



China LSHC Industry Survey Results: 2022 State of Industry in China

China Life Sciences & Health Care Team
March 2022

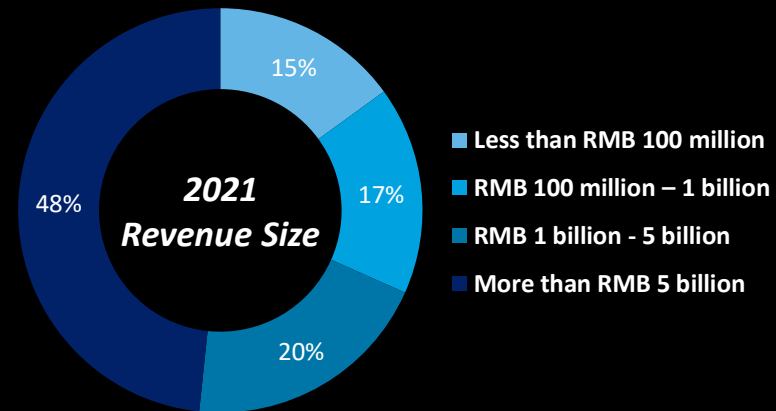
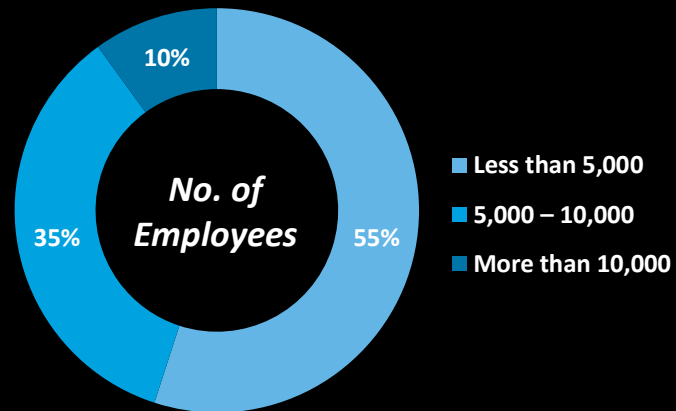
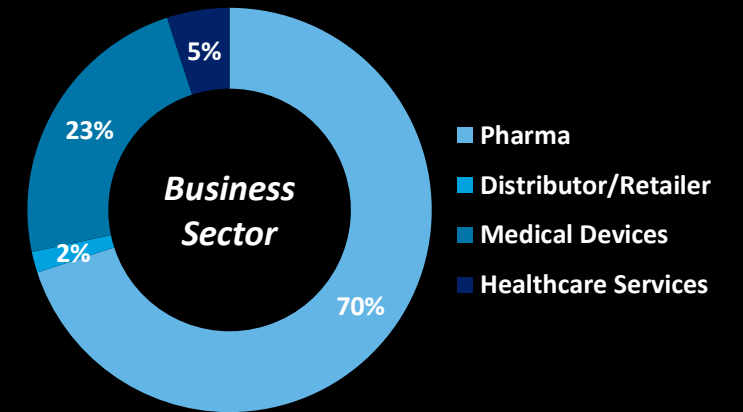
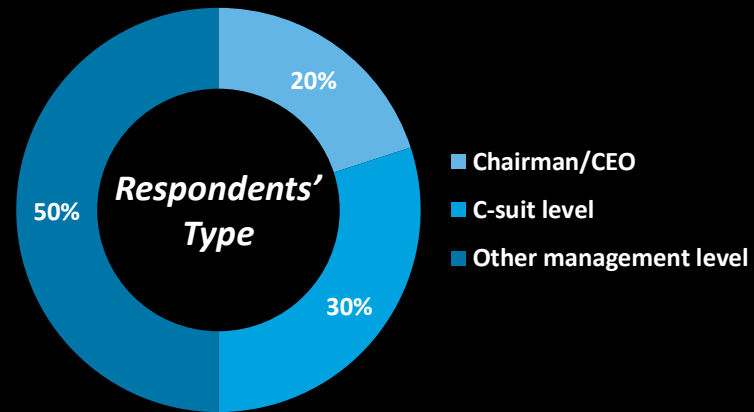
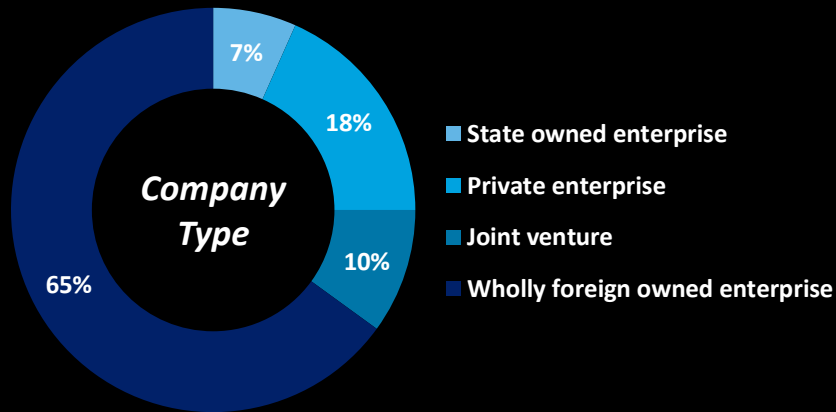


Content

- Framework
- Results - Questions & Deep-dive
 - Look back in 2021
 - After entering 2022
- Concluding Insights
- Appendix

