply chain management</td>
<td>43%</td>
<td>38%</td>
<td>44%</td>
</tr>
<tr>
<td>Speed up digital transformation</td>
<td>51%</td>
<td>31%</td>
<td>59%</td>
</tr>
<tr>
<td>Speed up new product launch</td>
<td>29%</td>
<td>23%</td>
<td>26%</td>
</tr>
<tr>
<td>Invest more on online business</td>
<td>46%</td>
<td>46%</td>
<td>59%</td>
</tr>
<tr>
<td>Optimize human resources</td>
<td>40%</td>
<td>46%</td>
<td>59%</td>
</tr>
<tr>
<td>Strengthen collaboration with local government and hospitals</td>
<td>49%</td>
<td>46%</td>
<td>59%</td>
</tr>
</tbody>
</table>

**Insights**

- Larger companies seem to focus on a mix between ‘new technologies’ to engage HCP’s, patients and customers and reviewing their investment plans into ‘online’ business models
- SOE are very focalized around ‘online models’ only
- Foreign companies are embracing all: new technologies, digitalization and online business models

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COVID-19 Survey
Question #5

• Which of the following do you expect the new 5Y plan (14th) will have a significant emphasis on after the crisis? (multiple choices) [Multiple choices]

<table>
<thead>
<tr>
<th>Option</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharma companies R&amp;D and manufacturing</td>
<td>66%</td>
</tr>
<tr>
<td>Hospitals and Healthcare services</td>
<td>79%</td>
</tr>
<tr>
<td>Drug distribution &amp; access systems</td>
<td>34%</td>
</tr>
<tr>
<td>Healthcare professionals and their education</td>
<td>54%</td>
</tr>
<tr>
<td>Healthcare prevention &amp; education of the broader population</td>
<td>83%</td>
</tr>
</tbody>
</table>

Insights

• There seems to be consensus that the ‘Healthcare’ sector will be a key area of emphasis in the upcoming 14th 5 Year plan: Healthcare services, Hospitals and but also the approach to ‘prevention’ and ‘education’ of the population as a whole.

•Expectation are also, that there will be resources allocated to R&D, enabling Pharma’s to engage and deploy the necessary program covering China’s key health & disease areas
COVID-19 Survey
Deep-Dive #5: New 5Y plan (14th) focus

• Which of the following do you expect the new 5Y plan (14th) will have a significant emphasis on after the crisis? (multiple choices) [Multiple choices]

<table>
<thead>
<tr>
<th>Category</th>
<th>Large Co’s*</th>
<th>SOE’s</th>
<th>WOFE’s*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharma companies R&amp;D and manufacturing</td>
<td>69%</td>
<td>62%</td>
<td>63%</td>
</tr>
<tr>
<td>Hospitals and Healthcare services</td>
<td>80%</td>
<td>77%</td>
<td>81%</td>
</tr>
<tr>
<td>Drug distribution &amp; access systems</td>
<td>34%</td>
<td>38%</td>
<td>41%</td>
</tr>
<tr>
<td>Healthcare professionals and their education</td>
<td>57%</td>
<td>38%</td>
<td>48%</td>
</tr>
<tr>
<td>Healthcare prevention &amp; education of the broader population</td>
<td>86%</td>
<td>92%</td>
<td>78%</td>
</tr>
</tbody>
</table>

Insights

• Worth highlighting that SOE’s respondents expect less emphasis on the Healthcare professionals, their educations but also the recognition in the value chain.
• Prevention & education of the broader population was the main consensus from the SOE respondents.

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COVID-19 Survey
Question #6

With the crisis, do you perceive that local drug companies will be advantaged going forward to allow a fast re-directing of R&D resources specifically catering for China's needs?

Insights

- As expected, there is great difference in the anticipation of future support and resources provided to different market players, WOFEs are enjoying current regulations on new drug approval speed-up and are confident to make agile response for China needs;
- SOEs are also confident that they’ll benefit from their profound understanding of local market

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COVID-19 Survey

Question #7

• How do you foresee the crisis will impact on your business revenue in 2020?

- Revenue will drop down in 2020 within 20%
- Revenue will drop down in 2020 more than 20%
- Sales can catch up later to meet the target in 2020
- Sales will go up with the rising medical demand in 2020
- Unknown

Insights

• Very balanced
  - ~20% of the respondents believe that sales will catch up in 2020 and actually allow to meet currently set targets and budgets
  - ~20% of the respondents believe that sales will drop somewhere up to 20%
  - While a big portion of participants are uncertain about the whole year outlook, it may depend on the crisis progress

*Large Co’s = Companies respondents with revenues above 5BRMB, (35/104)
In Summary: Insights and Outlook

- Future of Work is closer and will come faster
- New technologies will accelerate the move to a Healthier China
- Partnering and building new business models will be key to capture markets
COVID-19 Survey

In Summary: Insights and Outlook

Key Insights

• New ways of working were the immediate responses, covering immediate health safety concerns for employees but also to continue the business ongoing.

• Sales and marketing activities have been the most disrupted and are top of mind of all c-suite members. Also nearly 60% of the larger companies are already reviewing the possibilities to roll-out / upgrade and implement new technologies to engage HCP’s, Hospitals, patients and customers.

• New market distribution models are considered by many respondents of the survey, and further focus on online channel models will be accelerating going forward.
COVID-19 Survey
In Summary: Insights and Outlook

Key Insights

• Prevention and education of the broader population is the likely focus of the forthcoming government support programs looking at China’s healthcare. The latest updates on ‘Healthy China 2030’ had already a number of such KPI’s, also the currently in preparation of the next 14th 5 Year-plan is more than likely to emphasis these objectives.

• R&D specific to China’s disease and pathologies is expected to be supported at a higher degree going forward, and that domestic industry players (SOE & Private) are expected to be better positioned to capture such resources and support.

• Healthcare professionals and service providers will be in the center of many reforms for the “better healthier life” going forward in China. The value chains of the industry as whole will be reviewed and re-distributions will take place.

Reviewing China business strategies with government framework and objective is critical to be a recognized and successful market player, now more than ever.
Appendix
Appendix

COVID-19 Survey

• Manufacturing base in China?
  - Yes: 33%
  - No: 67%

• Warehouse operations
  - In house: 34%
  - Outsourced: 15%
  - Not applicable: 51%

• Shared Services Center
  - In house: 32%
  - Outsourced: 27%
  - Not applicable: 41%
COVID-19 Survey
Appendix

• Large companies segment (35/104) having revenues >5BRMB

State owned enterprise: 46%
Private enterprise: 20%
Joint venture: 29%
Wholly foreign owned enterprise: 6%

Employees
- Less than 5,000: 46%
- 5,000 – 10,000: 34%
- More than 10,000: 20%
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