



China: State of the Healthcare Industry after Covid-19

Amcham Shanghai — CAPSTONE Conference, December 1, 2020

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MAKING AN
IMPACT THAT
MATTERS
since 1845

Agenda



China healthcare market



Market Trends in China since Covid-19



Outlook and conclusion

China healthcare market



China's current healthcare system has some large gaps to bridge

Many shortcomings are not new but remain difficult to tackle given the size and reach in China

Population changes

Changing disease spectrum caused by aging population, urbanization, and environmental. Changes Chronic, oncologic, immunological diseases are increasing the burden into the system.

Raising demand for healthcare

Raising awareness and desire for high quality care both in terms of outcome and experiences

Required structural rebalancing

Current healthcare system focusing on treatment rather than health management is not sustainable, and contains very large gaps between regions

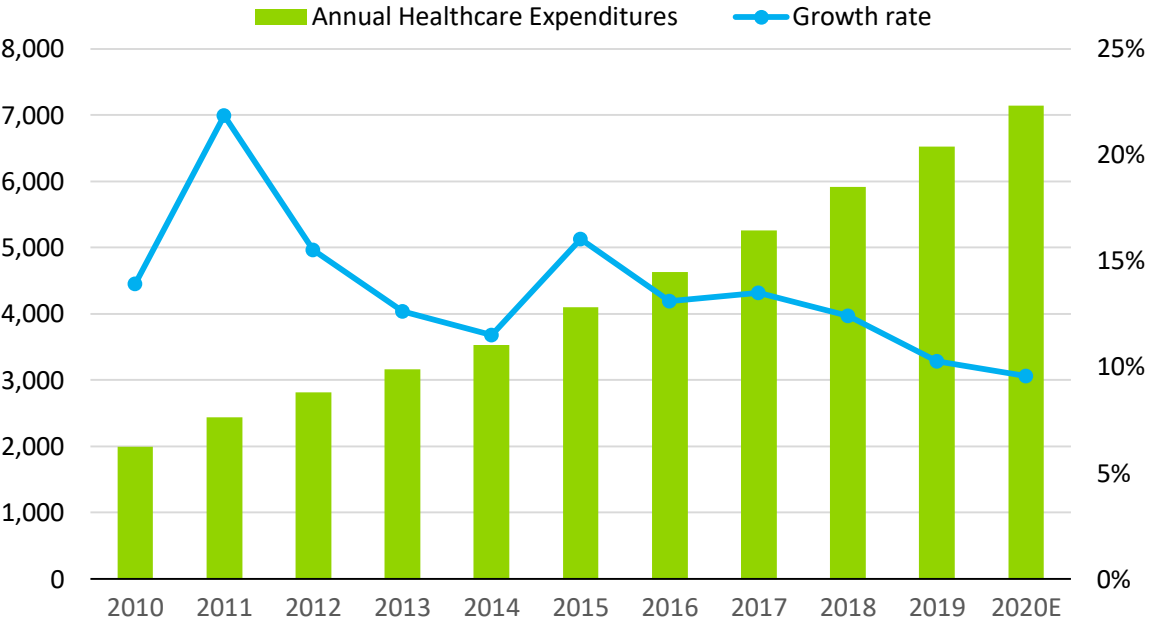
Managing talent shortages

China has among the lowest HCP per capita as a major economy, and highly specialized talents such as pathology, nursery, etc. are still in big shortages

