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Healthcare Forum: The Prescription for New Market Opportunities

*Opportunities and Challenges
in the Healthcare Sector*

IQVIA Consulting
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Macro-environment Changes and their Impacts on Healthcare Sector

China is undergoing massive transformation in political, economic, social and technological aspects

2003 - 2013

2013 - 2020

Timeline

Political

*“Rapid development”,
emphasizing fast growth*



*“Improve Quality of Life”,
more focus on the people*

Economic

*>10% GDP growth,
focusing on infrastructure
development and export*



*GDP growth slowed down
to <7%, more focus on
stabilizing growth*

Social

Demographic Dividends



Aging population

Technology

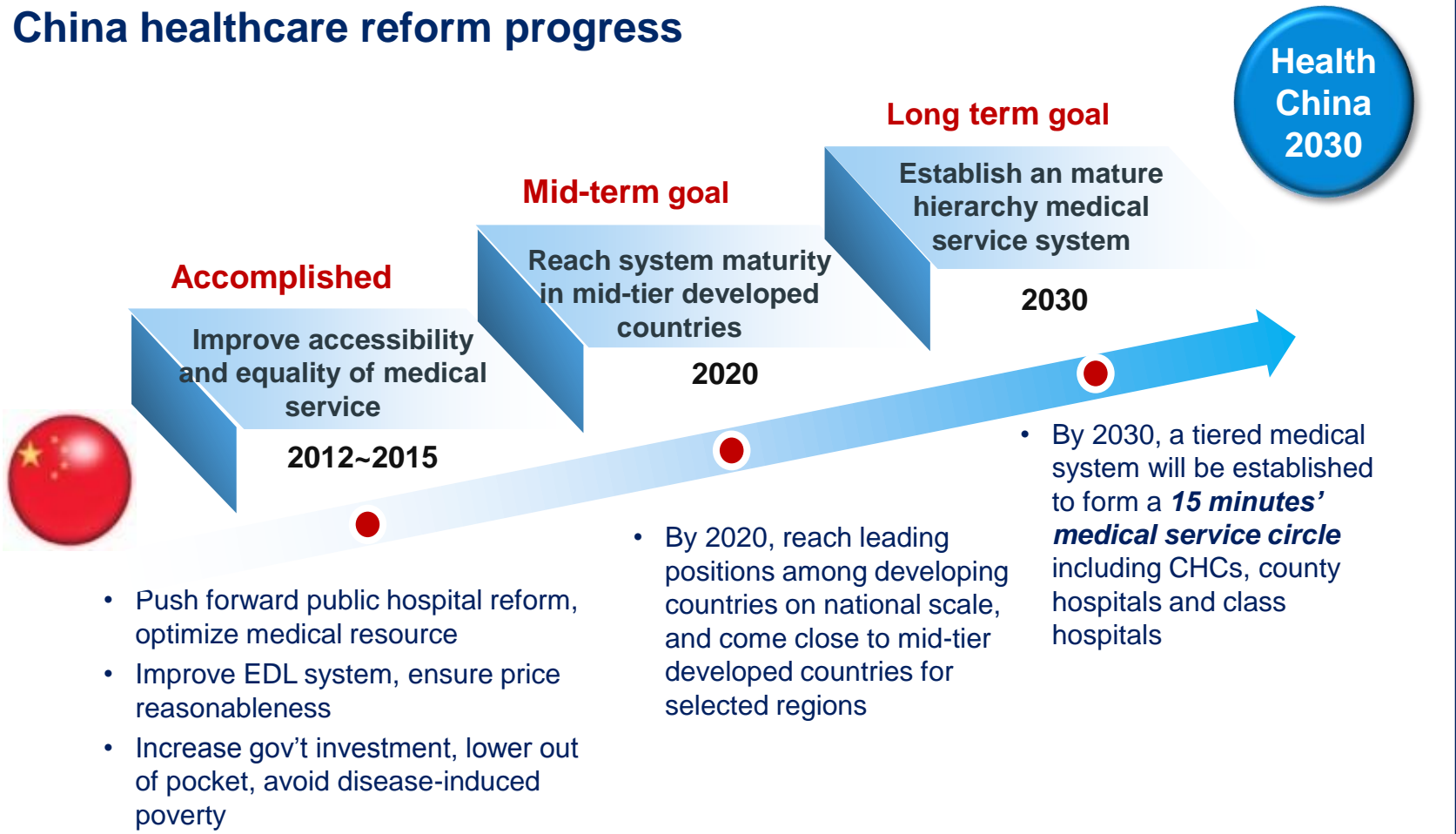
*Labor intensive industries,
focusing on manufacturing*



*Innovation driven to
support high-tech industry*

Focusing on “People”, China healthcare reform has set clear direction to improve “Quality of Life”

China healthcare reform progress



After double-digit growth for a decade, China's economic growth slowed down as “soft-landing”

China GDP growth from 2000 to 2014



● **High double digit growth** —●● **Steady growth** —●● **“China’s New Normal” with slower growth** —●●

Economic achievement in “Golden Period”

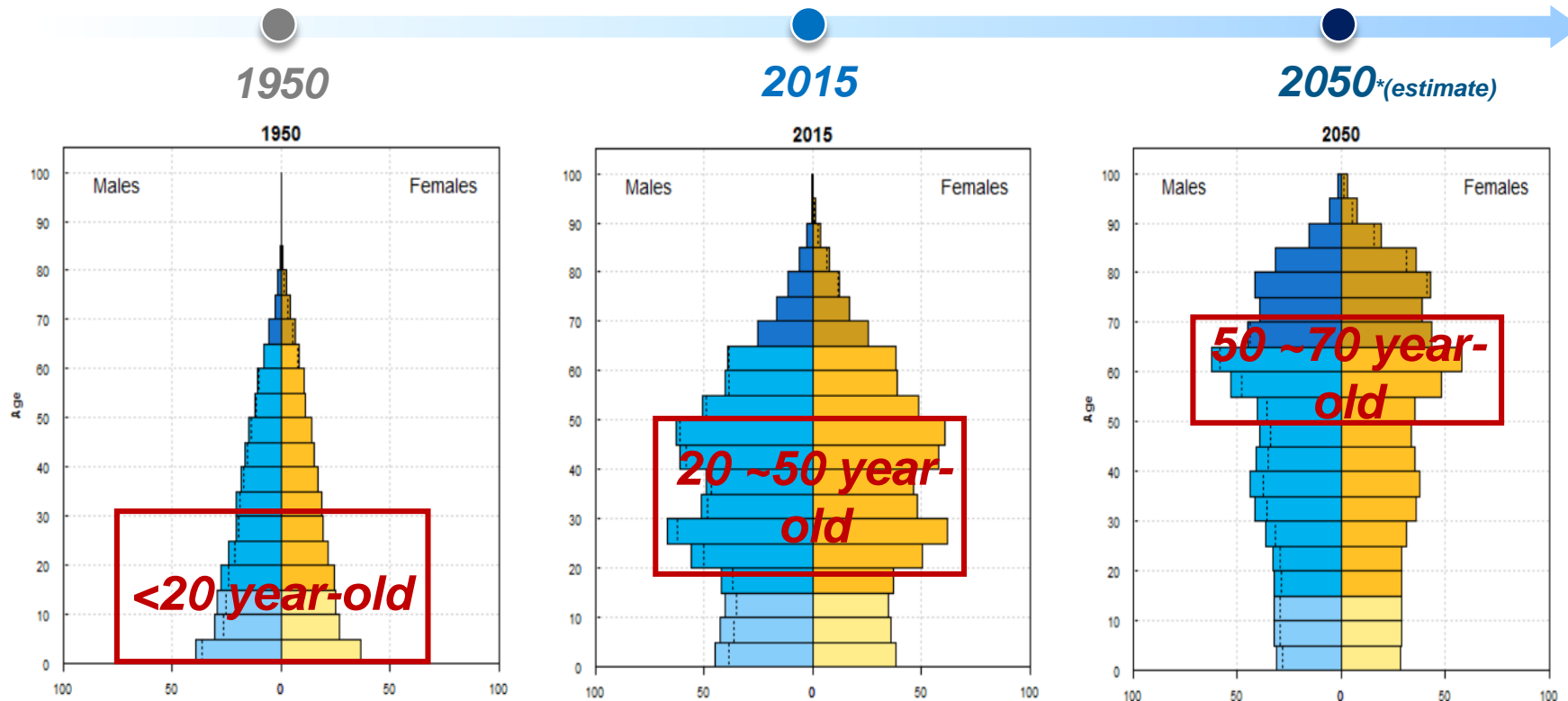
- World’s **second largest economy** in the world by 2011
- Average GDP CAGR: **~10%**

Soft-landing

- Gov’t attempted to engineer a “soft landing” for the economy
- Average GDP CAGR: **~7%**

China's demographics is shifting rapidly with an aging pop. and shrinking workforce

