

China Life Science 2010: A Giant Leap Forward

*VC investment, IPO and M&A activity in
China life science in 2010.*

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ChinaBio® LLC tracks the full value chain of China's life science industry including new technology development, government funding programs, VC investment, IPO and M&A activity, partnering deals, clinical trials and more. This paper presents a brief overview of investment-related activities, including VC investment, IPOs and M&A transactions. For more information, please [contact us](#).

China's Growth Seems Unstoppable

While the western world was still grappling with the financial crisis, and the pharmaceutical industry was rethinking the basic tenets of drug development, China was rushing forward with 10.9% GDP growth, becoming the #2 economy and the #2 pharmaceutical market, surpassing Japan on both counts. It also became the #2 country for billionaires, crossing the 100 mark last year.

If you know anything about China, you know it does not relish being #2 at anything – only #1 will do for this country of fervent entrepreneurs and brilliant scientists. So it is probably only a matter of time before it reaches its goal, at least in these measures.

The following chart illustrates China's potential path to economic power. Combining data from a variety of sources, China surpassed Japan in GNP during 2010 to become #2 and will surpass the U.S. to become #1 in 2020. Perhaps even more surprising is that, despite the robust growth projected for the U.S., China's economy will grow to almost double that of the U.S. in 2030, at \$73.5 trillion.

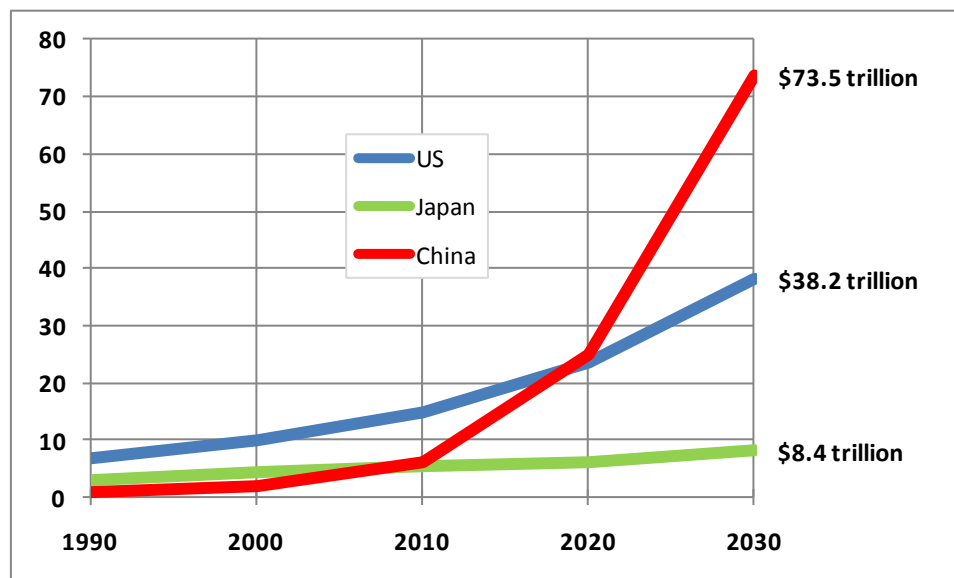


Figure 1. China to become #1 Economy by 2020 (Source: IMF, Xinhua, Standard Charter & Time)

OK, so we get it... China is on a march to global economic supremacy, in spite of the Tea Party's protests. But what about its life science industry? Will it follow a similarly steep trajectory?

IMS Health thinks so. They are currently predicting that China will reach #1 in 2020. But bear in mind that China has moved from the #9 pharmaceutical market in 2007 to reach #2 in only four years, nine years ahead of IMS's original prediction, so it could actually be much sooner.