China's healthcare expenditures increase

Its perspective of affordability to its huge population is core and critical

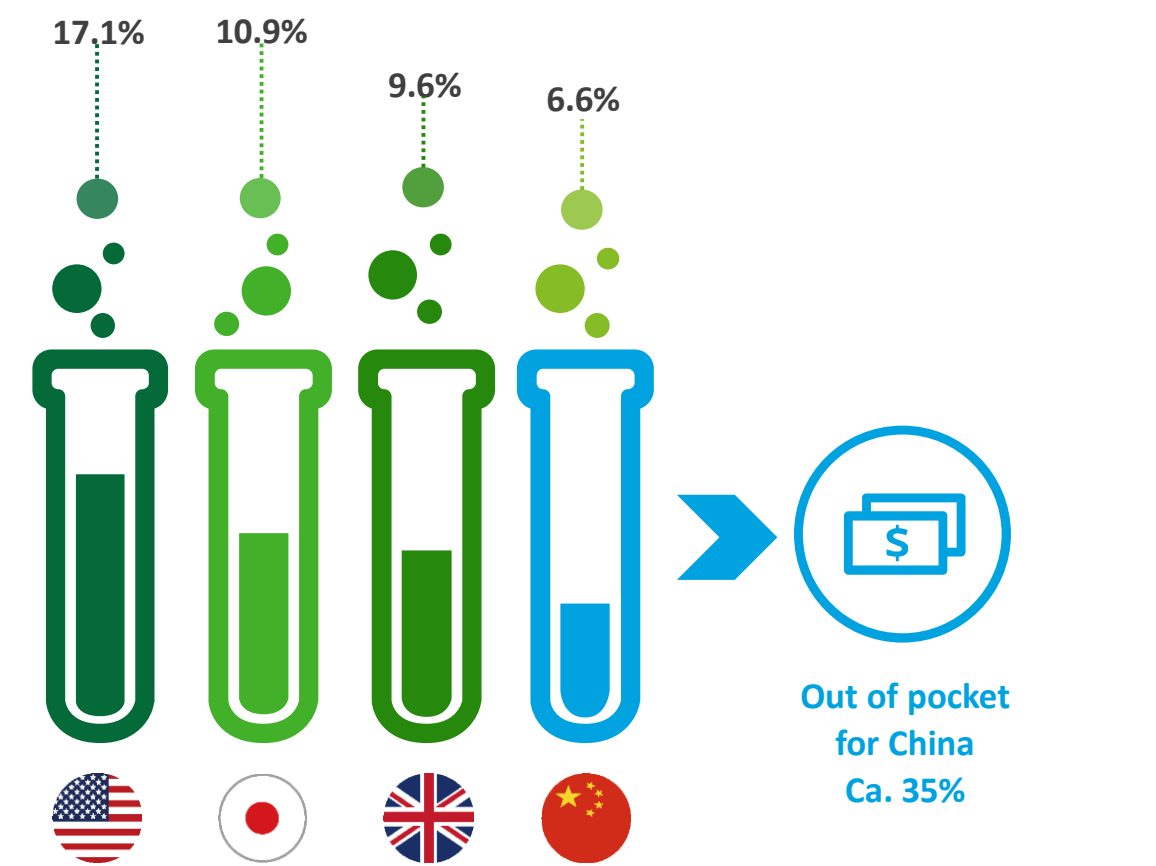
China Healthcare Expenditures BnRMB (2010-2020E)



The total healthcare expenditure refers to the total monetary amount of health resources that a country or region raises from the whole society for the development of health service activities in a certain period of time.

Source: National Bureau of Statistics of China, desk research, Deloitte Research
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Healthcare expense in GDP%



An increasing focus on innovation and accessibility

We have seen a paradigm shift – a fast acceleration in recent years



Drug registration

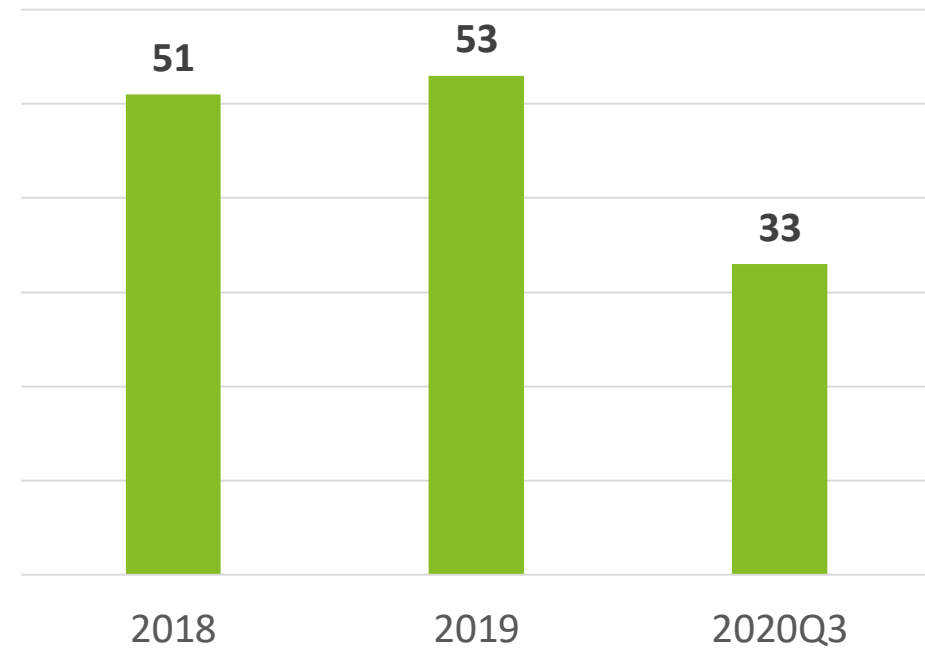
Accelerated commercialization and clinical adoption of innovative drugs



Market access

Volume for large price cut trade-offs made all stakeholders revenue pressure

Approved new drugs in China



Covid impact seems slowing down somewhat new drug approvals

Market Trends in China since Covid-19



COVID-19 outbreak brings new challenges and opportunities to the industry

The challenges are also the opportunities of emerging industries



Roaring awareness of disease prevention

The pandemic has significantly increased the public's attention and awareness of **disease prevention and early treatment**