A rapidly aging population in China

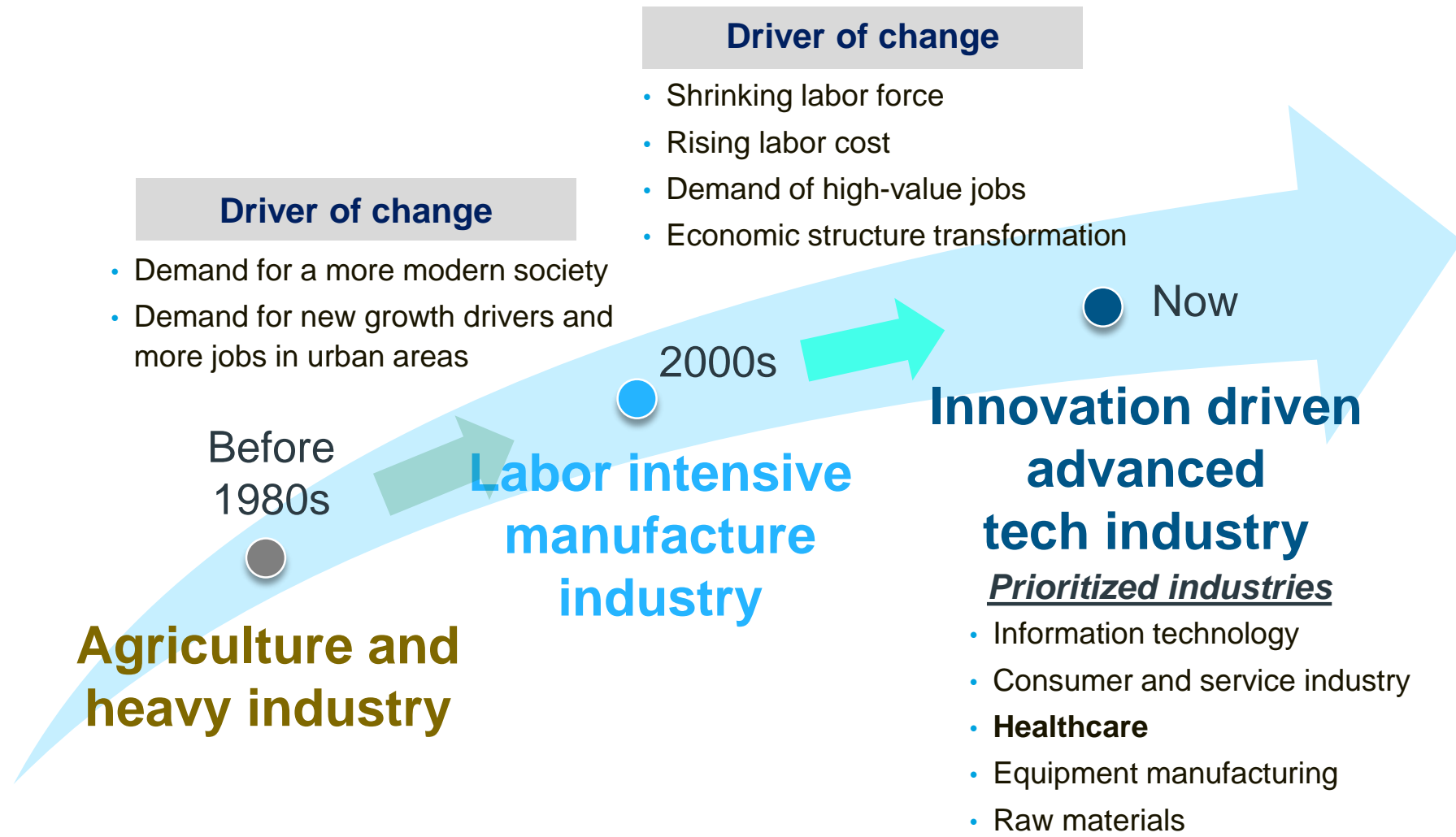


% of age >65 **4.5%**

9.5%

27.5%

From a technology perspective, China is experiencing a transformation from labor intensive to innovation-driven



Source: literature research; IMSCG analysis

Under the fast changing environment, the healthcare sector is also going through fundamental changes

Key implications on healthcare market

Political

- *Healthcare as a new government **political** priority*
-

Economic

- *More **cautious** on **public spending** as budget facing challenges*
-

Social

- ***Aging population** will demand **more** and **better healthcare***
 - *Aging population will also lead to **increased pressure of public medical insurance fund** with decreasing contribution and increasing spending**
-

Technology

- *More **focus** on **innovation** to drive industry advancement*

Note: *Public medical insurance in China is mainly funded by income of the working population; retired population do not pay for medical insurance

Key Challenges and future Directions on Healthcare Reform

New reform will be set to reinforce the alignment of “Medical Service”, “ Medical Insurance” and “Medicine”

“三医联动”



Key Reform Aspects

Optimizing Resource Allocation

Value-based Payment Method Reform

Improve Drug Quality & Encourage Innovation

Government Stakeholders

National Health Commission:

- *Newly set integrated commission of health department*

State Medical Insurance Administration

- *Directly under the State Council*

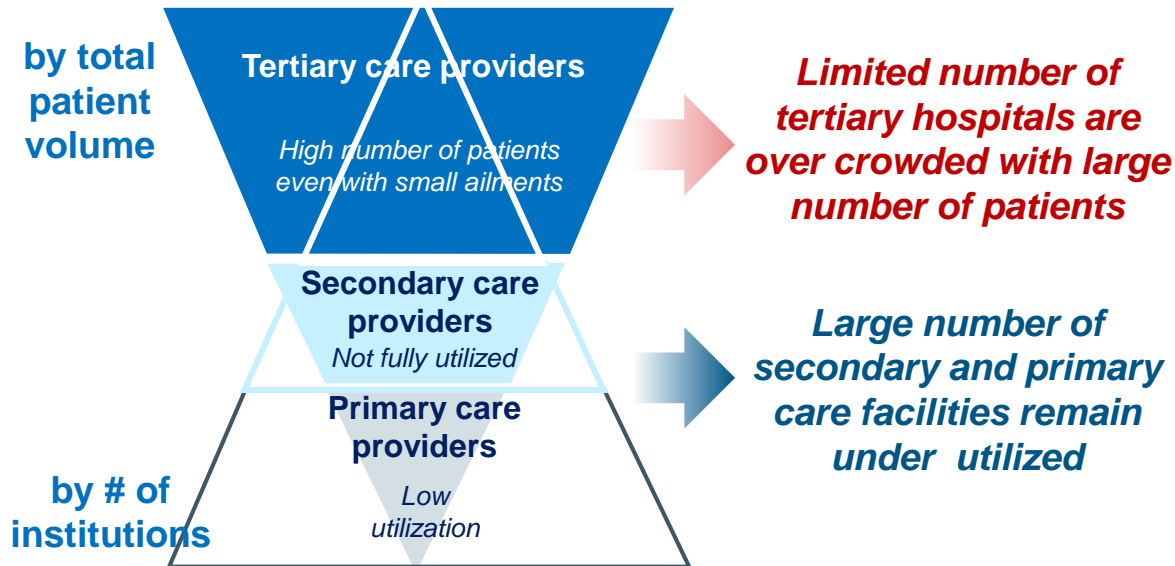
Drug Regulatory Administration

- *Affiliated to State Market Regulatory Administration*

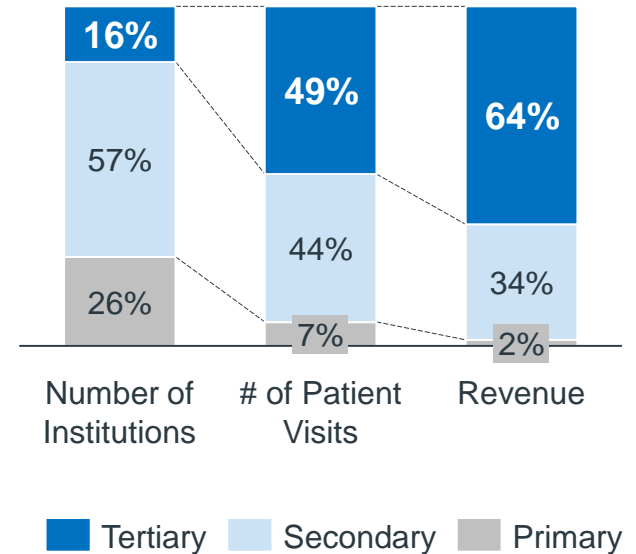


China's tertiary care is overburdened with primary care under-utilized, hindering the improvement of services

China's Current Healthcare Delivery System



Over-usage of Tertiary Care Providers



Inefficient healthcare delivery system leads to:

- **Compromised service quality:** difficult to get timely treatment with high service quality
- **Waste of healthcare resources:** large number of primary care facilities exist but remain under utilized



Medical resource will be pushed to lower tier market by new referral system and Hospital Union model

<Guide on developing Hospital Union>

“ by 2017, framework is to be built for Hospital Union across all the 3rd tier public hospital and successful model needs to be identified for Hospital Union in each prefecture city.....by 2020, Hospital Union should be rolled out nationally...”

- State Council Article 32 [2017]

205

Prefecture Cities

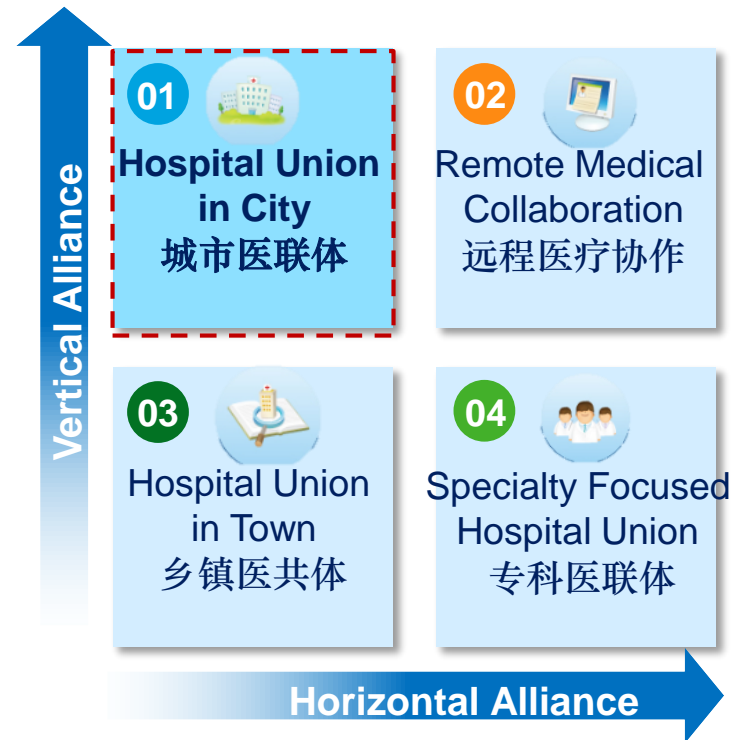
Started hospital union pilots, accounting for 60% of China total prefecture cities

2.6 Million

Downward Referral

Over 2.6 million downward referral #, increased by 117% compared with 2015

Different Modes of Hospital Union



Example: Shanghai Ruijin Hospital Union is organized by #9 People Hospital, Xinhua Hospital and Dapu CHC, etc



However, referral system will take time to change as patient still prefers big hospital for high quality service