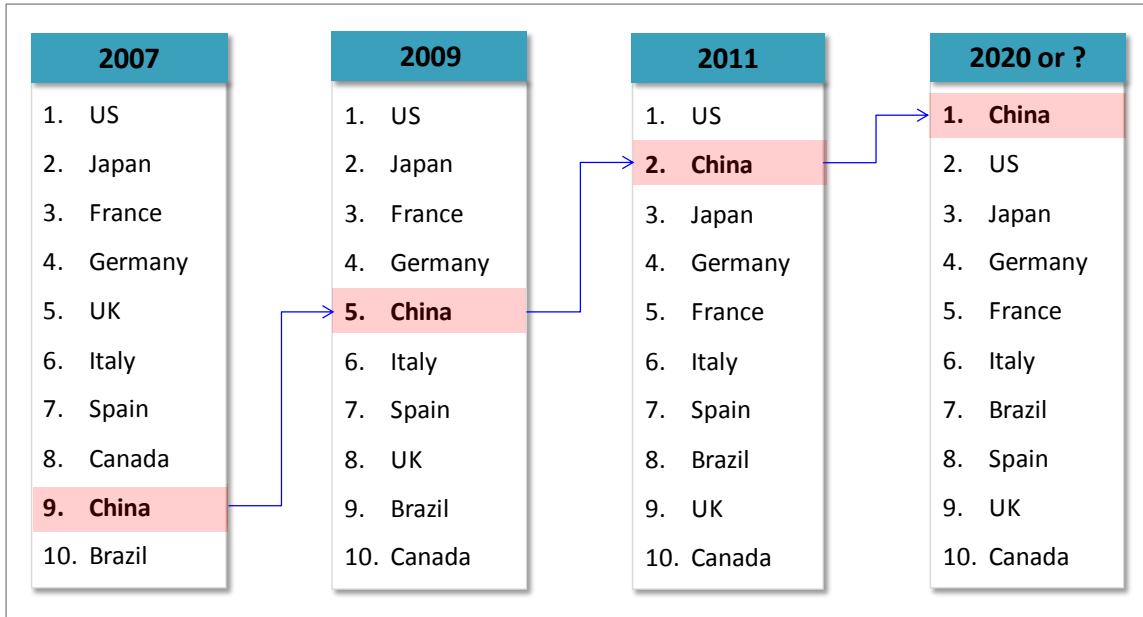


Figure 2. China to Become #1 Pharmaceutical Market by 2020 (Source: IMS Health & ChinaBio)

The pace of growth of the pharmaceutical industry in China is nothing short of phenomenal at 22% CAGR over the last several years. And most big pharmas are beating this rate, growing at 30-35% and in some cases, as much as 50% per year. Two, Bayer and Pfizer, have now crossed the \$1B . level in sales in China, and Astrazeneca is predicting that China will soon be its #2 market.

Leap Year - 2010

The year 2010 may not have been identified as a leap year on the U.S. calendar, but it certainly was in China's life science industry. VC investments, IPOs, M&A activity, partnerships, patents, and government funding all established new highs in 2010. During 2010, China life science recorded an impressive list of "personal bests:"

2010 – A Banner Year for China Life Science

- VC investment in China life science exceeded \$1 billion for the first time, climbing an amazing 319% from 2009;
- The first venture capital investment in China to top \$100 million U.S. was recorded, going to AutekBio, a biologics CMO in Beijing;
- A record 33 life science IPOs raised nearly \$6 billion U.S.;
- M&A activity rose 8-fold by dollar volume to \$3.4 billion U.S., with the average deal size up 3-fold to \$70 million, and several deals over \$100 million U.S.;
- Multiple \$50+ million partnering and co-development deals were inked for the first time; and
- NME patents have increased at 45% CAGR since 2000, hitting 3,200 total in 2010.

(Source: ChinaBio)

Multinational pharma have long known that China was the place to manufacture highly quality/low cost APIs and generic drugs, but they now recognize that China is also the place for R&D and for locating novel new technologies. Nearly every big pharma has established R&D centers and BD teams in China, many in Shanghai near ChinaBio’s offices in Zhangjiang, and several have established key global research centers there, including AstraZeneca, GSK, Pfizer and Lilly, among others.

Although we have yet to see a major new drug emerge from the creative fervor in China, the government is doing everything in its power to stimulate innovation. “Biotech” or, more correctly, biopharma, is one of seven key industries in China’s Twelfth Five-Year plan. In fact, there are now over 160 programs pumping more than \$15B dollars into early stage drug research and commercialization efforts in China, with more expected. And with several “Class 1” or globally novel drugs now in the clinic, it seems only a matter of time until China sees its first breakthrough drug hit the market.

Paraphrasing the immortal words of Walter Cronkite, let’s take a deeper look at the year that was, and see what made 2010 such a phenomenal year for China’s life science industry.

VC Investments in 2010

For VC investors in China life science, 2010 recorded new levels of activity. The previous best year was 2007, which appeared to be on its way to approaching the \$1B mark until the financial crisis hit and VC investment all but dried up. After two years (2008-09) of basically flat investment at around \$320 million, 2010 started off very strong and continued with enough momentum to total just over \$1 billion, a 319% increase from 2009.

Completing 58 investments, not only did investors find more deals that intrigued them, they put more money into each one. Deal size rose from just under \$12 million in 2008 to \$21 million in 2010.