Hospital based treatment model seen as risky

Hospital had / have either been re-directed to Covid treatment centers, or closed to reduce and limit the spreading, thus **increasing the risk perception**



Increasing policy supports for innovation

The COVID-19 further accelerated government's efforts to **promote innovations in healthcare and life science**



Rapid development of online channel

Under COVID-19, government's encourage and consumer's behavior change has given **online channel unprecedented significance** in the healthcare ecosystem

Government focus on cost controls accelerates during Covid-times

Volume based procurement scheme now cover 112 products with total saving 53.9Bn RMB annually

1st Medical Device VBP

A Volume-Based Procurement on **high value medical devices** has been announced, the price of heart stent has dropped by **over 90%**, with **lowest price of 469 RMB**.

Implementation Status

Implications To Originators

- In September 2019, govt. announced national rollout of VBP **in the form of regional alliances**
- In January 2020, govt. announced the 2nd batch of VBP, expanding the drug list to include **32 more drugs**
- **In August 2020**, govt. announced the 3rd batch of VBP, expanding the drug list to include **55 more drugs**
- **In Nov. 2020**, govt. announced the 1st VBP on medical devices, the average price down to **700** from 13,000 RMB

~5.5Bn RMB procured



Agile commercial organization and resource allocation at local level

~9.0Bn RMB procured



Winning in retail, DTP and online channels which are gaining momentum

~22.6Bn RMB procured



Demonstrating patient value “beyond the pills”

~10Bn RMB saved



BD alliance to counter the VBP impact to originator products

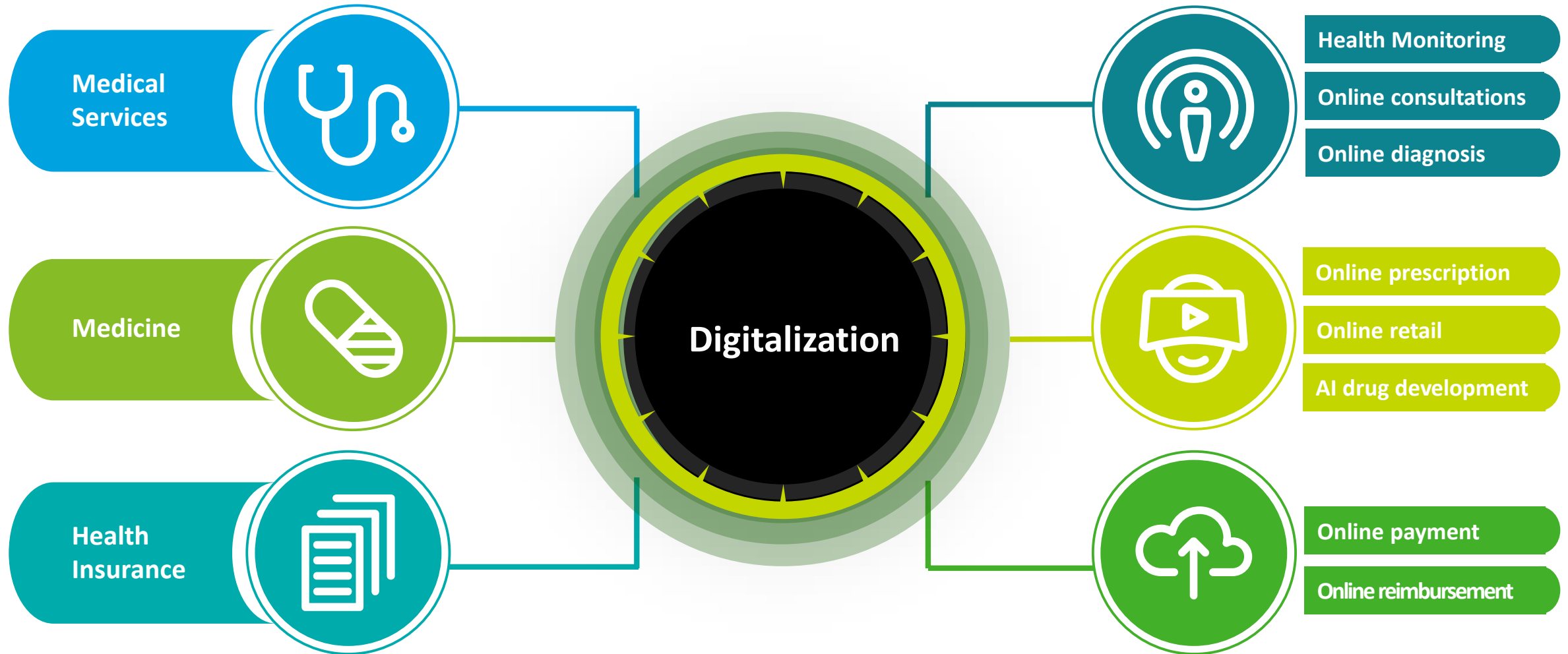
Note: *Incomes quoted in US dollars

Source: National bureau of statistics of China, Economist Intelligence Unit, China national urbanization development plan 2013, Monitor Deloitte analysis