Key Decision Factors in Patient Visits

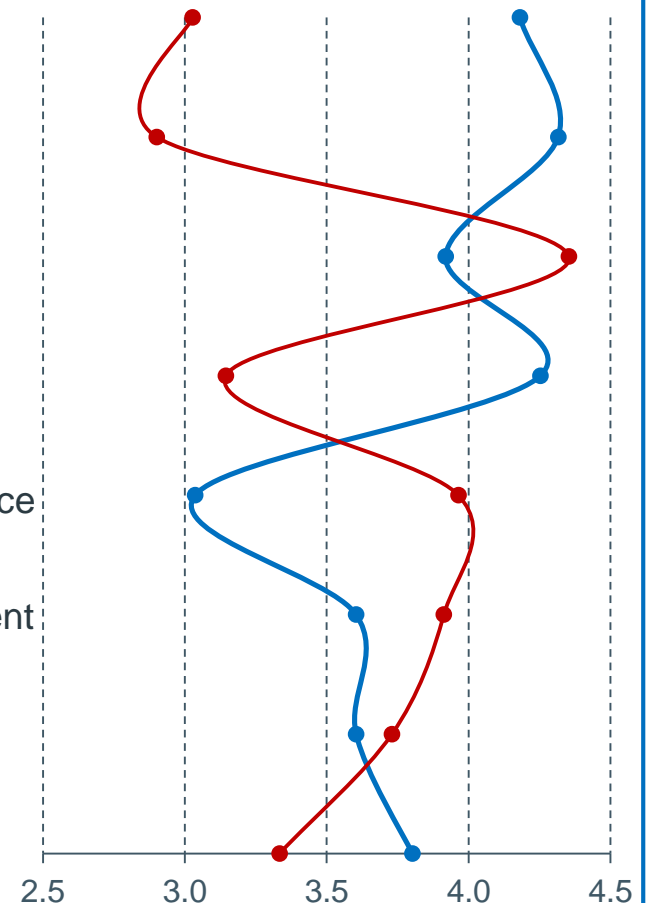
- 1**  **Physician's Diagnosis & Treatment Ability**
- 2**  **Diagnostic Equipment**
- 3**  **Distance & Traffic**

Patients' Rating on CHCs and Class 3 Hospitals

Mention Rate in Key Factors for first visits (n=111 patients)

- 73%** Physician's Ability
- 62%** Diagnostic Equipment
- 61%** Distance & Traffic
- 46%** Drug Variety
- 34%** Queueing & Convenience
- 33%** Pricing & Reimbursement
- 22%** Physician's Attitude
- 22%** Treatment Environment

—●— Class 3 Hosp. —●— CHCs








Hospital will continue dominating pharmaceutical sales, but other channels are growing such as CHC and retail

China Pharmaceutical Market Value by Channel 2013-2017

(Unit: Billion Euro, in hospital purchase price)

 Hospital Sector (>100 beds)  Retail Sector
 CHC and small hospitals

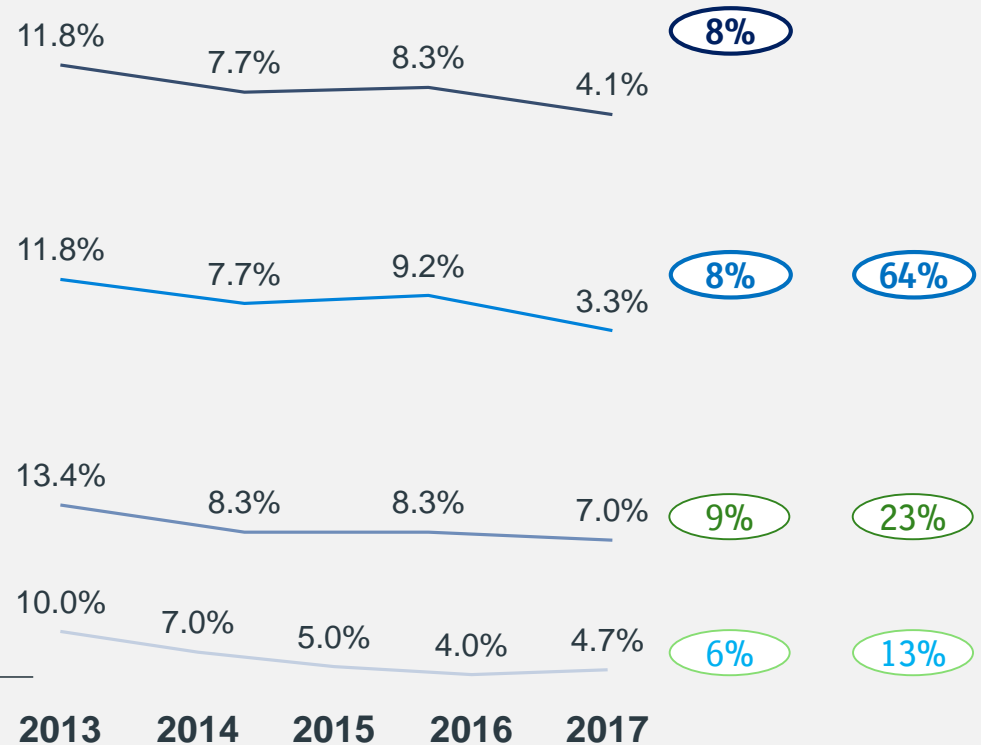
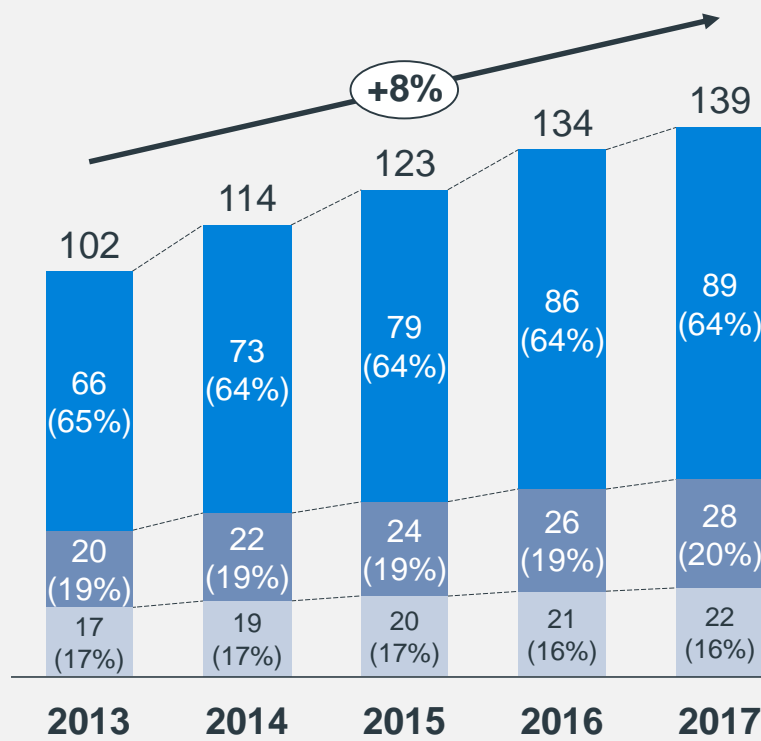


13'-17'

Growth
Contribution

Yearly Growth Rate by Channel

CAGR 13'-17'

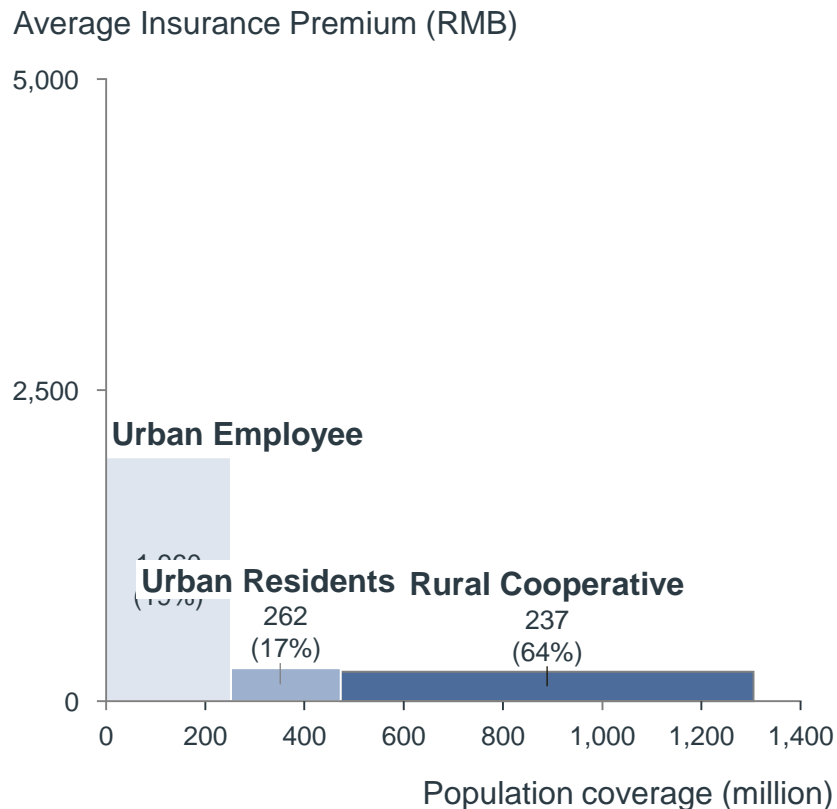




Basic medical insurance coverage is expanding over the past 10 years, but coverage quality is still very low