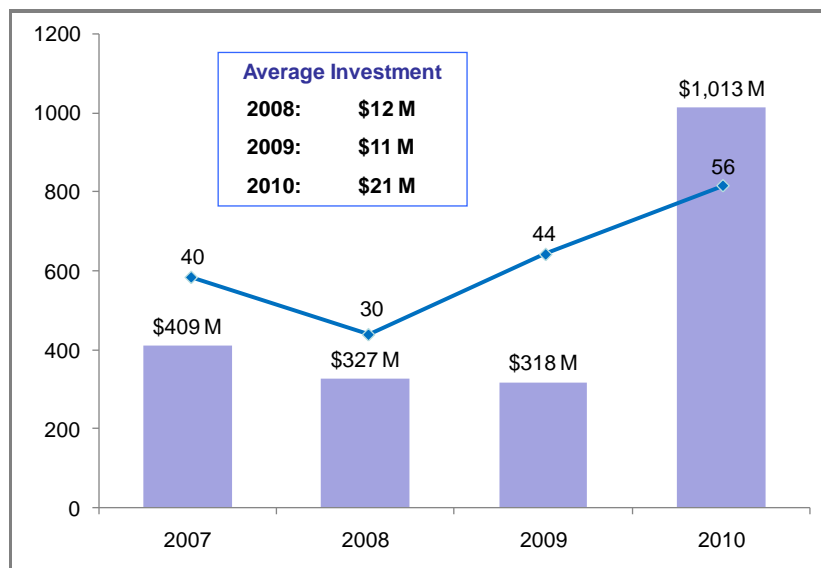


Figure 3. VC Investment Hits Record \$1B in 2010 (Source: ChinaBio)

During 2010, the standout VC investment was the \$120 million put into AutekBio Inc. by SUMA Ventures and Beijing E-Town Harvest International Capital, the official investment arm of the Beijing Municipal Government. AutekBio is a CRO/CMO focused on biological drugs, a potentially huge field of especially high interest to China. But, contrary to conventional wisdom, drugs were where the action was at, with \$636M (64%) going into the sector.

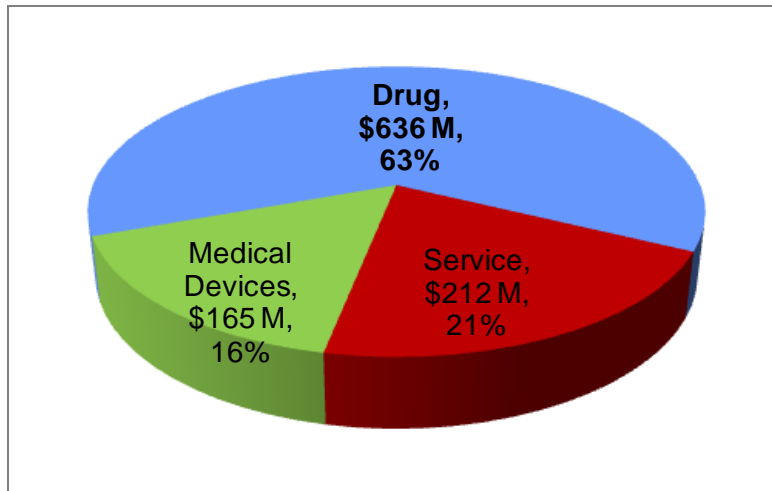


Figure 4. VCs Are Definitely on Drugs in China (Source: ChinaBio)

Other large deals included an almost \$70 million investment by One Equity Partners in Guangzhou Konzern Pharmaceutical in the early part of the year, a \$73 million round by Sumitomo for C&O Pharmaceutical (Holdings), and an \$80M raise by Morgan Stanley for Shandong Buchang Pharmaceutical. Given these big deals, it's not surprising that VC investing in 2010 was tilted toward the drug sector.

IPOs Very Hot in China in 2010

There is no better symbol of China's continued economic strength than the ability for its companies to successfully go public. In 2010, more than half of all the IPOs worldwide were for China companies. And the same metric speaks persuasively of a healthy climate for China life science, the lifeblood of venture capitalists and other early investors.

The \$1.2 billion IPO staged by Sinopharm on the Hong Kong Exchange in November 2009 showed that a new wave of initial offerings lay ahead for life science companies. If a drug distribution company, the largest in China though it claimed only an 11% share of its market, can easily raise over \$1 billion, then the world had become very optimistic about the prospects for China life science.

The results are rendered graphically below, and they speak for themselves: the dollar value of China IPOs jumped 47% over 2009, which was also a record year, to hit a very healthy \$5.9 billion. Average IPO size was also remarkable at \$177M each, giving VCs the kind of exits they are looking for from the public markets.