LSHC Industry 2022 Outlook Survey Framework

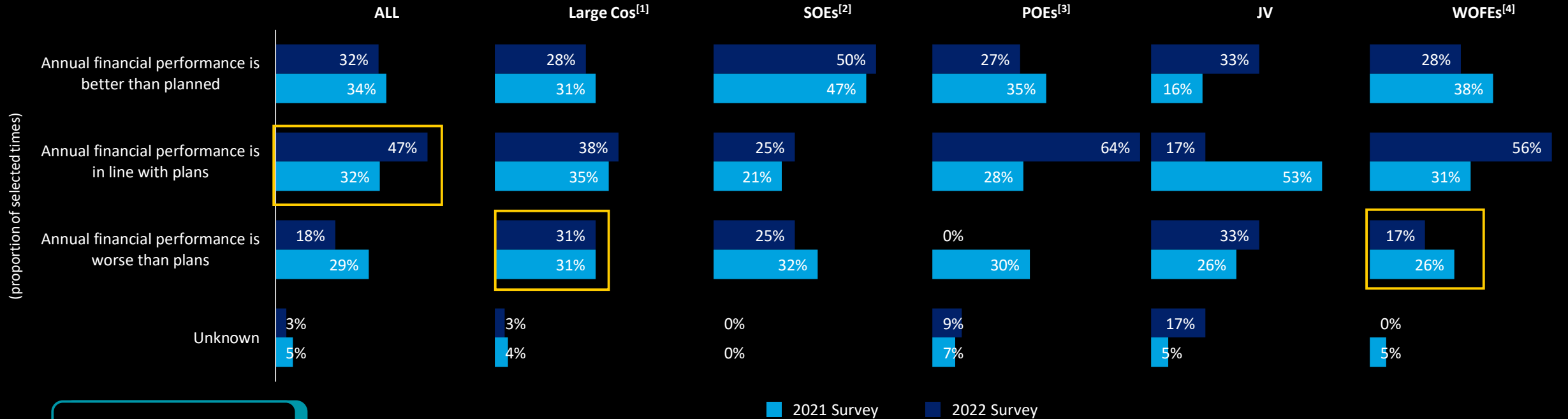
- Survey conducted between 17th January 2022 to 17th February 2022
- Engaged China based Life Science & Healthcare (LSHC) sector operators and investors: 60 respondents



Look back in 2021...

2021 Performance Review

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



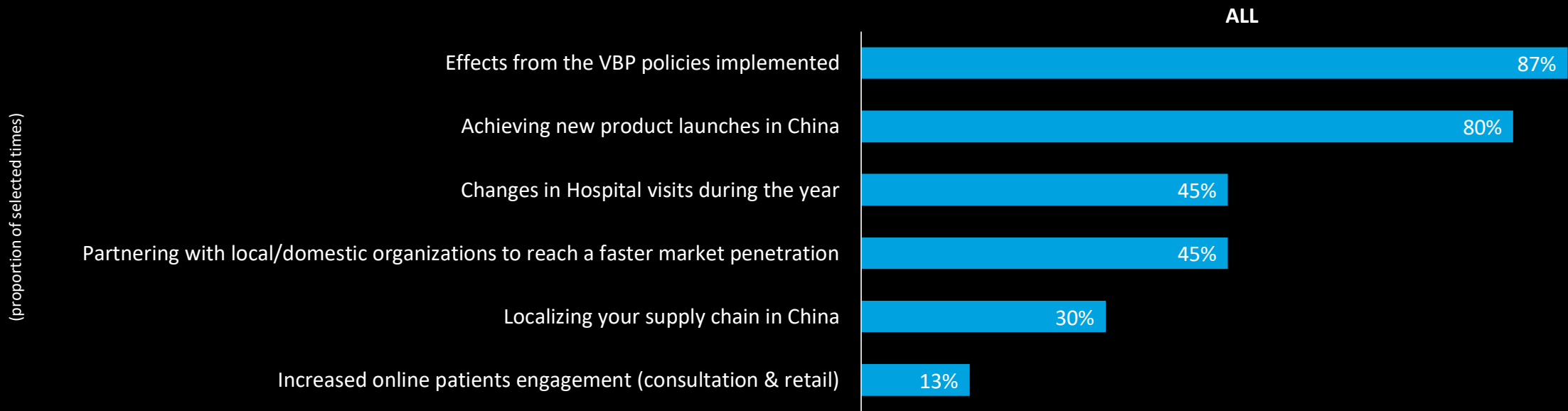
Insights

- Overall – actual results in 2021 realized much closer to initial plans unsurprisingly given that 2020 plans were done pre-pandemic
- A large majority of the survey participants are WOFEs for whom the 2021 results were on target or above (84%)
- Nearly one-third of large companies have experienced a financial performance below their plans (similar to last year survey)

Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise

2021 Performance Review

Question #2 – Your 2021 business performance was mainly impacted by?



Insights

- Similar to our prior year survey, the focus in 2021 remains on the commercial impacts, especially the regulatory related factors. Thus the impact of VBP and product launch are mentioned by a large majority from all.
- As pandemic constraints changed in 2021 - hospital visit & access, was less of an issue compared to 2020
- Nearly half of respondents believe that the local partnership is a sufficient way for market penetration

2021 Performance Review

Question #2 – Deep dive



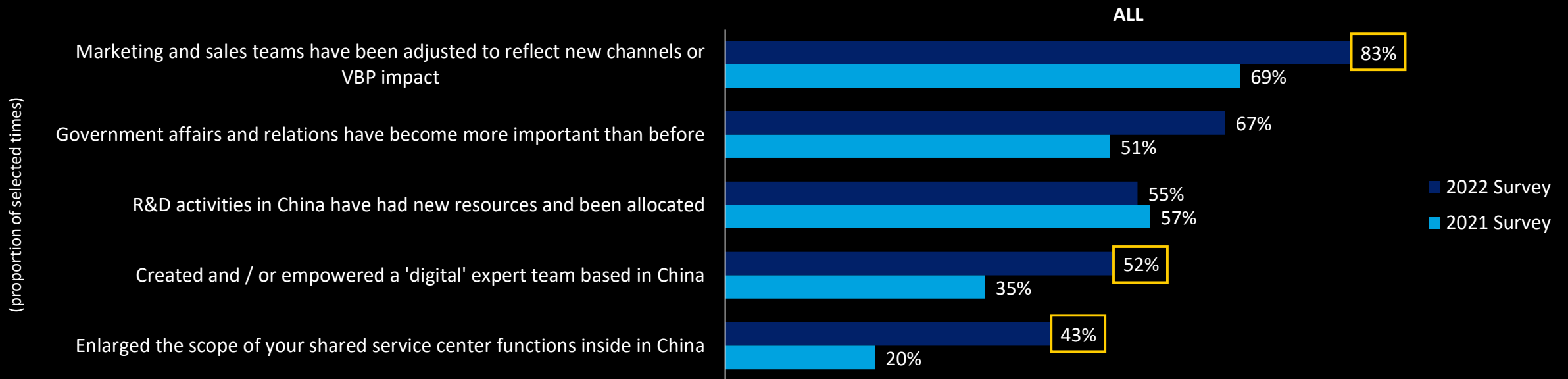
Insights

- All except POEs, list the impact of VBP as the top element impacting their business performance
- Large cos and JV have lowered the importance of changing hospital visit mode from 2020 to 2021 (from the 2nd to the 4th & last)
- Localization of supply chain is mentioned interestingly by only a limited of respondents – and least by larger companies

Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise

2021 Performance Review

Question #3 – Within your organizational & business model, which are the key changes implemented in 2021?



