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I believe we are entering a new, exciting phase in China—a period of more maturity in the market

09.12.2024

Tags: China, Deloitte, Consultancy, Investment, M&A, Healthcare, Access, Pricing, Strategy

Jens Ewert, Life Science and Health Care Industry Leader at Deloitte China, provides an in-depth analysis of the development of China's healthcare landscape over the previous past four years. Ewert highlights key trends such as the growing role of local biopharma players, the impact of value-based pricing, and the changing capital funding and M&A environment. He also discusses how companies are adapting their strategies in response to economic pressures, demographic changes, and the increasing emphasis on personalized care and sustainability within China's healthcare ecosystem.

How has the Chinese healthcare and life sciences sector evolved over the past four years since our last conversation?

The Chinese market continues to be quite positive for Deloitte and for consultancies in general. It remains the second-largest pharma market in the world, and companies continue to invest and do business here. Most global companies see their China business contributing between 5% and 8% of their global revenues. While there are outliers—some much smaller or larger—this range seems to be the norm and is seen as a necessary scale to justify being in the country.

The ways of operating and investing in China have changed significantly over the past few years, mainly due to a push from Beijing to bring in more innovation. This push to introduce new

solutions, drugs, and healthcare advancements is attractive for many companies. For us, the outlook remains bright—not the rapid growth we saw a decade ago, but steady and sustainable growth. Even with the population expected to decline, the healthcare needs of that population are not decreasing. In fact, we see those needs increasing in the years ahead.

From a demand perspective, the focus of the market has not shifted much. Beijing still prioritizes providing the best healthcare to the largest portion of the population at the lowest possible cost. This means a continued emphasis on generics, local solutions, and me-too products that have a lower cost base. However, this does not mean there is no space for innovative drugs. There is room for both, as the market tries to balance bringing in the latest know-how and catering to those who can afford it.

What has become clearer over time is that pushing for innovative drugs is a critical success factor for foreign companies. Competing in the Volume-Based Procurement (VBP) program, which focuses on generics, has been a mixed bag. Some multinationals have chosen to compete there and have been successful, while others have struggled or even opted out entirely. Localizing supply chains to compete in the VBP space is an option, but it can be operationally and financially challenging for multinationals. Still, the sheer size of the patient population makes it an attractive consideration for some.

The VBP program, which ensures generics receive priority in prescriptions, is here to stay. While entering the program often means severe price cuts, it comes with the promise of higher volumes. This trade-off can be both an opportunity and a challenge, as the increased demand for products in the VBP program can sometimes outpace industrial capacities, creating supply chain issues. Companies need to adapt and rethink their strategies to navigate these complexities effectively.

Regarding Value-Based Procurement and the National Medical Products Administration registry, what are the prospects for introducing innovation into the fragmented and cost-conscious Chinese market today?

When it comes to introducing innovation, the key lies not just in pricing or industrial operations but in demonstrating the value of your product. Messaging and education play a big role here. It is crucial to ensure that healthcare systems, prescribers, and patients perceive your product as offering better outcomes than others. This differentiation—grounded in measurable results—determines whether your product gets chosen or prescribed over competitors. This is something multinationals are actively focusing on to navigate the market effectively.

Access to the National Medical Products Administration (NMPA) registry has accelerated significantly over the past decade. Where it might have taken six to eight years to get the required local data and go through the NMPA process 10 to 15 years ago, it now takes closer to two or three years. This faster timeline has made it much easier for companies to bring innovative products to market.

In recent years, there has been a noticeable shift in the types of products gaining market access through NMPA. A decade ago, around 75% of newly registered products were from foreign companies. Today, it is closer to a 50/50 split between foreign and domestic companies, and in some cases, domestic players have outpaced foreign ones. For example, in 2023, the majority of newly registered products were domestic. The latest data for 2024 suggests a roughly 60/40 split, leaning slightly in favor of domestic companies.

This shift indicates that competition in the innovative drug space has expanded. It is no longer just among foreign players; domestic companies are increasingly active and competitive in this area. This adds a new layer of complexity for multinationals aiming to introduce innovation and succeed in the Chinese market.

Local biotechs are now playing an increasingly significant role both in bringing new medicines to patients and as part of the government´s strategic industries. However everyone is now confronted with the reality that local market pricing does not help to recoup R&D investments while keeping a healthy and sustainable industry….

Innovation needs to be rewarded, and this is especially true for Chinese biotech companies. However, the reality for many of these firms—especially those backed by private investors—is that they may face a tough adjustment to economic conditions. Valuations placed on some of these companies in the past may not match the current market environment. That said, Beijing remains committed to supporting local innovation as part of its larger strategy to ensure Chinese biotech can develop treatments for the local population.

Of course, there will be failures—but there will also be successes. The government has been focused on ensuring that biotech addresses the largest segments of the population, traditionally in areas like oncology, cardiovascular, and respiratory diseases. However, there is growing recognition that the future lies in more personalized treatments, including genomics, cell, and gene therapies. These areas are advancing rapidly, and it is likely that government support for these fields will continue.