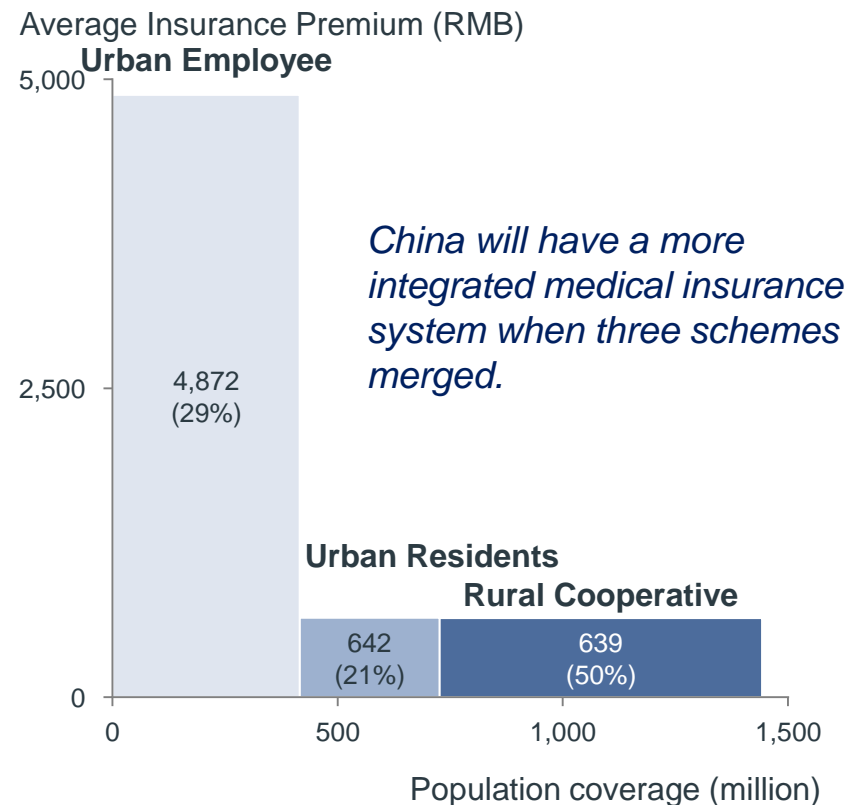
2010 Medical Insurance Status:

Urban employee is small with high coverage while others have very low average insurance premium



2020 Medical Insurance Trends:

Overall insurance coverage is improving with increasing average insurance premium





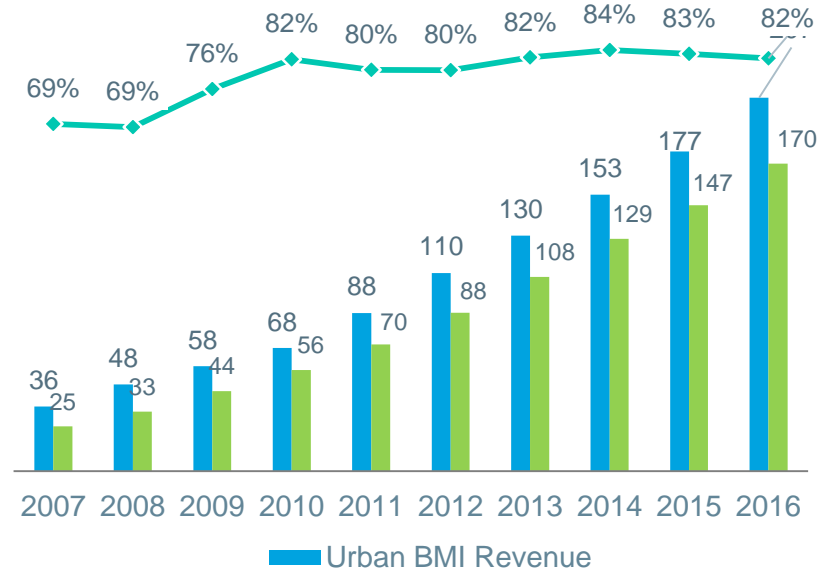
Funding is undergoing huge pressure, but there are still lots of wastes in the medical spending

The Sustainability Of China Medical Insurance Funds Is Becoming An Important Issue

- Over 80% usage of Medical Insurance Funds

Urban BMI Revenue and Expenditure, 2007-2016

Bn USD



CAGR
2007-2016

Funding
21.6%



Expenditure
23.9%

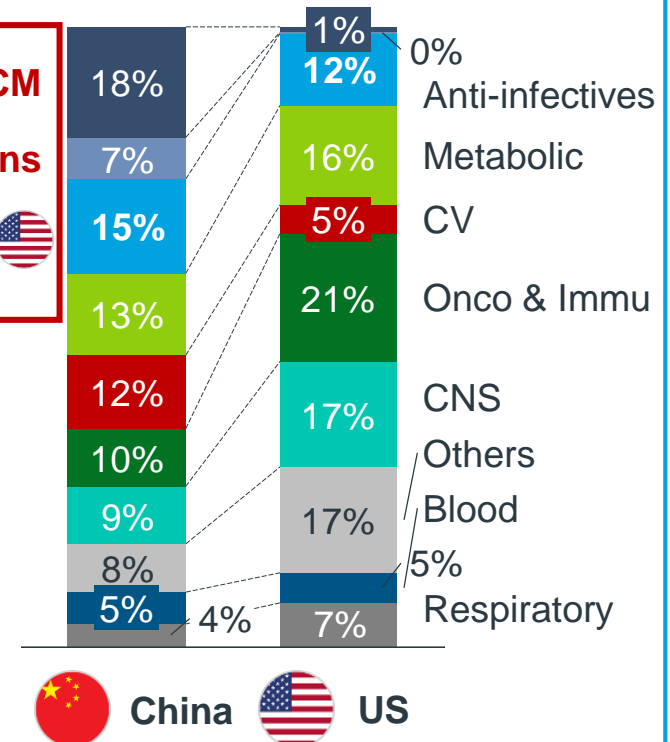
The Traditional Resource Allocation Mechanism No Longer Sustainable...

- Large % of low-evidence drugs

2017 Drug Spending Spilt by TAs, China vs US

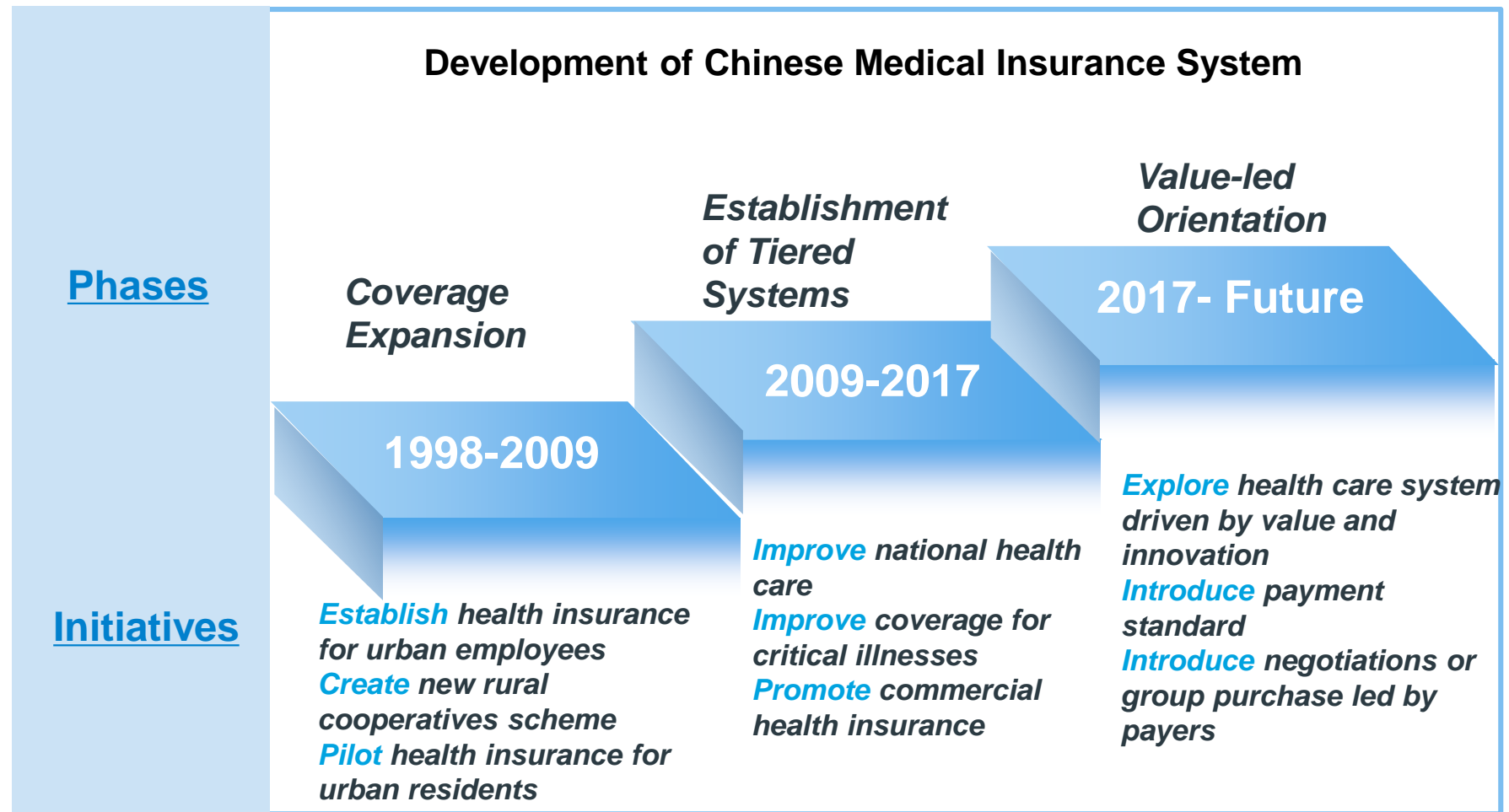
(Unit: Trading Price)

TCM Solutions
25% vs. 1%





With these challenges, China medical insurance system is evolving and transforming to “value-led” orientation





Payment method reform will be rolled out from 2017 to reinforce cost containment in the hospital

Traditional Payment	New Payment Methods: More Delicate Design, with “Value-Considered”			
Fee for Service 按服务项目付费	Pre-Paid Lump Sum 总额预付	Capitation 按人头付费	Fee for Disease 按病种付费	DRGs* 按病种分组付费
Retrospective Payment	Prospective Payment			
Inpatient & Outpatient	Inpatient	Outpatient	Inpatient	
<ul style="list-style-type: none">BMI fund payment to hospital in unit of service itemTotal amount depends on service price & service volume	<ul style="list-style-type: none">BMI fund payment to hospital in unit of annual expenseTotal amount depends on service price & service volume with expenditure ceiling	<ul style="list-style-type: none">BMI fund payment to hospital in unit of annual capitaTotal amount depends on capitation payment standard & number of patient	<ul style="list-style-type: none">BMI fund payment to hospital in unit of disease (group)Total amount depends on disease (group) payment standard & number of disease (group)	
<ul style="list-style-type: none">Payment standard is specificTotal budget goes with service volume	<ul style="list-style-type: none">Total BMI budget per hospital is specificExpenditure exceeding the budget won't be paid	<ul style="list-style-type: none">Capitation payment standard is specificTotal BMI budget goes with number of patient	<ul style="list-style-type: none">Disease (group) payment standard is specificTotal BMI budget goes with number of disease (aroup)	
Low		Cost impact		High
<ul style="list-style-type: none">History-based payment	<ul style="list-style-type: none">Only annual BMI budget per hospital needs to be madeHistorical data can be referred	<ul style="list-style-type: none">Rational capitation payment standard can be calculated based on historical patient data	<ul style="list-style-type: none">Large amount of payment data for different disease (group) with different treatments are required to set rational payment standard	
Easy		Implementation		Difficult