Insights

- Same as last year, the marketing & sales team still remained a focus as a result of VBP implementation, with even higher attentions
- Majority of respondents are recognizing that their 'Government Affairs' has become more important than before (linked VBP & NRDL listing)
- This year, digital team based in China seems to have received more attention than before
- Steep increase in respondents elevating the scope of their China based shared services center

2021 Performance Review

Question #3 – Deep dive



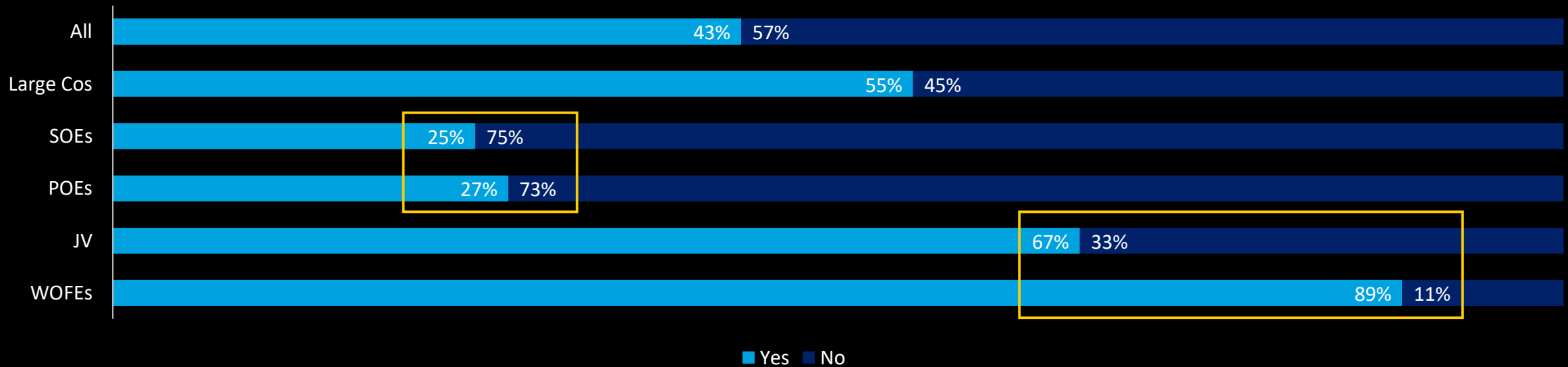
Insights

- Allocating resources to R&D activities in China has a very differentiated pattern depending on the group of respondents
- Digital related investments (infrastructure & people) have seen a substantial increase in large companies, including SOE's
- Compared to prior year – all Domestic and Foreign companies are trying to create more efficiencies through shared service centers

Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise

2021 Performance Review

Question #4 – With new data privacy laws being introduced and applicable in China during 2021, has your organization been impacted?



Insights

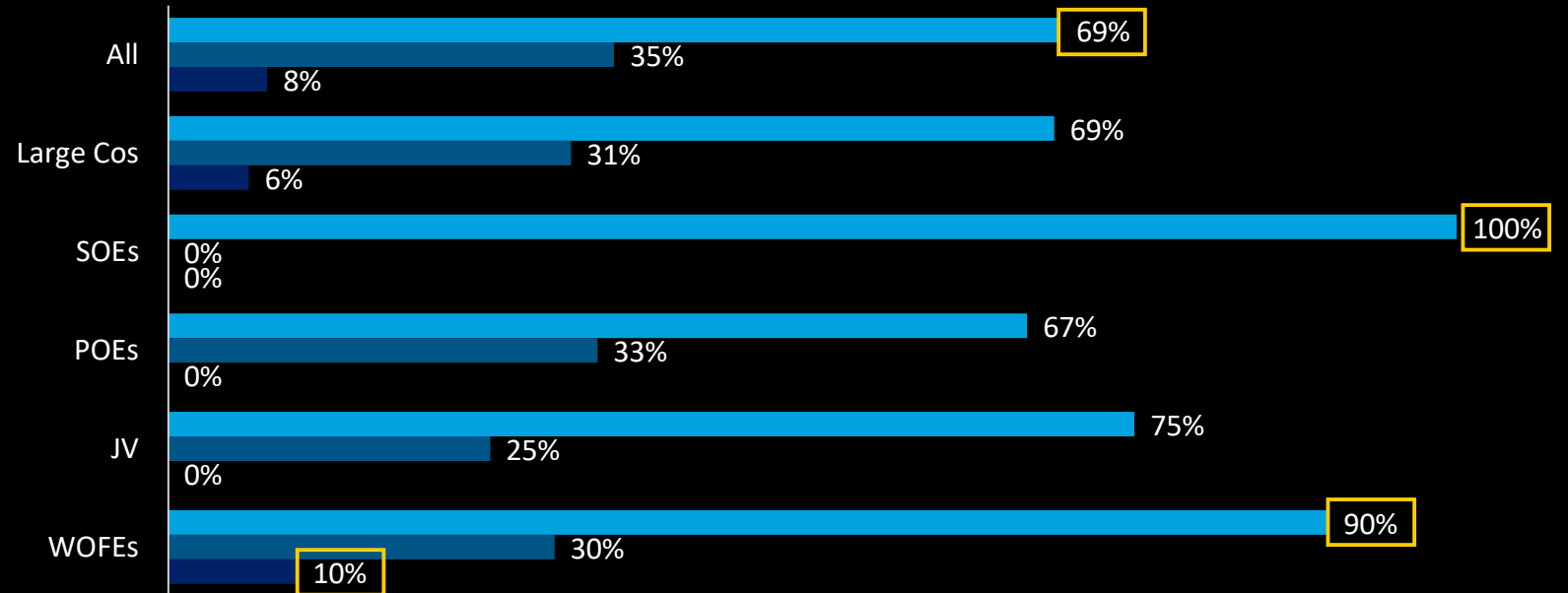
- There is a large divide between local companies and foreign invested companies.
- Aligned with our research results in 2021 where a majority of large cos and WOFEs will allocate more resources in the IT & data security and compliance development – nearly all WOFEs have indicated that the newly set & revised rules on data & privacy are impacting their local organization

Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise

2021 Performance Review

Question #4 – Deep dive – among those who said ‘Yes’, they were impacted on...

- Impacted as resulting in increased operating costs in China
- Impacted as resulting in developing specific China only programs
- Impacted as resulting in less R&D or trial activities being carried out in China



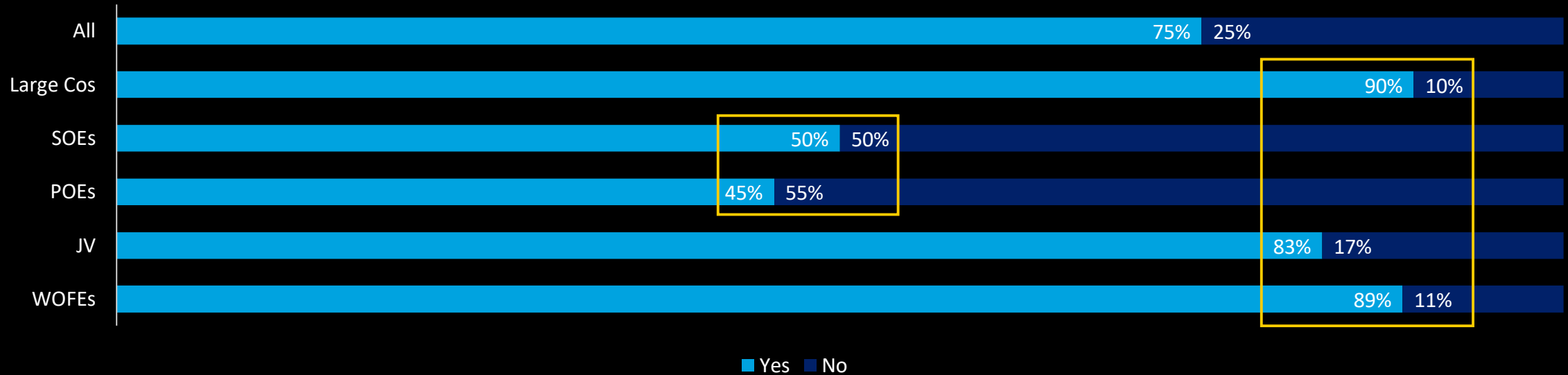
Insights

- A large majority of all respondents (69%) think the new data privacy law has led to a higher operating cost in China
- Only foreign invested companies (10%) indicated that as a result R&D/ trial activities in China have been reduced (4/40)

Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise

2021 Performance Review

Question #5 – Online/internet business channel plays critical role during the crisis period, does your company consider to increase investment on these new channels?



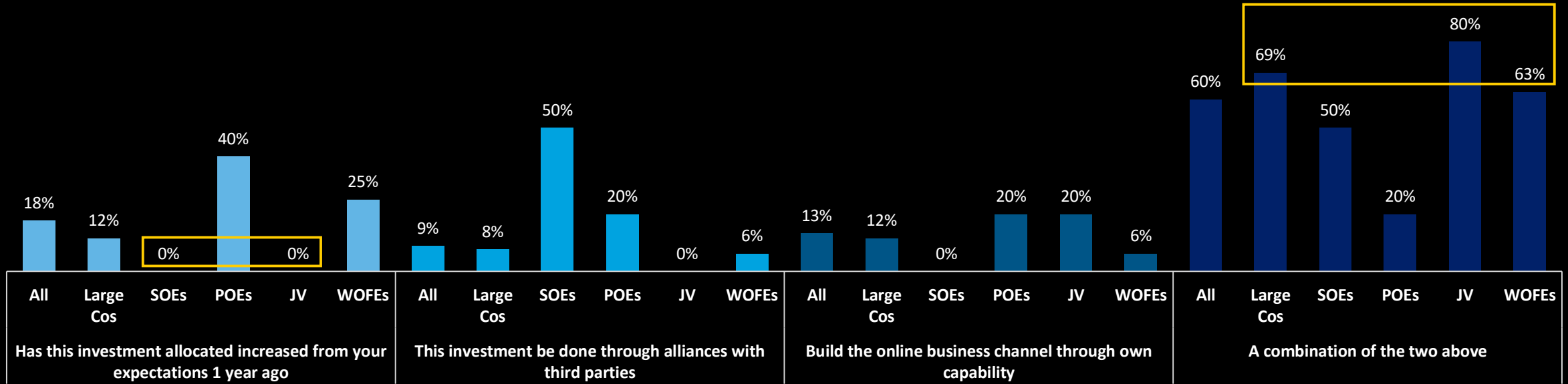
Insights

- Vast majority of all respondents indicate that investments into 'online/internet based channels' will increase going forward
- Consistent with prior year's survey results – SOEs and POEs, have a less appetite to do so
- Foreign invested companies (WOFEs and JVs) have increased their focus to > 80% of all respondents (slightly increased from prior year)

Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise

2021 Performance Review

Question #5 – Deep dive – among those who said ‘Yes’, they have increased investment in...