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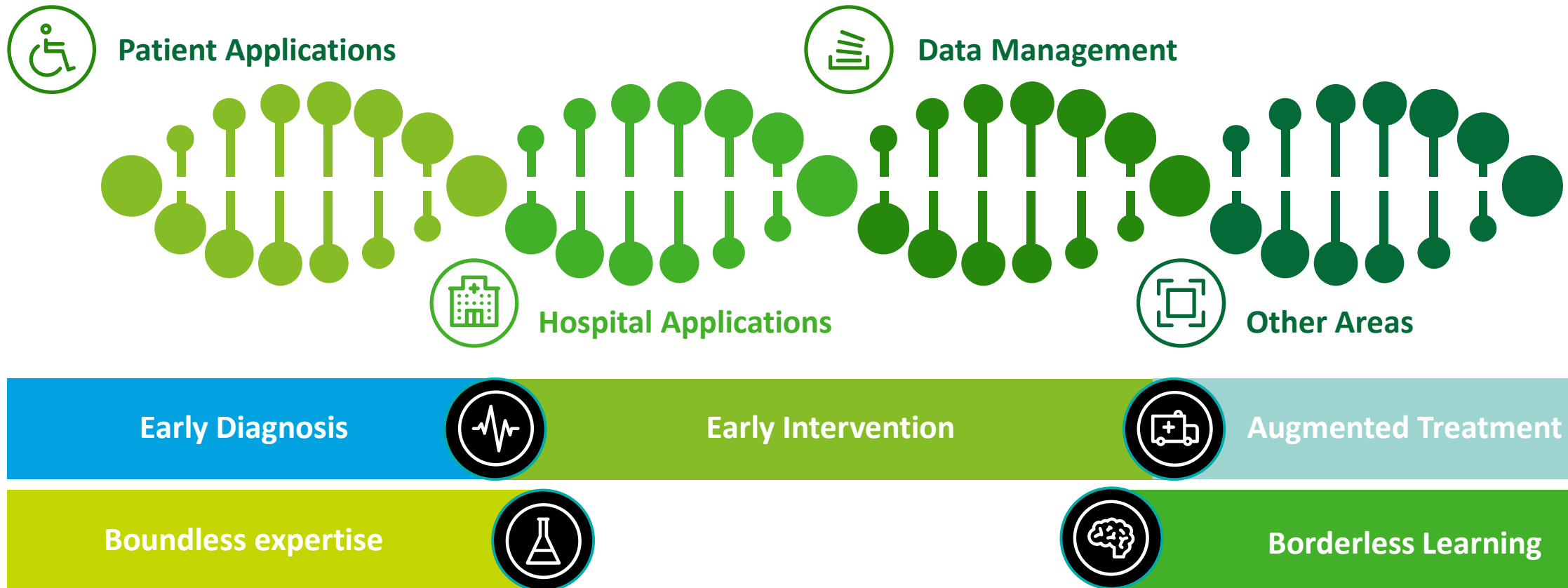
China's Healthcare Industry goes 'Digital'

Policies, markets and pandemic are promoting the digitalization of all healthcare sectors



Deployment of new technologies will fasten a larger digitalization of Healthcare in China

5G With its core characteristics of : higher speed, increased data capacities, augmented security – while this new communication technology should primarily benefit the telco operators



China's technology champions are stating :

Huawei began 5G+ healthcare research in 2016," said Zhang Wenlin, president of the Corporate Strategy Department at Huawei. "Since then, Huawei has built hundreds of 5G+ healthcare pilot projects based on our 5G indoor solution. Now, we have already contributed to the commercial implementation of many healthcare applications, including telemedicine (MDT cares), imaging tele-diagnosis, ECG tele-diagnosis, ultrasonic diagnosis, and training online."

China unique mobile technologies eco-system is allowing new industry entrants

China's unique eco-system fostering the use of mobile technologies and adherence in general to new technologies is providing fertile ground to fast China for China & China in China solutions

Tech giants involvement in healthcare



Alibaba



Tracking & Tracing/ Online consultation/ AI based algorithm for drug research & discovery

- Alibaba developed an **AI algorithm**, which can "**identify the image of coronavirus infected pneumonia**" in 20 seconds, with an accuracy rate of 96%." By the beginning of March, the algorithm has been applied to 26 hospitals in 16 provinces and cities, and was expected to expand to more than 100 hospitals.



Huawei



Drug development technologies, AI based drug research & discovery and related discovery models

- Huawei developed a cloud computing tool to **screen drugs** and find candidates for clinical trials. **Launched a rapid gene detection technology (January) and analytic AI tools**. Launched cloud platform for gene identification with one-click automatic service for **clinical diagnosis and monitoring** during the epidemic. Partner with Zhejiang University releasing **AI knowledge maps** for coronavirus scientific research.