In terms of capital funding, the overall environment has tightened. Stock markets have come down, and funding levels are lower than pre-COVID—around 30 to 40% less. However, there is still significant activity, particularly in early-stage biotech companies. We have seen an increase in higher-risk investments, particularly in Series A funding rounds for new biotechs focused on emerging areas like genomics and advanced therapies. While the deals tend to be smaller, there is a notable appetite for taking risks in these cutting-edge spaces.

Government support remains a key factor. Alongside direct funding, the government provides indirect support through infrastructure, talent development, tax incentives, and other mechanisms to strengthen the biopharma environment. This combination of public and private funding, coupled with a focus on innovation, ensures that the Chinese biotech industry continues to grow—even amid challenging market conditions.

Industry players have highlighted the challenge of obtaining reliable data and insights to determine whether to place products in the reimbursement registry or focus on the private market. What is your perspective on making these commercial decisions?

There are two key aspects to this. First, it is important to remember that China is a regulated market, and Beijing plays a central role in deciding what types of personal care or treatments should be accessible within the country. We are starting to see a shift where Beijing is becoming more open to personalized care and treatments from foreign companies. For example, there have been recent changes to foreign direct investment policies, particularly around cell and gene therapies, to attract players in those areas. This reflects a growing recognition of the value these specialized treatments can bring.

The second aspect is the challenge of accessing granular data. For foreign companies, obtaining detailed insights to make decisions about placing products in the reimbursement registry versus focusing on the private market can still be complex. However, for highly specialized treatments like cell and gene therapies, a national rollout is unlikely at this stage. Instead, we expect targeted pilot programs, similar to the approach China has taken with free trade zones. These pilots will allow for controlled introductions of high-end treatments in specific settings, which can generate useful data.

When it comes to accessing data, partnerships are key. There are now more partnering models than ever before, including collaborations with e-commerce platforms, e-hospitals, and healthcare organizations. Within this ecosystem, specialized hospitals and prominent healthcare institutions often take the lead in piloting or implementing these treatments. By partnering with these

stakeholders, companies can gain valuable insights and make more informed commercial decisions.

Ultimately, while challenges remain, the evolving openness to innovation and the growing ecosystem of partnerships offer opportunities for foreign companies to navigate the market effectively.

A key component China's healthcare landscape is the push for multilayered insurance plans offering varying levels of coverage at different price points. How has the development of private insurance schemes progressed?

The uptake of private insurance in China has not been as strong as expected. From a patient perspective, the perceived cost-benefit balance does not seem to be at the right level yet. For those who can afford private insurance, many also have the means to pay out-of-pocket for treatments if necessary. It becomes a question of whether they want to take the risk of paying out-of-pocket later or invest in private insurance now, especially since the basic medical insurance (BMI) already provides some level of coverage.

There is also an education gap around the benefits of private insurance. Many companies, particularly foreign ones, have introduced policies to offer private insurance to employees at preferential rates as part of their talent retention and attraction strategies. As a result, much of the private insurance market is driven by corporate programs rather than individuals independently signing up for coverage.

Private insurance is also concentrated in tier-one cities like Shanghai, Beijing, and Guangzhou, where the population is more affluent and healthcare systems are more advanced. It has not yet expanded meaningfully to tier-two and lower-tier cities, where there is significant untapped potential. Urbanization in China is over 60%, but there are still hundreds of millions of people living outside major metropolitan areas, and private insurance has yet to reach them in a meaningful way.

This ties back to broader imbalances in the healthcare system. Many people from lower-tier cities and rural areas travel to tier-one cities for treatment because they perceive the healthcare services there to be superior. Despite efforts by the government to invest in infrastructure and improve healthcare in less developed regions, much of the patient volume—up to 75 to 80%—is still concentrated in top-tier healthcare institutions in major cities. This creates strain on those facilities

and leaves lower-tier cities underutilized.

Ultimately, improving the adoption of private insurance will require addressing the cost-benefit perception, expanding education about its advantages, and building trust in healthcare systems outside tier-one cities. The government's ongoing investments in infrastructure and local healthcare services will also play a key role in balancing this landscape.

Some companies are exploring alternative business models sometimes going away from their traditional roles of medicine purveyors. How risk/reward should be asses?

China is a market that challenges traditional ways of operating and forces companies to adapt their business models. Boards of directors, especially those based far from this market and who may not have visited recently, often lose sight of what this market can offer and how it operates today. In Western media, the focus is often on risks, while opportunities are underrepresented. Striking the right balance in how we approach and message these opportunities is crucial.

We are seeing changes in operating models, particularly with the rise of partnerships in areas like insurance. For example, some companies are teaming up with insurers to offer coverage for specific conditions, such as chronic diseases, to help reduce the financial burden on patients. From a regulatory perspective, this aligns well with Beijing's priorities. It alleviates pressure on the BMI system and helps distribute healthcare costs more evenly.