Insights

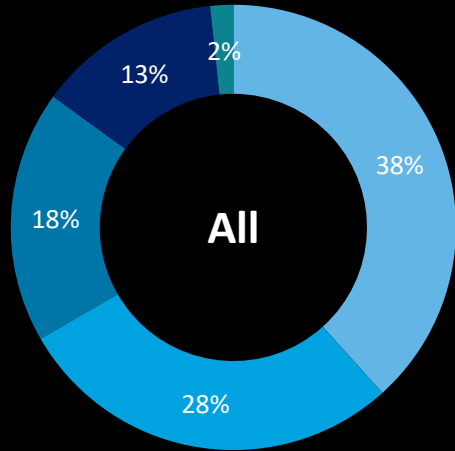
- Foreign invested (JV & WOFE’s) and larger companies indicate that they prefer to expand using online/internet channel through dual angles: partnering but also doing some in-house directly – showing that the risk of dependency eventually requires attention
- SOEs and JV say not to have increased investments into online/ internet channels since a year ago

Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise

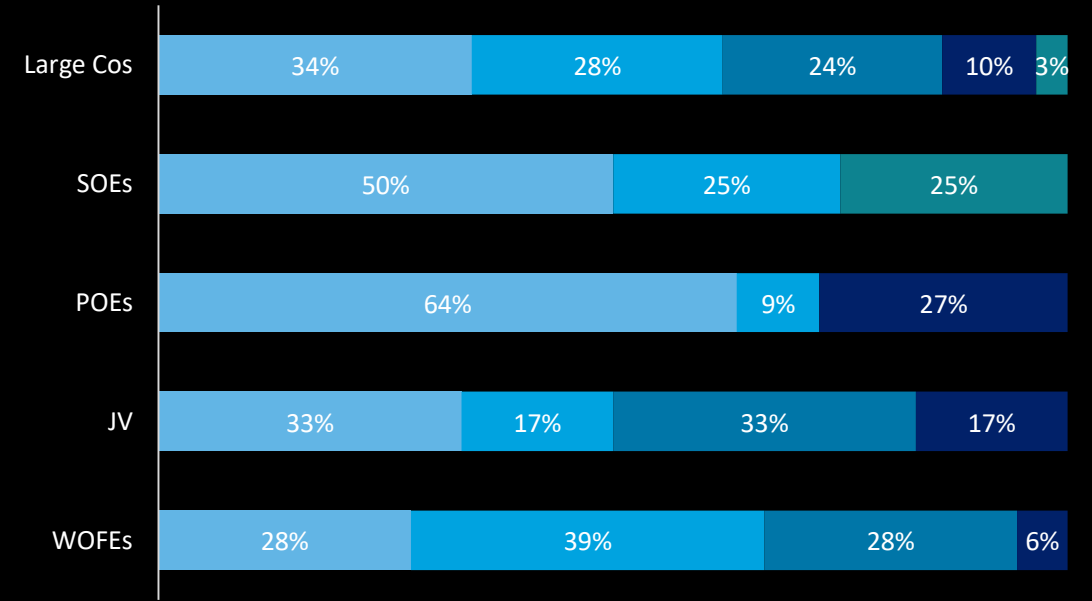
After entering 2022...

2022 Future Outlook

Question #6 – How do you foresee your 2022 China business outlook?



- Top line revenue plan 2022 considers a growth higher than 15%
- Top line revenue plan 2022 considers a growth between 10-15%
- Top line revenue plan 2022 considers a growth between 5-10%
- Top line revenue plan 2022 considers a growth lower than 5%
- Top revenue plan 2022 is in decline



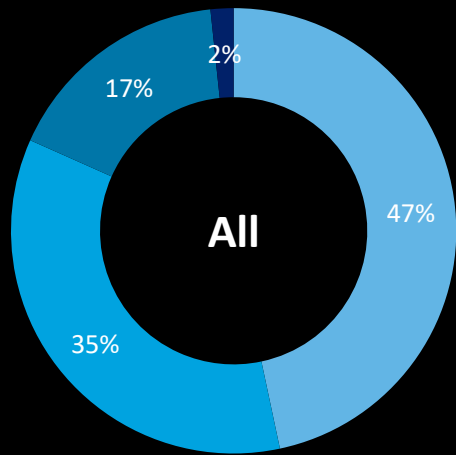
Insights

- The 2022 outlook is bright as 60% of them forecast to have over 10% revenue growth in 2022
- Impressive that 13/40 respondents (ca. 30%) from foreign invested companies (WOFEs) expect growth to be above 15% in 2022
- In a very sharp contrast, 25% of SOEs respondents anticipate to have a revenue decline in 2022

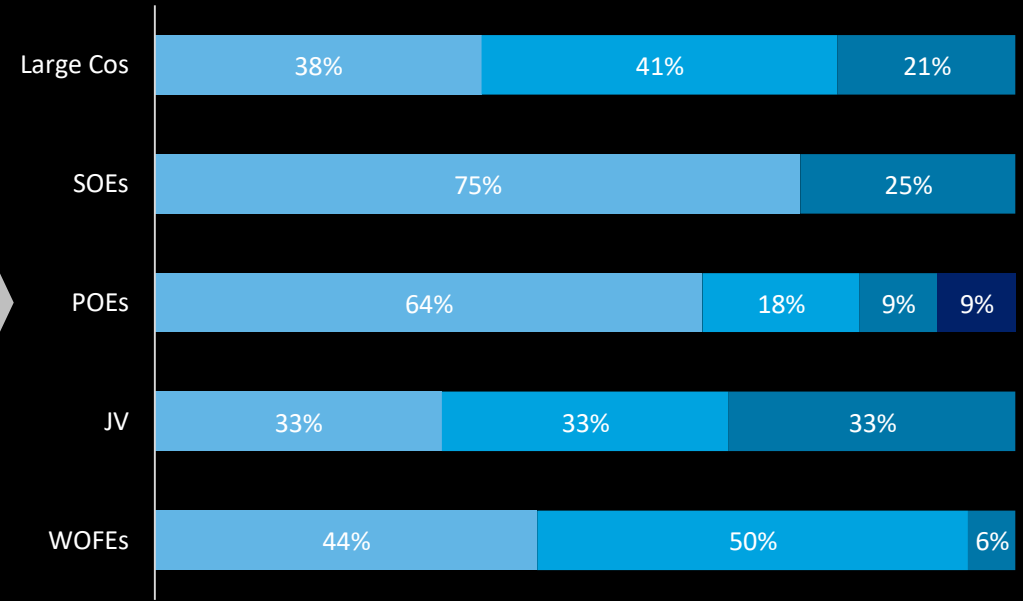
Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise

2022 Future Outlook

Question #7 – With the new normal of pandemic, has your overall business and portfolio strategy changed for China in the next 3-5 years?