Tencent



Tracking & tracing and self monitoring technologies and self-registration tools

- Since January 26, WeChat launched a "**national epidemic dynamic**" page to provide comprehensive functions, such as medical popularization, real-time epidemic statistics, fever outpatient map, etc. Launched a "**symptom self screening**" tool, which helps users with suspected symptoms to obtain guidance through AI. Opened its own **cloud computing, AI and big data** capabilities to provide technical support for free.

Application scenarios

Online medicine platform

Online medical consultation

Smart Hospital

Doctor enabler

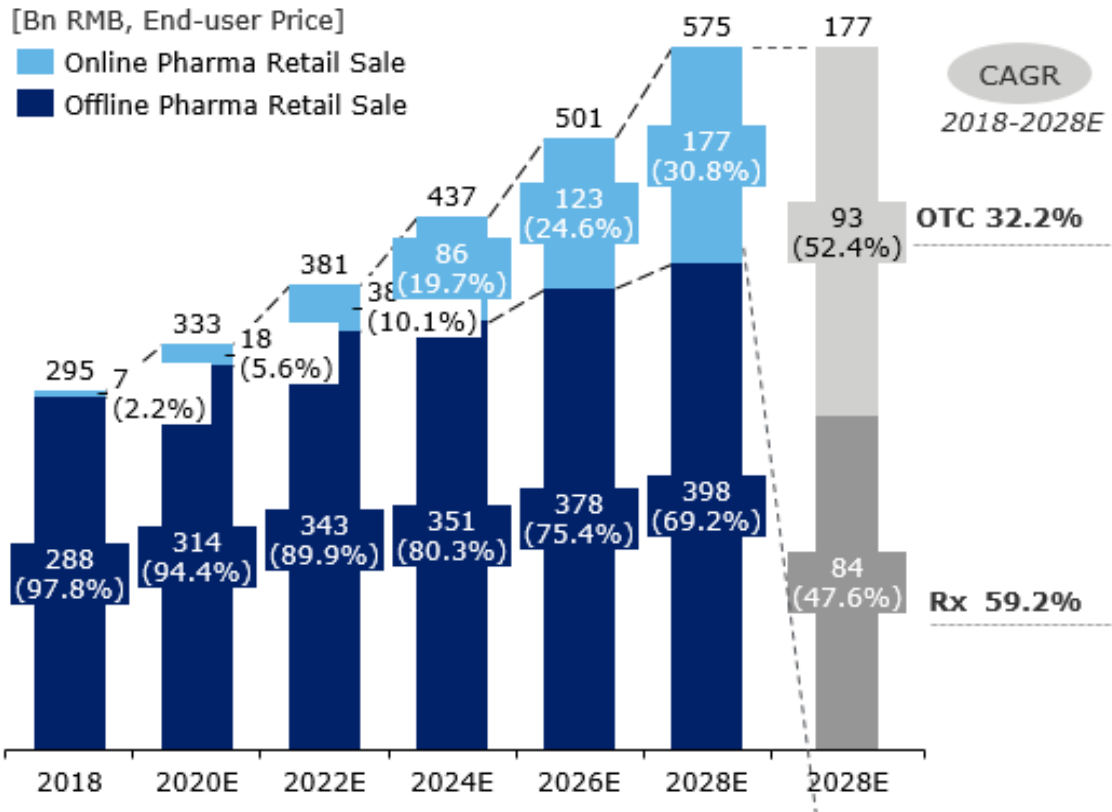
Health management

Big Data and systems

New distribution channels are on the rise for Pharma's operating in China

While barriers continue to exist in China : Rx Online purchasing and Initial (1st) prescriptions are yet constraint (regulatory), retail & online retail show high promises

Rx Potential Market Size Forecast



Source: expert interview, Monitor Deloitte analysis



Retail pharma market becomes more important to pharma companies – while the traditional channel of Hospital remain the largest

- Patients trust increasing
 - BMI (Insurance & payment) connectivity enlarged
 - Rx product restrictions will evolve
- But**
- Prescription restrictions (1st diagnosis) unlikely to change soon



Rethinking commercial engagement models for Pharma

Pharmaceutical companies need to develop tailored strategies for innovative and mature products in China and significantly redefine their commercial engagement model

Innovative Products

Speed of access broadening and “second-time launch” mindset are essential



Price-volume tradeoff after NRDL inclusion need to be carefully assessed

Need to **establish “second time launch” mindset** for innovative products by enhancing commercialization capabilities to harness full NRDL inclusion potential

Broaden market access through digital channels and engagement model

Mature Products

Critical to broaden market and improve adherence









Need to **expand commercial omni-channel** and reach broader lower tier market








Patient centric engagement with the aim of **improving patient access and medication compliance** is critical to prolong lifecycle of mature products

