

China: Shines despite slower pace of growth

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The investments pouring in China are aligned with the government's plan to boost the pharmaceutical industry of the country in its 12th Five Year Plan (2011-15), which was announced in 2011. The plan is focused on encouraging pharmaceutical companies to consolidate domestically and build market share and technologies to strengthen the business.

To achieve significant growth, China needs investments to possess cutting-edge technologies and skills to operate them. The plan is encouraging private capital firms to invest in healthcare services. Furthermore, in the domain of medicine manufacturing, KPMG (in its 2012-13 review of China) pointed out that the country will receive boost from the government in terms of not only funding support, but also changes in policies, tax and R&D incentives.

During March 2013, the government announced that it will step-up investment in the prevention and treatment of chronic diseases as well as expand the reimbursement medical system with more medicines added to the essential drugs list. China has projected an increase in its medical spending by 27 percent and is doubling the total number of drugs in its national reimbursement medicine list from 205-to-520. The country's medical insurance system will cover an additional 20 serious illnesses, including various types of cancers, leukemia and type-1 diabetes among others.

New price cut policy

In late 2012, the National Development and Reform Commission (NDRC) of China announced a new price cut policy for pharmaceuticals, effective from February 1, 2013. This price cut policy involved 20 categories of pharmaceuticals, including 400 separate medicines in over 700 formulations, mainly for respiratory disorders, pain and fever. The maximum prices of these medicines were to be cut by an average of 20 percent, which poses a great challenge to multinationals in the China market.

CHINA: TOP 20 BY REVENUE

Rank	Company	Revenue CY 2012	Revenue CY 2011	Revenue CY 2010	% Growth over 2010	% Growth over 2011
1	Sinopharm	21728.89	16355.97	10226.54	59.94	32.85
2	China National Accord Medicines Corp.	2859.52	2417.98	1929.75	25.30	18.26
3	Yunnan Baiyao Group	2189.89	1809.97	1488.24	21.62	20.99
4	North China Pharmaceutical*	1780.16	1960.16	1519.44	43.56	-9.18
5	Guangzhou Pharmaceutical	1316.66	870.34	650.38	33.82	51.28
6	Sino Biopharmaceutical	1082.80	751.92	525.88	42.98	44.00
7	Mindray Medical International	1060.05	880.70	704.30	25.05	20.36
8	Shenzhen Neptunus Bioengineer*	983.70	848.80	590.71	43.69	15.89
9	The United Laboratories International	913.09	832.90	836.91	-0.48	9.63
10	China Resources Sanjiu Medical & Pharmaceutical*	881.04	884.03	644.79	37.10	-0.34
11	Huapont-Nutrichem (formerly Chongqing Huapont Pharm)	618.30	105.52	80.43	31.19	485.96
12	CK Life Sciences	591.03	456.64	346.74	31.70	29.43
13	Apeloa Company	556.82	245.52			126.79
14	Chengzhi*	547.50	460.40	463.84	-0.74	18.92
15	China Pharmaceutical Group*	539.19	959.62	1000.57	-4.09	-43.81
16	WuXi PharmaTech	499.91	407.20	334.10	21.88	22.77
17	Shandong Dong-E E-Jiao	487.66	432.62	355.85	21.57	12.72
18	Sihuan Pharmaceutical Company	486.80	358.73		35.70	
19	Shandong Xinhua Pharmaceutical	469.14	466.86	382.48	22.06	0.49
20	Jinling Pharmaceutical	368.78	361.12	319.22	13.13	2.12

* Q4 Revenue extrapolated/estimated due to non-availability of data

(Revenue in million \$)

Similar to the last round of price cuts in October 2012, expensive and independently priced drugs from multinationals were worst hit. For example, Plaquenil (hydroxychloroquine) for arthritis from Sanofi-Aventis will have a new price of \$8.90 (RMB 56.80) per box, a slash of 13 percent.

AstraZeneca's Diprivan (propofol injection) meanwhile will see its price slashed to \$14.40 (RMB 88.80) per bottle, a 32 percent cut from its current price of \$21.09 (RMB 130). Other affected drugs from multinationals include Novartis' Lioresal (baclofen) with a 10 percent cut, Eli Lilly's Humalog (insulin lispro) with 13 percent cut, and Takeda's lornoxicam with a 15 percent cut. However, only three Chinese companies will likely be affected, including Chengdu-based Hexin Pharma, Guangzhou-based Baiyun Pharmaceutical and Taizhou-based Yangtze River Pharmaceutical. The commission has also decided to revoke independent pricing policies for seven drugs from them.

GDP tumbles

China's economic growth has lost some momentum, its GDP expanded 7.7 percent in the first quarter, missing the 7.9 percent benchmark of the previous quarter, a sobering reality that global recovery is slowing. Additionally, the World Bank cut its forecast for China's growth in year 2013 to 8.3 percent from 8.4 percent.

M&As abound

Marks & Clerk 2013 life sciences report reveals that the general industry feeling is that China is rapidly becoming a key global R&D center in addition to its current manufacturing hub positioning. This is evident from the fact that several MNCs invested substantially in China during 2012 and continue to do so in 2013 as well. For example, Merck and Novartis alone invested a

total sum of \$3.75 billion in China over the last five years, often partnering with regional or state-run Chinese companies in the process.

Furthermore, within a span of 60 days, (during November and December 2012) biopharmaceutical companies belonging to the domains of manufacturing, drug discovery and clinical services, showed pertinent interest in expanding their presence in China. In November 2012, US-based Thermo Fisher Scientific opened its new manufacturing facility in Suzhou for sciences consumables and equipment. The company has invested nearly \$20 million in a 12,000 square meter Suzhou plant, which would employ around 150 employees.

PerkinElmer acquired Shanghai Haoyuan Biotech, a China-based infectious disease diagnostics company at \$38 million, during November 2012. The acquisition extends PerkinElmer's capabilities into nucleic acid blood screening and in the growing molecular clinical diagnostics market in China. Also, US-based ConjuChem, which is engaged in discovery of novel therapeutics, formed a joint venture (JV) with China's Changshan Pharma, valued at \$3 million. Similarly, US-based Promega opened its new facility in Shanghai for its China operations that provides additional R&D and cGMP manufacturing capabilities for molecular diagnostics products for the Chinese market.

Pfizer said in February 2013 that it will own 49 percent of a \$295 million venture with Zhejiang Hisun Pharmaceutical to develop off-patent drugs in China, and Merck & Co inked a deal with Nanjing-based Simcere Pharmaceutical to produce cardiovascular medicines. March 2013, also saw Pathwork Diagnostics begin collaborating with Kindstar Global in China.

Swedish company, NeuroVive decided to grant Sihuan Pharmaceutical an exclusive license to develop, market and sell CicloMulsion and NeuroSTAT in China, as well as the intellectual property rights and know how in connection with the products to pass clinical trials. Both CicloMulsion and NeuroSTAT are currently undergoing phase II and III clinical trials respectively. China continues to shine, these deals are proof enough for the market.