Payment standards implementation also demonstrates regional attitude toward drug pricing reform

Grouping methodology adopted by piloted regions

Pattern description



By brand name
(按商品名)

- Different brands' drugs with the same generic name have different payment price



By brand and generic name
(按商品名和通用名)

- Both by brand name and by generic name are adopted
 - By generic name if price of avg. quality drug is higher than avg. sales price
 - Otherwise by brand name



By generic name
(按通用名)

- Drugs' with the same generic name share the same payment price

Payment standard of originator drugs calculation methodology adopted by piloted regions

Reference price

High

Example region

Originator tendering price
(原研药中标价)

- National lowest tendering price since 2014

Local avg. quality generic procurement price
(国产普通质量层次价格)

- Local avg. quality generic procurement price

Highest local generic price ceiling
(竞价组最高医保销售限价)

- 150% of highest local generic price ceiling or 70~80% of price ceiling

Lowest local generic price
(仿制药最低价)

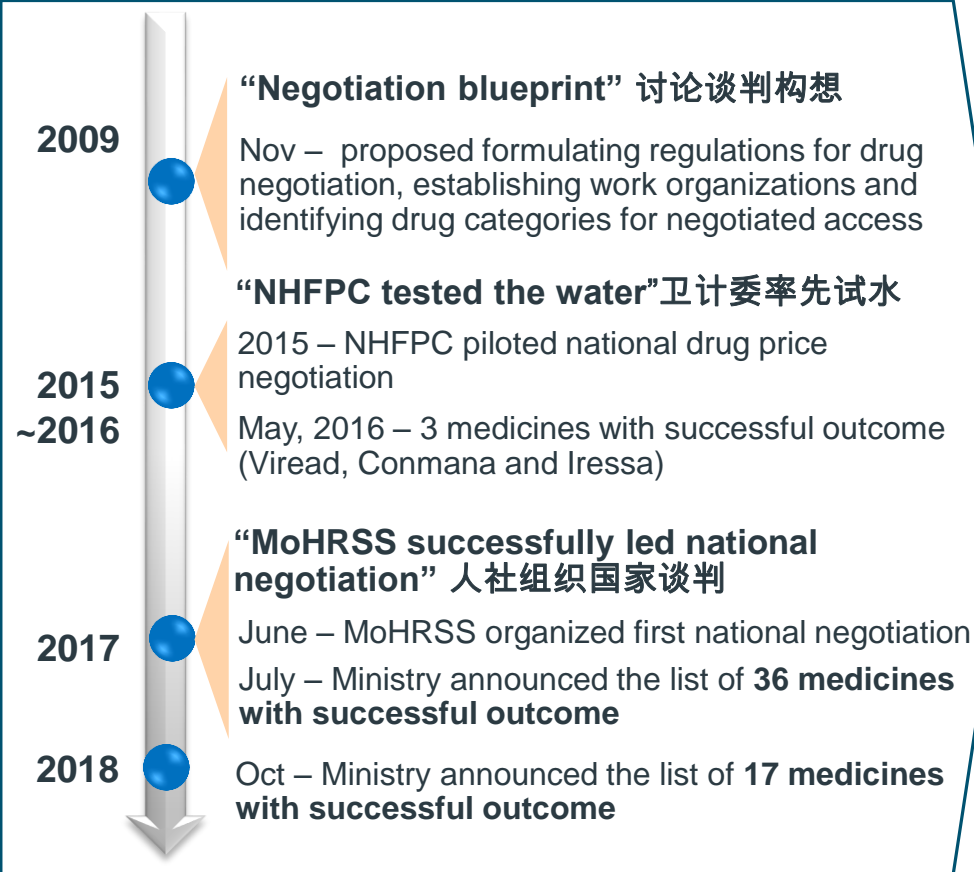
- Lowest local generic price

Low



There are some positive trends expected in the future for the fast access of new drugs and high-priced drugs

Negotiations for high-priced drugs, from conception to implementation



Future Outlook



Dynamic NRDL update
目录动态调整



Faster access for newly launched products
新药准入加快

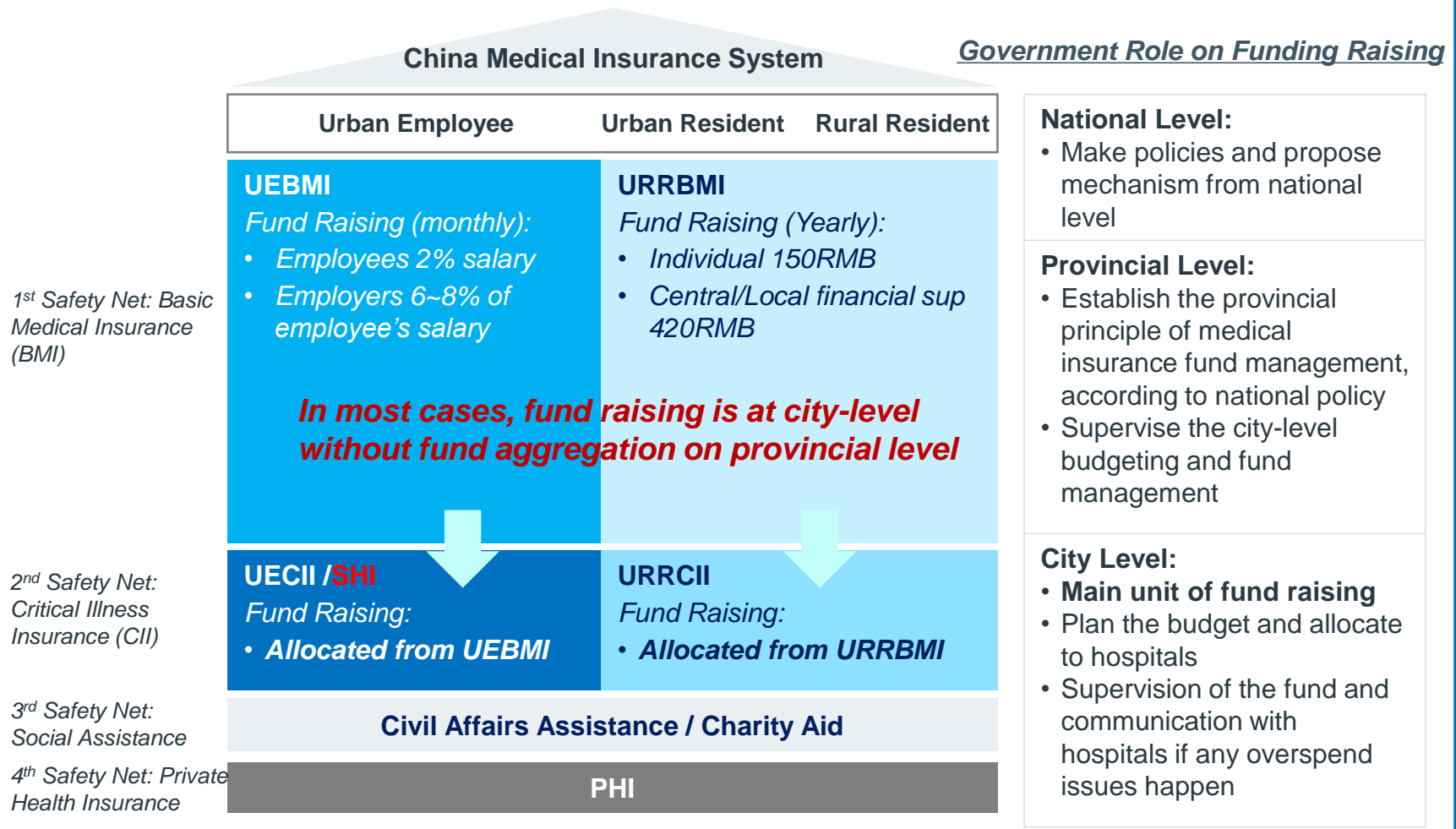


Regulated negotiation access for high-priced drugs
高价药谈判常态化



Public fund raising is managed mainly at city level, leading to various payers decision-making foundations

China Medical Insurance Schemes & Funding Status





Drug reform aims to speed up approval and to improve quality standards, and to encourage drug innovation

Optimize the drug approval procedure

- Improve the process transparency
- Increase work staff, and improve efficiency
- Complete all the accumulated applications
- Catch-up the review progress

Generic Quality Consistency Evaluation (GQCE)

- If more than 3 MNFs pass the GQCE for a same molecule, all other non-GQCE products will not be considered during the provincial tendering

Encourage Drug Innovations

- Set up individual innovative drug approval, eg. Green Channel
- Accept the clinical trial results from global multi-centers, and encourage global combined trials to accelerate launch time

Drug Marketing Authorization Holder

- Separate the drug launch application and manufacturing approval
- Allow R&D institute and research staff to hold drug authorization number, to become a holder, and be responsible for drug safety, efficacy and quality.