- Our outlook is better than before , 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



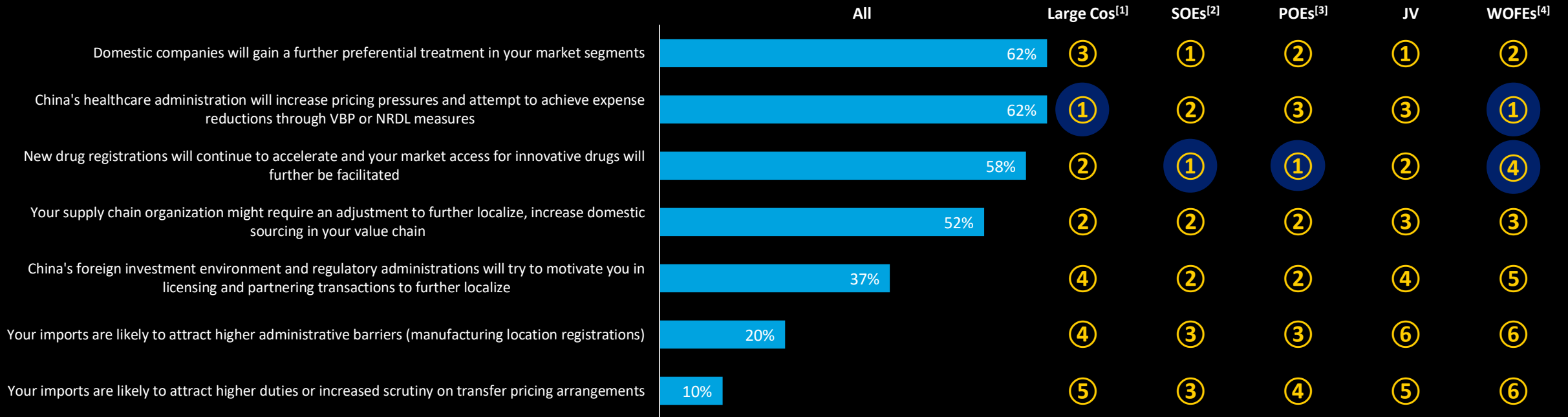
Insights

- We note a decrease from all respondents relating to the China market importance, while this is still 47%, it is down 10pts from 57% in last year. Also, 17% declare that investments are facing more scrutiny and HQs become more cautious.
- WOFEs' and JV's major attitudes have shifted from very optimistic to being cautious between 2022 and 2021, also, indicting that they have to compete more internally to attract investment envelopes and budgets

Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise

2022 Future Outlook

Question #8 – With China's regulatory environment keep adjusting rapidly, do you think that...



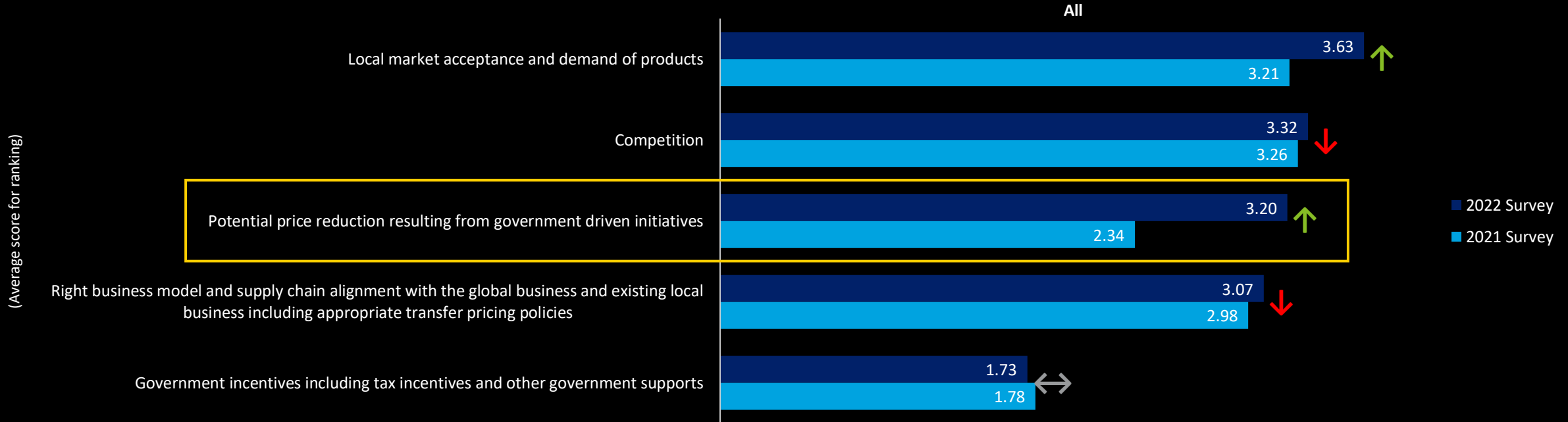
Insights

- The 'medical pricing reform' and the 'domestic companies preferential treatment' have been the top two issues to larger companies & WOFEs
- New drug registrations are only mentioned at 4th position by WOFEs while supply chain adjustment needs to come ahead (up by the 4th from prior year)
- Import of semi/finished products and barriers and or tax risks attached, does rank rather low in the list of priorities

Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise

2022 Future Outlook

Question #9 – What do you think are the most relevant considerations from your perspectives when introducing new products into China?