Strategically **ramp down investment**, and exit selective markets and even products







Enhancing digital capability of 3A hospitals in patient engagements and information storage

		On-line hospitals
		Digital service (e.g. appointment, EMR)
		Cross-institution ERM connection




Increasing digital coverage of HCPs

		Academic community
		Virtual consulting
		Productivity tool
		AI/ diagnoses tool

Booming on-line pharmacies, started with OTC and gradually expanded to RX

		E-commerce platforms
		Pharmacy O2O
		Cloud-based DTP

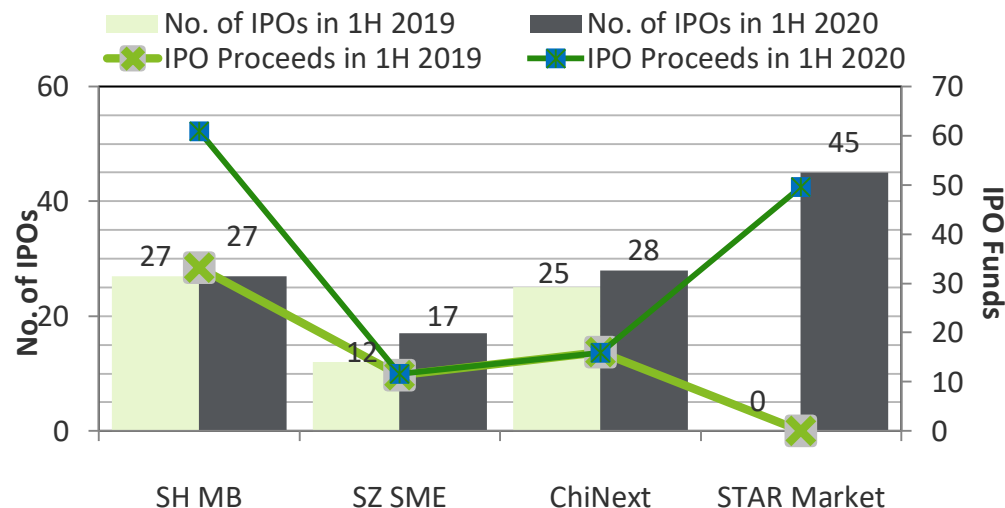
Rising tech- and data-driven commercial insurers

		Data-driven medical policy design
		Outcome-based reimbursement
		Patient & HCP engagement platform

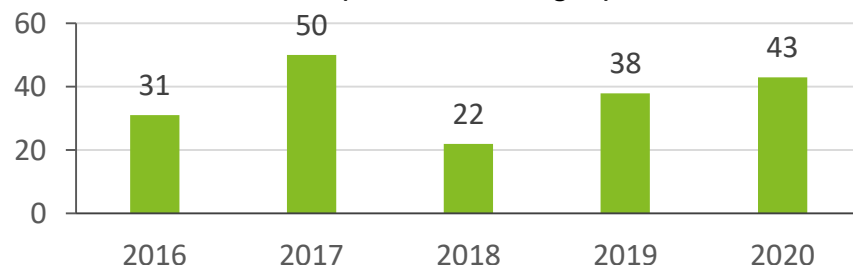
Capital raising and attraction continued to be high

Number of IPOs rose sharply and average proceeds edged up, with the latest being JD-Health

117 IPOs mainland in 2020 H1, Raised RMB 138.1bn, with growth rate of 83% and 129% respectively



Number of China LSHC IPOs in HK, A-Share and US Stock (2020 IPO as of Aug.20)



Source: CSRC and Deloitte's estimates and analysis as at 30 June 2020, assumes 12 companies listed from 16 June to 30 June 2020.

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HK Stock: 7 companies (Raised 15.3 Billion RMB)



A-Share: 18 companies (Raised 25.3 Billion RMB)



US Stock: 7 companies (Raised 7.3 Billion RMB)



Source: Public data, VBData, VCBeat Research

The sum up – The ‘Future of Health in China v1.0’