However, it is important to remember that healthcare in China is part of the social contract. Companies need to understand that this market will create opportunities, but they should not expect to achieve the same premium pricing as in other markets. As I often remind board members, the Chinese market will not reward the highest prices for the latest innovations. The focus here is on affordability and accessibility for the larger population.

Healthcare costs in China are rising significantly. In 2023, healthcare spending reached 7.2% of GDP, which is a 50% increase compared to a decade ago. This growth has outpaced the country's GDP growth, but it is unlikely that healthcare costs will reach the levels seen in the US or some European countries. The government will work to contain costs because resources are not unlimited. With an aging population, the structural increase in healthcare needs is a reality, just as it is in many other markets.

Exploring new business models like specialized insurance can open up opportunities, but it also comes with risks. Companies need to navigate the regulatory environment carefully, manage

patient affordability, and adapt to the broader dynamics of a cost-conscious healthcare system. Success depends on balancing these factors while recognizing that this market requires long-term, sustainable strategies.

How do you view the current M&A environment in China’s healthcare and life sciences sector?

The M&A landscape in China’s healthcare and life sciences sector has changed a lot over the past five years, particularly from pre-COVID to now. Global big pharma companies have localized their business development teams in China. While these teams are not always the decision-makers, they are as close as possible to the local market. Their role is to gather insights, identify best-in-class assets, or find assets that may not be first-in-class but offer unique potential with a different setup.

We have seen significant activity, particularly in licensing transactions. This goes both ways—in licensing and out licensing. Regarding out licensing, global big pharma is increasingly complementing their pipelines with Chinese assets. The quality of these assets has improved greatly in recent years, thanks to the support and innovation capacity within China. These assets have become highly attractive to global companies.

On the other hand, Chinese companies benefit from licensing out their assets to global markets as it provides them with much-needed capital to continue funding research and development. This mutual interest in licensing is likely to continue. We are also starting to see more risk-taking in the form of full asset buyouts. For example, BioNTech recently acquired a Chinese oncology and immunology asset in a full buyout without discounts—something typically seen in the US market. This reflects the recognition that Chinese assets are now of higher quality and competitive on a global scale.

In addition, some multinationals are exploring M&A to give their portfolios a more localized perception. By acquiring Chinese assets, these companies can not only expand their global pipeline but also cater to the local market. This strategy acknowledges the growing innovation and quality coming out of China and provides a way to bring those assets to the Chinese market first.

Overall, licensing activity in both directions will continue, and M&As are likely to see an uptick as well. While valuations have generally come down in China, as they have in global pharma markets, this varies on a case-by-case basis. The quality of assets and strategic fit will ultimately drive these decisions.

How significant is the challenge posed by China biotech's declining appetite for IPOs? Is this a temporary setback or part of a longer-term trend?

IPO activity has dropped dramatically. Where we used to see around 100 transactions annually, the number has fallen to just a handful in 2024—fewer than 10 in the first half of the year. The broader appetite for capital markets access has cooled, and this is driven by several regulatory factors. Local regulators are focused on improving the quality of companies entering the market, ensuring that only those with solid fundamentals are able to list. This shift moves away from a more open system where anyone could access the capital markets, some succeeding and others failing, which could expose investors to undue risk. The current approach is part of a broader effort to manage wealth creation and protect the market, similar to measures taken in the real estate and stock market sectors.

In the venture capital and private equity (VCPE) space, however, we continue to see activity. Portfolios are being reshuffled as firms turn their focus to the strongest assets. Fresh capital is still coming into quality assets, but choices are more selective. Companies can no longer rely on broad support for every asset in their portfolio, which will likely lead to some consolidation in the sector.

Overall, the outlook remains cautiously optimistic. While IPO activity has slowed, this may be the bottom of the cycle, and recent changes to stock exchange regulations, such as reducing freeze periods for founders post-listing, are steps toward making the market more attractive. Previously, long lock-up periods discouraged founders from going public, but these changes could improve the appeal of listings in the future.

Looking ahead, amidst shifting geopolitical dynamics towards China, where do you see the country's healthcare and life sciences industry heading in the near future?

While I do not have a crystal ball to predict the future, I believe we are entering a new, exciting phase in China—a period of more maturity in the market. This maturity brings the need for more choices and a clearer understanding of the diversity within China. Shanghai is not China, and it is important to remember that. The healthcare and life sciences market is vast and varied, with different dynamics across regions.

Even with slower growth rates, the size of the market means significant absolute growth. For example, when the market was smaller, a 15% growth rate produced less impact than today's 2 to

3%, which represents much larger absolute numbers. Growth will increasingly come from pockets, such as the overall uplift of the middle class. While achieving Beijing’s long-term goal of raising 600 million people to an income level of over $200 a month is a tough challenge, it is a realistic target over time.

In the short term, measures like stimulus packages are unlikely to have an immediate impact. These efforts aim to address deeper structural issues, such as local debt and the reliance on land financing for economic activity. Finding a new model for generating and recycling government funds into the economy is critical. This will require not only systemic changes but also shifts in mindset and education for those managing and operating the country’s systems—both at the government and party levels.

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