Market access for innovative products is also greatly improved with savings from generic substitution



Anti Drug Waste

①

- Rising voices for anti-abuse & corruption to regulate spending on supportive care with no or less evidence



Generic Substitution

②


- Generic Quality Consistency Evaluation (GQCE), along with the rise of local MNFs, will gradually erode the market for off-patent originators



Payer Centric Access

③

- Payer reform has opened a door for new launches with a more dynamic P&R mechanism



HTA

④

- China has a clear ambition to set up HTA system by 2020: multiple stakeholders have been involved in the process

Quality & Cost Saving

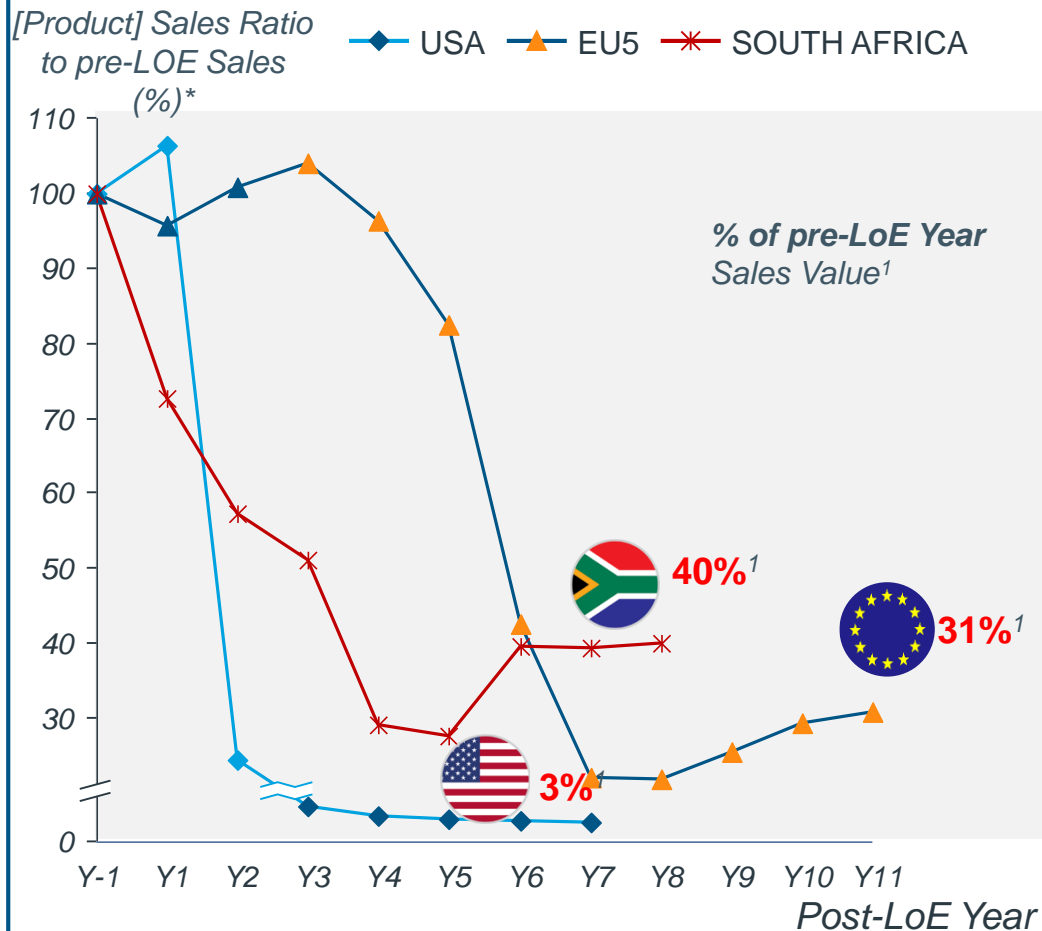
Value-based System

Innovation Ecosystem



GQCE impact will be long term shaping the market structure of pharmaceuticals, especially for new drugs

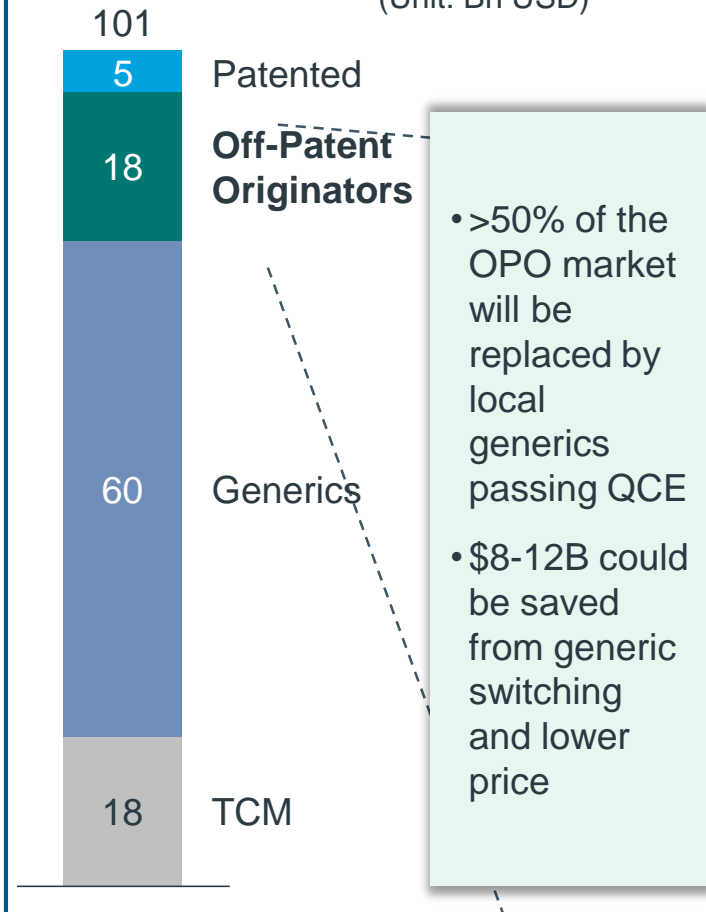
Off-patent Originator's Lifecycle in the Global Markets



1. Sales ratio = current year sales value / pre-LOE year sales value

GQCE Market Impacts in China 2017

(Unit: Bn USD)

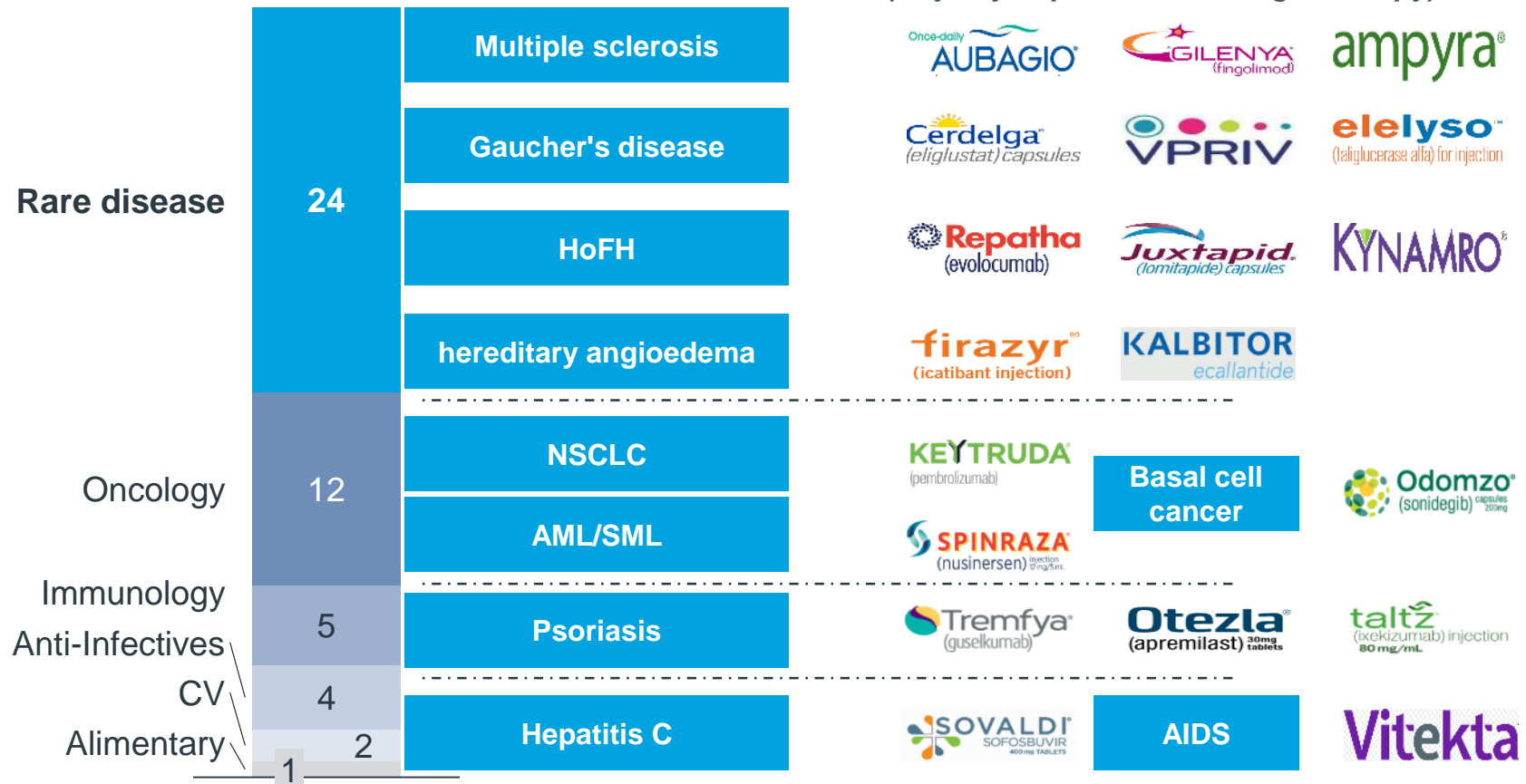




There will be a booming new launches in the next few years in very positive regulatory policy environment