Insights

Rank status: ↑ Increase ↓ Decrease ↔ No change

- The impact of medical pricing reform has dramatically increased from 2021 – across all respondents
- Local market demands evaluation continues to be critical and slightly higher than prior years (patient choices are increasing)
- Competition in China market continues to be unchanged and remains high in all minds

Note: [1] the arrow is to present the rank change in the survey research from 2021 to 2022, whether the rank has been increased, decreased, or remains the same rank

2022 Future Outlook

Question #9 – Deep Dive



Insights

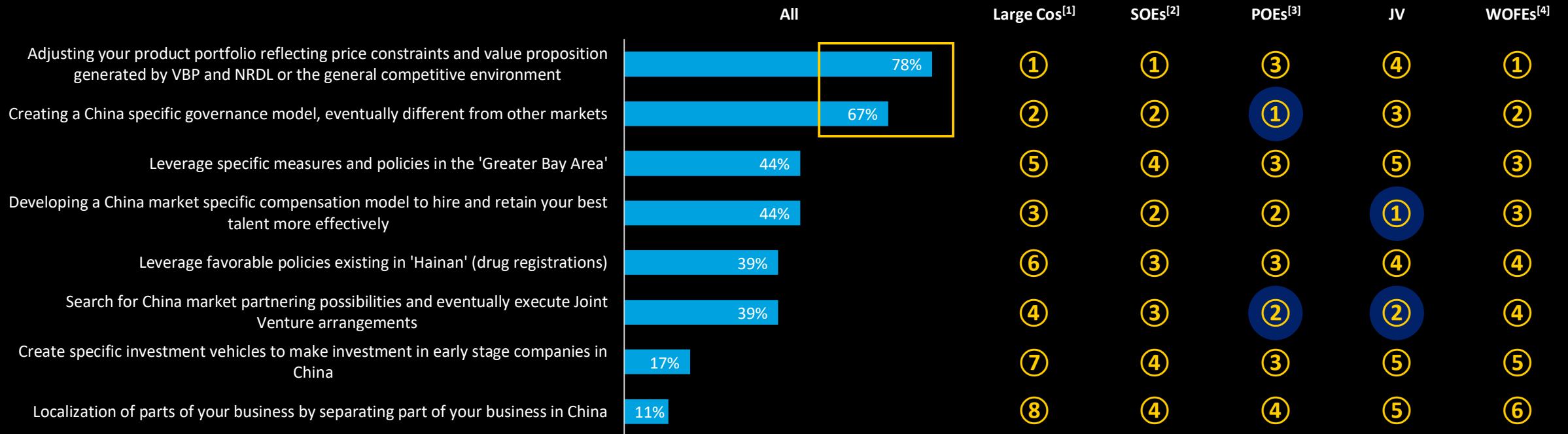
Rank status: ↑ Increase ↓ Decrease ↔ No change

- The importance rankings in large cos and JV have no change in 2021 and 2022
- To SOEs, the local competition and demand have become more important than previous years
- Affected by the medical pricing reform, POEs and WOFEs are both raising the focus on the pricing strategy
- Large cos and POEs consider the fulfillment of the true needs in China market as most important, while the other three consider the competition

Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise; [4] the arrow is to present the rank change in the survey research from 2021 to 2022, whether the rank has been increased, decreased, or remains the same rank

2022 Future Outlook

Question #10 – In your latest China market strategy, have you consider the following actions:



Insights

- The product portfolio and value proposition are the most important to large cos, SOEs, and WOFEs, while POEs and JV are focusing on developing China specific model (governance model and talent recruitment model respectively)
- The leverage of resources and policies in special zone (GBA & Hainan FTZ) are less important to all companies, where local government may have to invest more efforts to attract more companies to move in the region
- POEs and JV are both actively looking for partnership to achieve a faster market penetration in China

Note: [1] Companies with revenue above 5 Bln RMB; [2] SOE: State-owned Enterprise; [3] POE: Private-owned Enterprise; [4] WOFE: Wholly Foreign-owned Enterprise

© 2022. For information, contact Deloitte China.

Conclusion and Outlook

2022 China LSHC Industry Outlook Survey

What Deloitte foresees for China LSHC industry...

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

2021

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

2022

For 2022, we predict that....

2022 China LSHC Industry Outlook Survey

In Summary: China insight and outlook 2022



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 companies are formulating more and more a China-specific business model and strategy

2022 China LSHC Industry Outlook Survey

In Summary: China insight and outlook 2022

Key Insights

- In 2021, we predicted that the government involvement will continue to increase, and in 2022 we have seen a majority companies are selecting the regulatory and police reform in LSHC field as the top impacting factor
- How to keep up with the new 14th 5-Year Plan and government initiatives followed in the LSHC industry will be the key challenge for LSHC companies in China, especially in the transition to 'Healthy China'



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

- The transformation from 'me-too, me-better' to 'best-in-class' has been ongoing in China for years
- In recent two years, more and more local LSHC companies are formulating partnerships, regardless with local or overseas players, to accelerate the innovation development pace
- With the improvement of patent and data protection related regulations, the demand in collaboration between LSHC cos and cross-sector players will remain high to achieve a faster innovation breakthrough onwards



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

2022 China LSHC Industry Outlook Survey

In Summary: China insight and outlook 2022

Key Insights

- The unique characteristics of Chinese market have been recognized in the past decades, resulting in that more and more LSHC companies developed or are developing 'China-specific' strategies and business model
- 2021 is the base year of the 14th 5-Year Plan (14th FYP) period with various China LSHC industry related guidance and opinions being released, which have given the new business deployment and development in China a new outlook
- Many MNC players have established HQ and global innovation centers in China, in order to strengthen their presence in the China LSHC market
- On the other hand, many local players are actively collaborating with overseas players to enhance their pipeline and 'go-out-China' strategy
- In the long run, with China being the world's second-largest health care market, the importance of developing a 'in China, for China' business mode will for sure to increase for LSHC cos to better fit in the market



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

2022 China LSHC Industry Outlook Survey

To sum up...