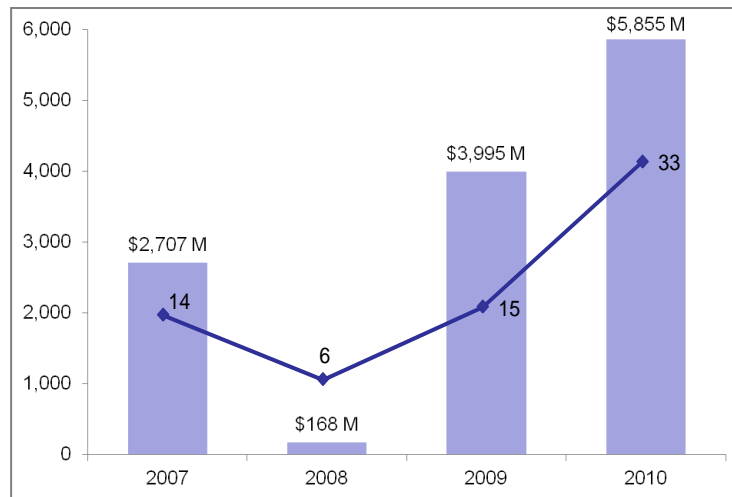


Figure 5. A Record Year in Number and Dollar Volume for IPOs (Source: ChinaBio)

Drilling down into 2010’s details, there were three China life science IPOs that each raised over \$500 million during the year. Only one of them, Sihuan Pharmaceutical Holdings Group, was listed on the Hong Kong exchange.

The other two blockbuster offerings, Shenzhen Hepalink Pharmaceutical and Sichuan Kelun Pharmaceutical, were listed on the Shenzhen exchange, the most popular exchange for life sciences, with nearly half of last year’s transactions staged there. Hong Kong and Shenzhen’s ChiNext exchange, which is intended to be an SME exchange in the likeness of NASDAQ, were almost equal, hosting about 20% of each. Shanghai and NYSE were mere blips, with 1 and 3 deals each, and AmEx was left out in 2010.

Although China’s life science companies often combine the usually separate businesses of drugs, medical devices and services, making them difficult to categorize, drug-focused companies were the clear winner with a commanding 79% slice of the IPO pie.

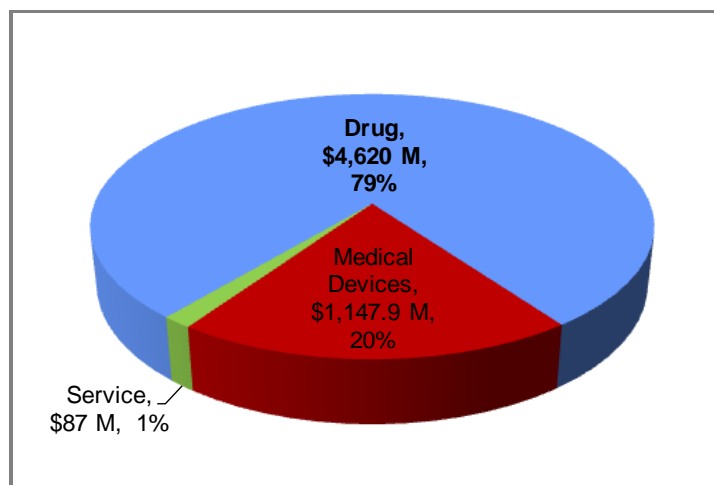


Figure 6. Public Investors are also on Drugs in China (Source: ChinaBio)

M&A Activity

M&A deals followed a slightly different path than IPOs due to the lack of maturity in China. The sector entered 2008 with significant forward momentum, but that energy was lost as the severity of the economic crisis became evident. Nevertheless, the first quarter of 2008 was strong enough to give the entire year a respectable number, \$1.8 billion. However, for the rest of 2008 and all of 2009, there was little activity. In fact, the value of M&A deals during 2009 totaled just \$440 million.

In 2010, M&A made a very strong comeback, almost doubling the previous high-water mark at \$3.4 billion, making it a record year.