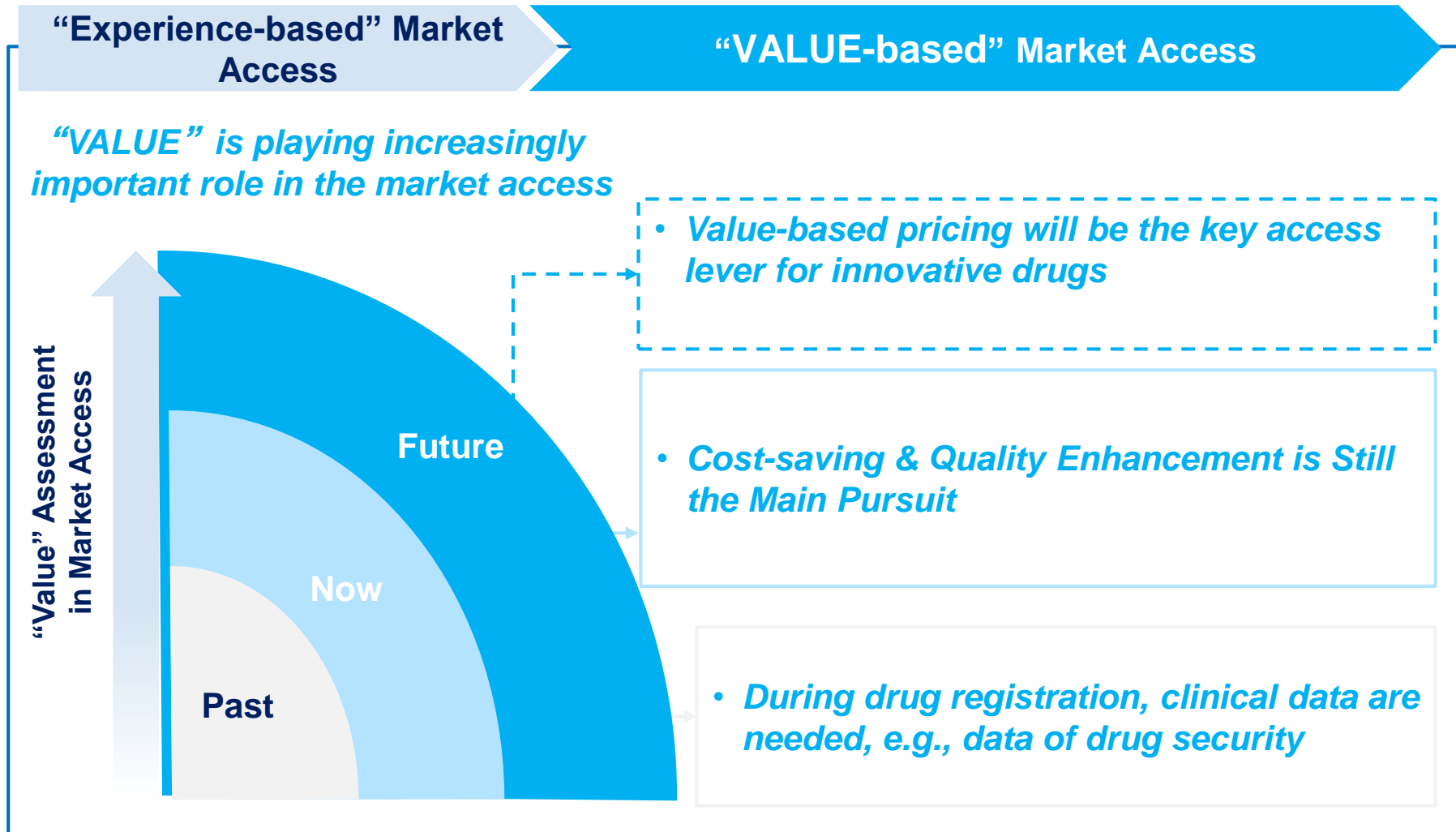
Urgent-need list by TA, example diseases and products

(Majority of products are target therapy)



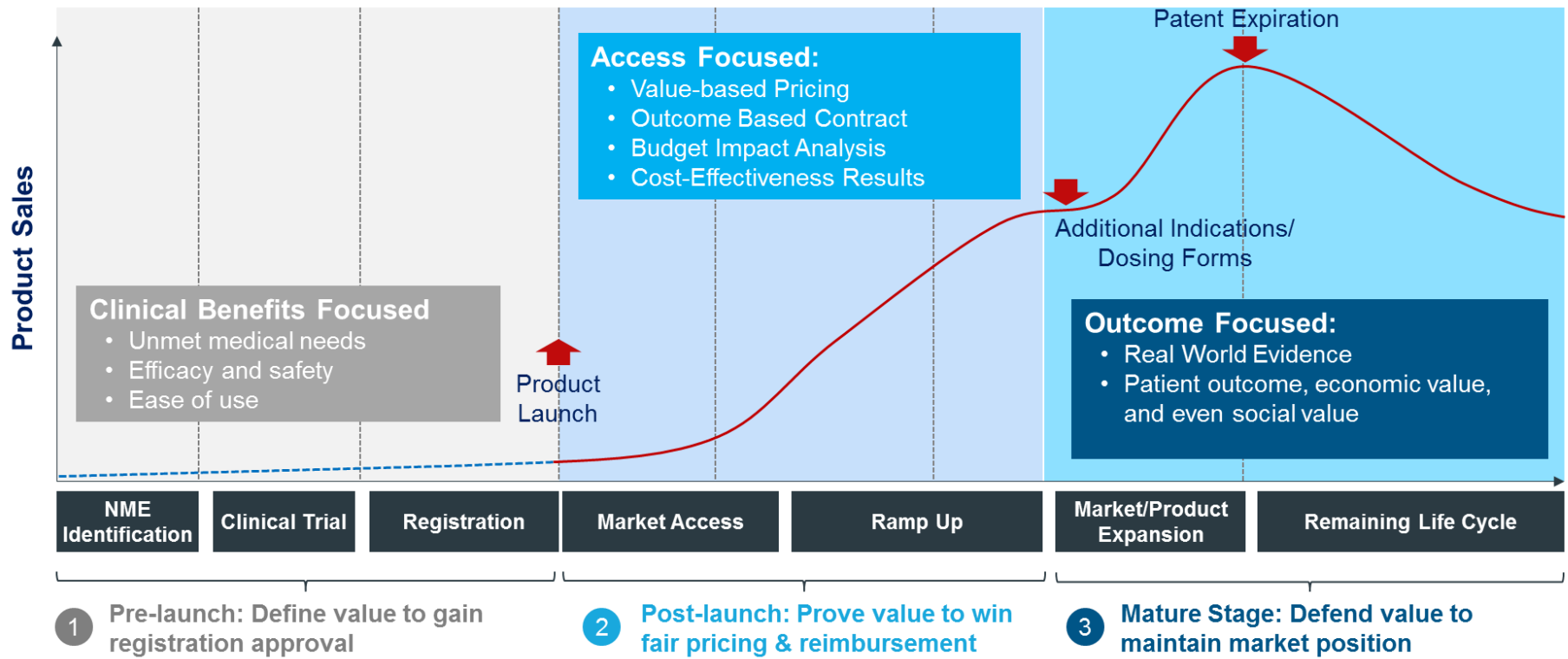
Opportunities in the Changing Healthcare Dynamics

We are at a historical transition period from experience-based to value-based access system

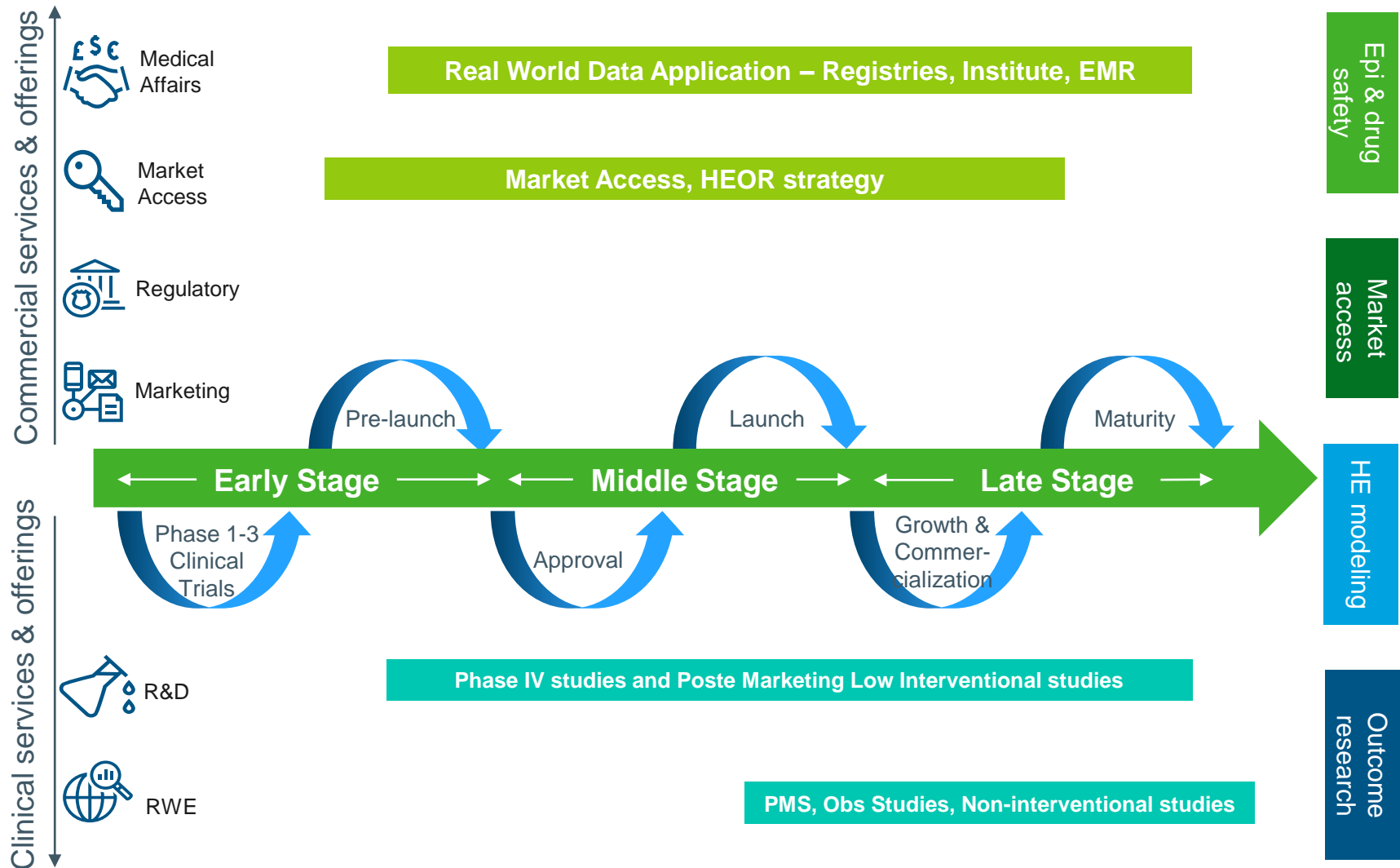


Proving and defending value is critical for market access throughout product life cycle