The overall confidence level of business growth in China remains high



The priorities for the China business have been further strengthened



Continued exploration of China specific infrastructure & governance is top in mind



2022 a 'quiet(er) year' allowing to develop capabilities & adjust business model



Deloitte China Life Sciences & Health Care Team Contacts

Survey & Authors

Jens Ewert

Industry Leader

China Life Sciences & Health Care

jensewert@deloitte.com.cn

Tony Lin

Deloitte Research Assistant Manager

China Life Sciences & Health Care

tonyclin@deloitte.com.cn

Additional contacts

Andrew Yu

Consulting Leader

China Life Sciences & Health Care

andryu@deloitte.com.cn

Travis Zhu

Risk Advisory Leader

China Life Sciences & Health Care

trazhu@deloitte.com.cn

David Yu

Assurance & Audit Leader

China Life Sciences & Health Care

davyu@deloitte.com.cn

Bill Yang

Financial Advisory Leader

China Life Sciences & Health Care

bilyang@deloitte.com.cn

James Zhao

Tax Advisory Leader

China Life Sciences & Health Care

jazhao@deloitte.com.cn

Linda Pu

Program Manager

China Life Sciences & Health Care

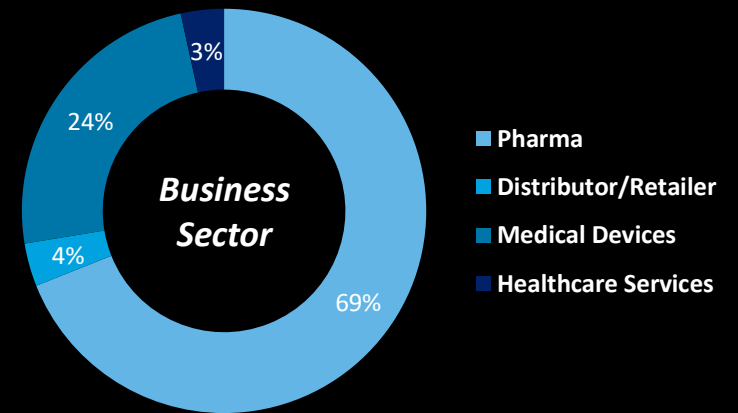
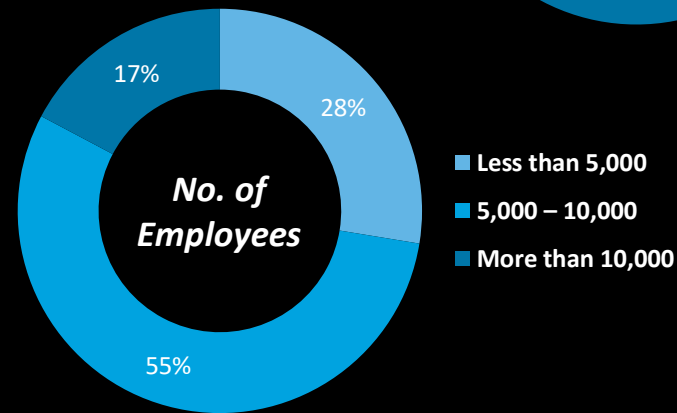
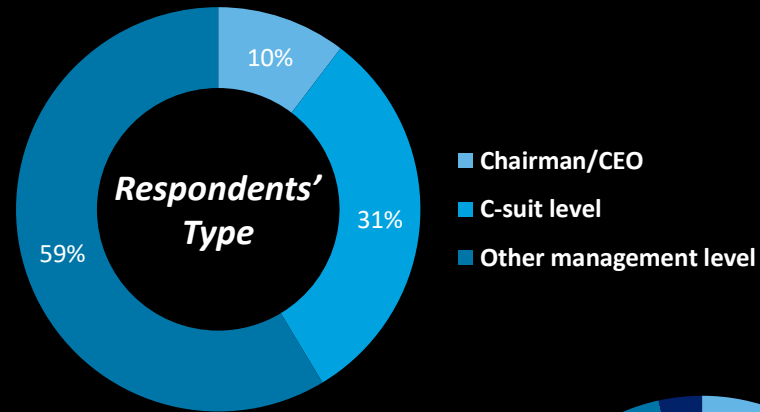
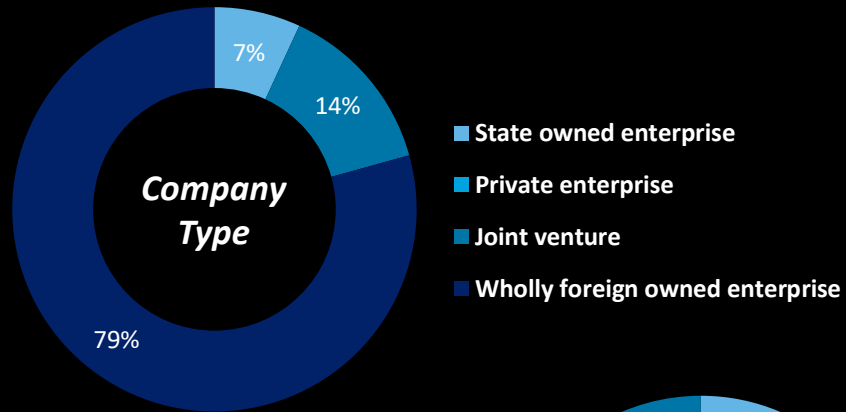
linpu@deloitte.com.cn

Appendix

Appendix

Large companies' population composition

- Large companies (29/60) composition: companies with revenue above 5 Bln RMB



Appendix

Calculation model for question #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



About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

The Deloitte brand entered the China market in 1917 with the opening of an office in Shanghai. Today, Deloitte China delivers a comprehensive range of audit & assurance, consulting, financial advisory, risk advisory and tax services to local, multinational and growth enterprise clients in China. Deloitte China has also made—and continues to make—substantial contributions to the development of China’s accounting standards, taxation system and professional expertise. Deloitte China is a locally incorporated professional services organization, owned by its partners in China. To learn more about how Deloitte makes an Impact that Matters in China, please connect with our social media platforms at www2.deloitte.com/cn/en/social-media.

This communication and any attachment to it is for internal distribution among personnel of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms and their related entities (collectively, the “Deloitte organization”). It may contain confidential information and is intended solely for the use of the individual or entity to whom it is addressed. If you are not the intended recipient, please notify us immediately, do not use this communication in any way and then delete it and all copies of it on your system.

None of DTTL, its member firms, related entities, employees or agents shall be responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.