The 8 trends that will re-define the future of health in China



Aging population
and chronic
diseases accelerate
**upgrade in senior
care**



The rise of public and
private **health big data
enterprises**



E-commerce directly
connecting products with
patients / consumers



Exploding genomics and
**next-generation
therapies**

Expanded adoption of
AI and automation

Smart health deliveries
with **tele / virtual
medicines**

Platform-based business
model innovation

An emerging new health ecosystem defined with cross-sector convergence

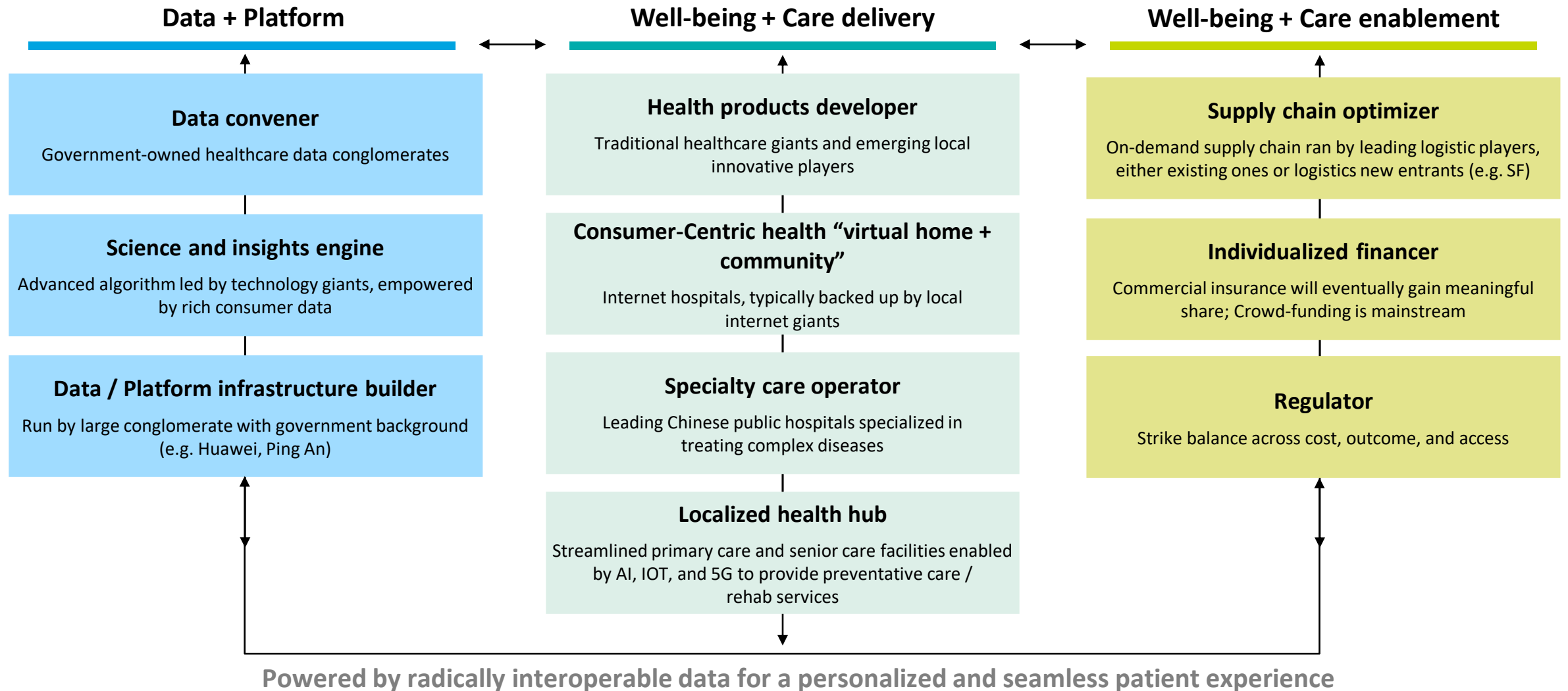
Outlook and conclusion



**The future of health will be driven
by digital transformation enabled
by radically interoperable data
and open, secure platforms**

China's future health ecosystem

In the future China healthcare system will look very different : 10 wining business archetypes