- Product development needs to consider total value through out product lifecycle
- Value story: clinical value and social economic value



Real world evidence will be enabling future industry development the in the value-based healthcare system



“Patient Centric” is reshaping our Mindset to re-design our Go-to-market, i.e. online platform as new channel

Home Based Oncology Treatment



Several online based platforms can offer homebased nurse services

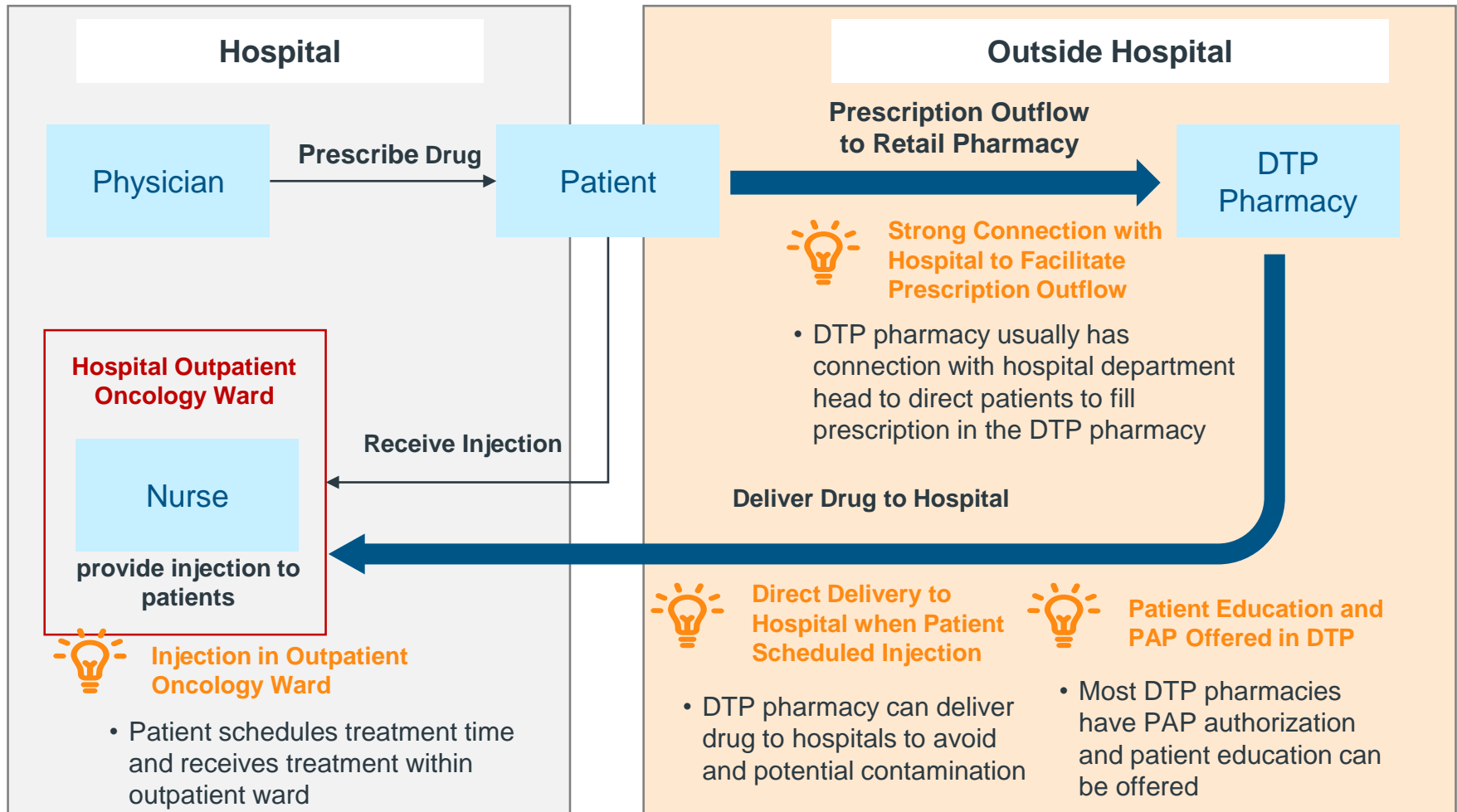


- **Government approved** online homecare service platform
- **Offer homebased nurse care**, body check-up and consultation services
- **Over 43K registered nurses covering over 300 cities**



- Offer community healthcare services
- **Allow residents to make appointment with physician or nurse and enjoy homebased consultation and care**
- With **17K family physicians, 3K nurses and 3K specialized physicians** registered

DTP and pharmacy could supplement with superior service and delivery capabilities in the future



A closed-loop physician engagement cycle is necessary to improve effectiveness by ensuring message delivery

Existing Models Key Focus – Message Delivery

I. Education

- Educating physicians on disease knowledge with multiple methods
- Case:
 - Call center or other attachment
 - Physician group service

II. Action

- Providing action programs to improve the physician adherence
- Case:
 - Physician assistant program
 - Other innovative way

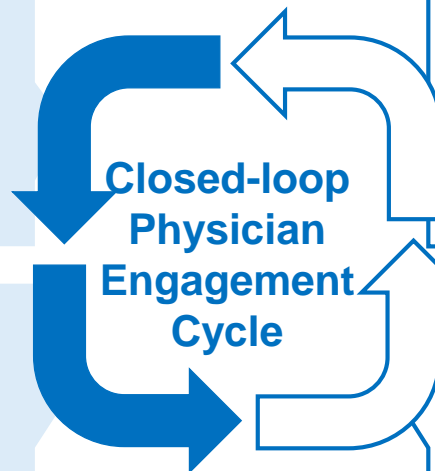
Potential Routes Key Focus – Collection and Respond

IV. Implication

- Collecting physician behavior data to provide better disease solutions
- Idea:
 - Guiding marketing activities
 - Providing precision solution to each single physician

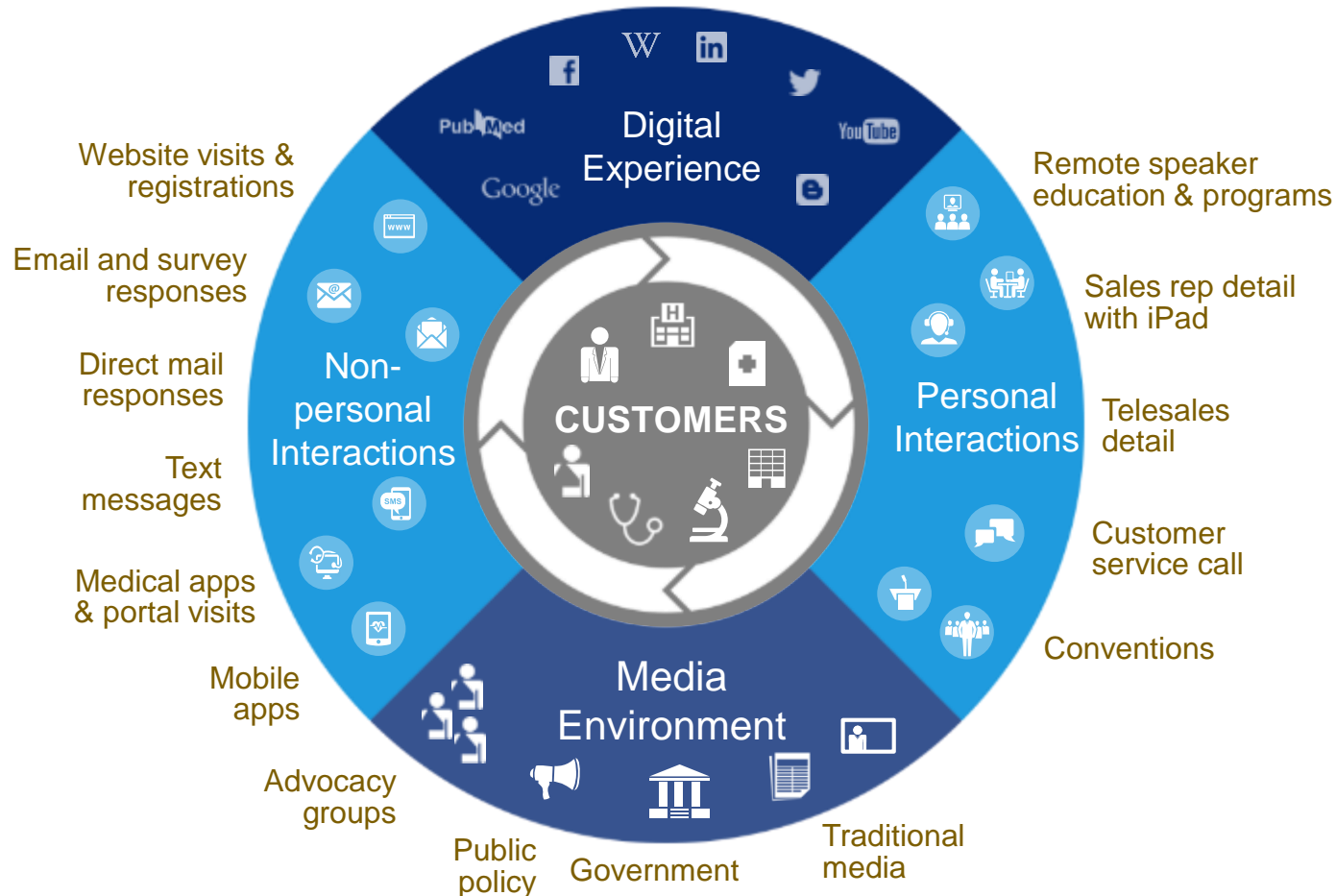
III. Interaction

- Supervising and correcting physician behavior actively & timely
- Idea:
 - Patient management program
 - Real time assistance



Technology will be continuously improving the efficiency of customer engagement

The challenge is to ensure that messages do not get lost in the noise; the key will be to orchestrate the messages across the channels effectively





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Thank you

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