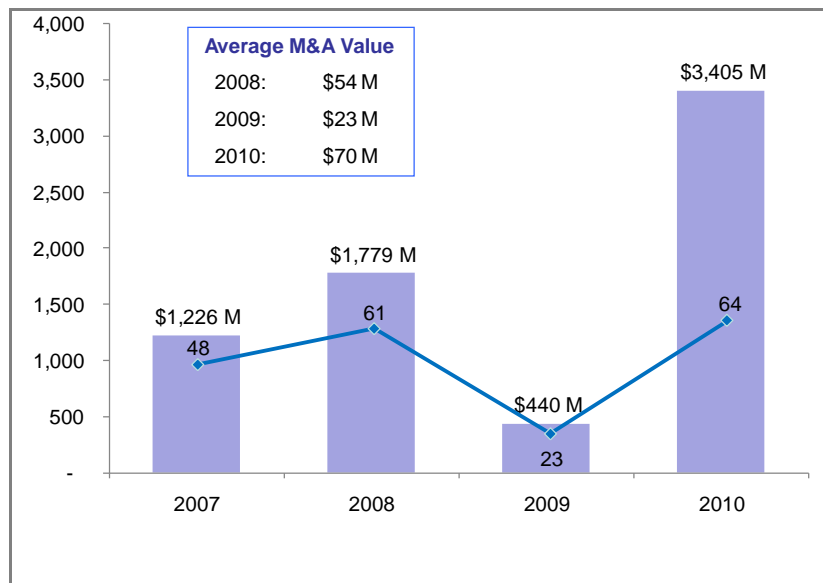


Figure 7. M&A Activity Rebounds with an 8-fold Leap (Source: ChinaBio)

In 2010, the three biggest M&A deals were all for distribution companies and all occurred in Q4. The largest transaction was a \$520 million purchase of BMP Sunstone by Sanofi-Aventis. Also in late 2010, Cardinal Health, one of the big three drug distributors in the U.S., paid \$470 million to purchase Zuellig Pharma China, a prominent distributor of western drugs in China. In the third major transaction Shanghai Pharmaceutical Holdings paid \$348 million for a 65% stake in Beijing-based China Health System Ltd.

The following chart divides 2010's transactions by sector according to deal value. It shows that companies whose focus is drugs once again dominate the results, followed by entities that provide drug-related services. With drugs and services taking almost all of the money, there were only scraps left for medical devices and diagnostics.

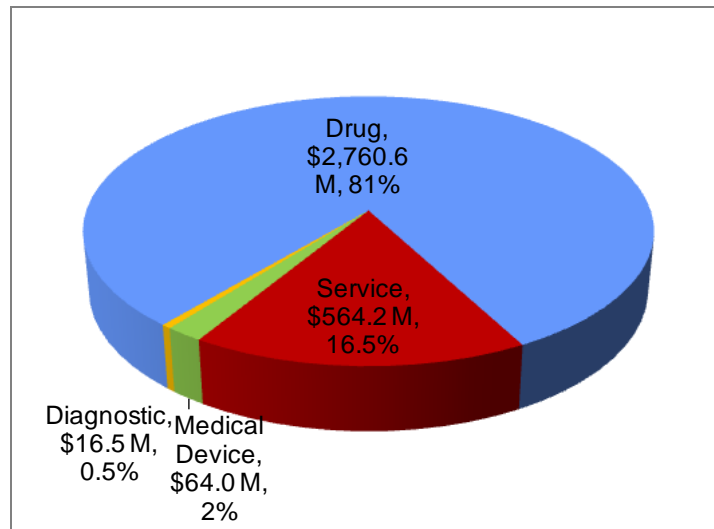


Figure 7. M&A Also Focused on Drugs in 2010 (Source: ChinaBio)

Cross-border M&A experienced a significant up-tick in 2010. This was at least partly responsible for increasing the deal size to an average of \$70M, because, at this stage of market development, western companies are still willing to pay more for assets and market access than Chinese companies.

Some examples of cross-border deals include the already mentioned Sanofi-Aventis/BMP Sunstone (\$520M) and Cardinal/Zuellig (\$470M) deals, the Nycomed acquisition of 51% of Guangdong Techpool Bio-Pharma for \$214M, and GSK’s acquisition of Nanjing MeiRui Pharmaceutical for \$70M. We expect to see a continuation of M&A deals in 2011, with one of the big drivers being access to distribution channels. Given China’s 16,000 drug distributors, this sector remains incredibly fragmented.

Conclusion – What the Future Holds for China

2010 was a momentous year for China life science, with virtually all metrics tracked by ChinaBio showing significant growth. As the #2 pharmaceutical market and a growing hub of global innovation, China must now be an integral part of any company’s strategic plan. And as a huge country with a large population that is underserved medically, China will continue to outpace global growth for the foreseeable future. Although lower cost initially attracted big pharma and others to China, it is will be the availability of talent, funding and technology that will drive China to achieve and sustain #1.

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www.CBPF2010.com

ChinaBio® Investor Forum 2011 – Jinan | July 13-14, 2011

www.CBIF2011-JN.com

BioBay Investor Forum 2011 – Suzhou | September 21-22, 2011

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ChinaBio® Leadership Retreat 2011 – Taicang | October 10-11, 2011

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