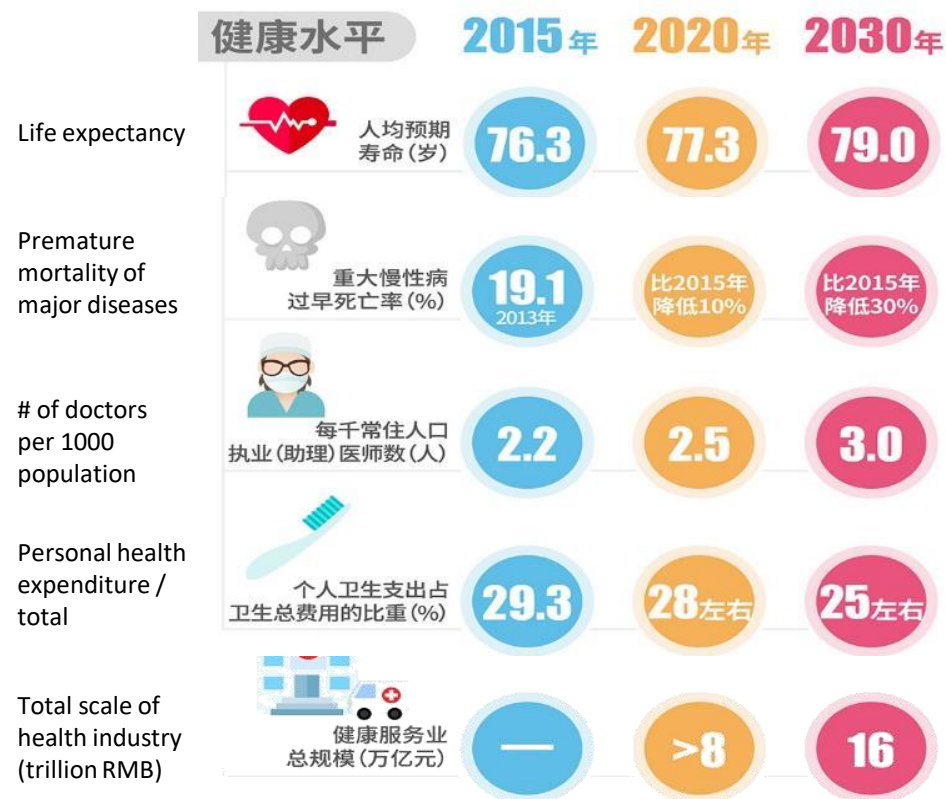


China government's ambitions for healthcare sector

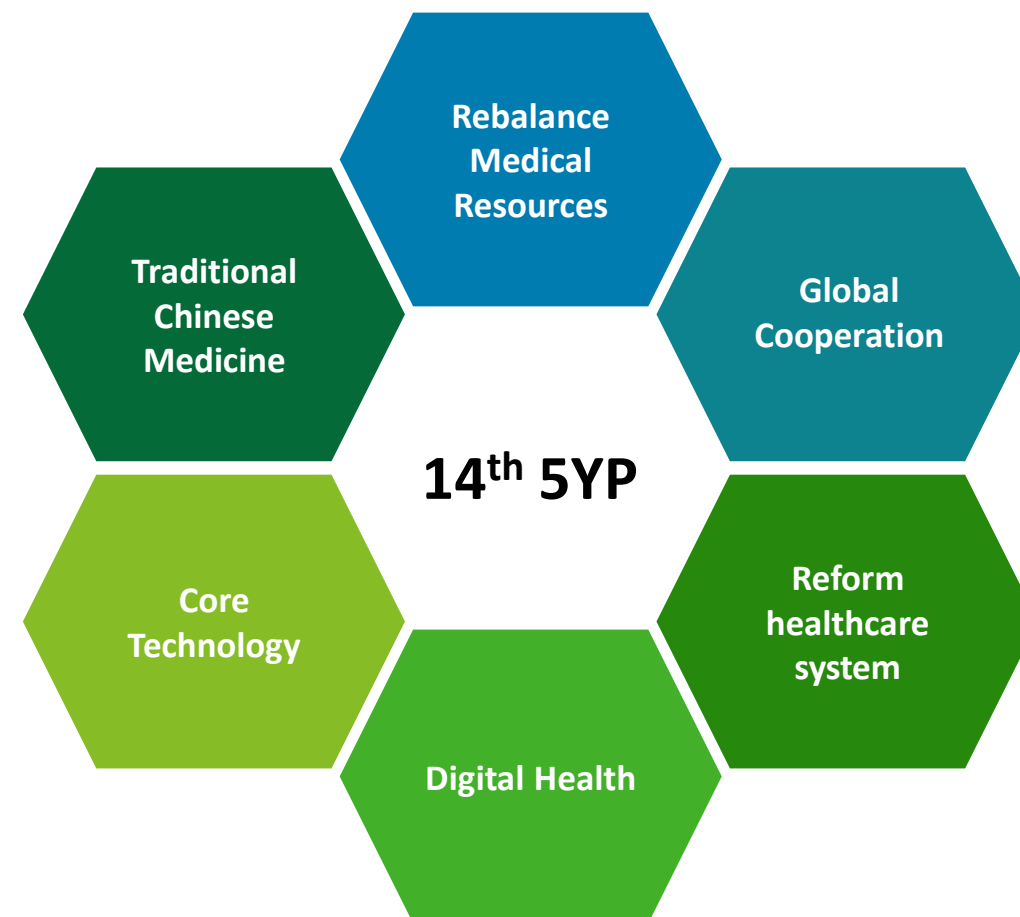
The upcoming 14th 5-Year Plan, is more than likely to set out specific goals and allocate resources

Strong Govt. Policies

2017: 19th CPC National Congress – Health China 2030 Roadmap



Upcoming 14TH 5YP



Question & Answers

Deloitte links : downloadable resources

Please scan the QR codes below to access the relevant reports. For more industry reports, please look at Deloitte's Life Sciences & Health Care website: <https://www2.deloitte.com/cn/en/industries/life-sciences-healthcare>



Snapshot survey of
COVID-19 impact on China
pharma industry



Six predictions for China's
pharma & healthcare sector



China as a digital
transformation sandbox: A
prescription for pharma
multinationals



China Future of Health 1.0

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