

# Interview with Greg B. Scott, President & Founder, ChinaBio® LLC

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29.07.2012

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## **This is our first meeting in Shanghai after being based in Beijing for two months – what if any are the differences between the two cities?**

At the top level, Beijing is usually perceived as better in science, and Shanghai as better in business. That probably isn't as clear-cut now as five years ago when I first came to China, but Beijing still has the top universities. However Shanghai, with Fudan and Jiao Tong, has very good universities as well – and many Beijing universities are setting up satellite campuses in Shanghai! The bottom line is that if you're doing regulatory work or anything else to do with the government, Beijing is still the better place to be. For instance Bioduro, or Bridge, now known as Pharmaron, located their tox facilities in Beijing to be closer to the government, and even though the SFDA has established a major branch in Shanghai as well as other second-tier cities, just like how in the US it's important to have a presence in Washington, D.C., the same applies to Beijing in China.

I think where we are right now, in the Shanghai Zhangjiang Hi-Tech Park, is definitely the centre of the pharmaceutical industry in China. There's no higher concentration of biotech and life science companies in the world, roughly 600 in a 17 square mile or 25 square kilometre area. This is what brought me to China in the first place. In 2006, I was on vacation and had one business meeting on this very floor in this very building. Don Qiu, who is now my General Manager, drove me around the park, and I said, "Wow, I've got to come back." I wasn't quite sure at the time what was going on, but I decided I was going to come back to China to figure things out. It's still the most vibrant hub for the pharmaceutical industry, and most of the large multinational companies are bringing R&D to

Shanghai. There are a few, such as Merck, Bayer, and Sanofi, which have been primarily in Beijing, but other than that – Roche, Eli Lilly, AstraZeneca, GSK, etc. – are literally right outside our window. You have some of the major Chinese pharmaceutical companies doing novel drug development, as well. Hutchison is located next door; Reyoung is opening new R&D facility across the street and is building up their team. Shanghai is, for Chinese companies, a major hub. Chinese companies are more geographically diverse, but you'll still find most of them in Shanghai or Beijing.

**You have the 3Cs – Consulting, Conferences, Capital – can you talk about that last C, and how important capital is and its changing importance to the Chinese biotech sector over time?**

Things have evolved in the last six years since I've been here. In my first year, I was acting primarily as an angel investor in early-stage life science companies. I would meet with entrepreneurs, very bright individuals, mostly returnees who had come back from the U.S. or Europe and had been educated there and were in China developing their ideas, but they had no idea how to raise capital, make business presentations or business plans. Now, that has completely changed. The business environment is much more mature and sophisticated, and there are often returnees who have started a company in the U.S. or somewhere else, and subsequently come to China. The ones who had started businesses 6-9 years ago are much more sophisticated as well. In a general sophistication level, China remains a notch or two below Europe or the U.S., and there are wild ideas coming from professors here – but you see that everywhere in the industry. In general, the environment has moved upscale pretty significantly, and there is a lot of foreign capital coming into the life science industry in China. It's important to note that it's very different than the hi-tech or software industry, TMT, and so on, which is primarily China-based capital financing. Roughly 80-90% of money in the hi-tech industry comes from China, whereas in life sciences and biotech around 60-70% of the money comes from outside China.

**Another shift is the point at which investors are interested in biotech, moving earlier and earlier from former requirements of proof-of-concept, mature technologies. What has driven this change?**

There are a couple of factors. One is the increasing sophistication; six years ago, there wasn't a lot of novel development in China, and even then, the patent structure behind it would be rather weak or non-existent. Now there is much stronger IP, and global IP behind what's coming out of China. The second driving factor is that Big Pharma have come here and now have R&D here and are looking more for opportunities in China. One of ChinaBio's first clients was Roche Diagnostics, for whom we did a technology search. Much to their surprise we found a lot of novel technology, but it was pretty nascent. Today you can find a lot of technology that is truly globally novel, has global IP, and is of interest to global companies.

Another driving factor is that particularly in the pharmaceutical industry, but also across the life

science industry, companies are having to look outside their own backyards for technology. Take Roche, for instance, they are winding down Nutley, but at the same time hiring 1,000 people in China. They believe China can be and will be a hub for innovation in the future and are committed to and investing in that. They're much more open to working with technology here in China as well.

**What's the split in ChinaBio's portfolio between the MNCs, versus mid-tier companies and locals?**

ChinaBio's business is generally driven by Western companies coming to China and bringing Western assets to China – we're talking late-stage phase 2 to marketed products. That's in part because that's what Chinese companies are looking for, because that's what the regulatory system supports. It's easiest to bring a molecule in phase 2 in the West that's ready to go to phase 3 to China because you can basically do a parallel study with the phase 3 and get approval. However, if a molecule is in phase 2 or 1 or before, it's just like starting over. You have to do all the preclinical work and take it all the way through the regulatory process. Although ChinaBio has helped clients find partners for pre-clinical assets as well, generally it's easier for Chinese companies to take on drugs that are either later-stage or already on the market. The Chinese regulatory system works in such a way that drugs need to be approved in the country of origin first. For instance, if there's a phase 3 trial going on in the US, and you're doing a parallel study in China, approval will only be granted in China once it's granted in the US. But if it fails in the US then you won't get approval in China.

**Speaking to another "C" of conferences, this year's ChinaBio Partnering Forum was held in Suzhou, and attracted over 700 attendees. The theme was "Going Global" and about one third of attendees came from abroad – how have these figures changed since the conference's inception?**

This was the fourth ChinaBio Partnering conference, and it has grown from the first year of 400 people. What's interesting is that while the proportions have remained roughly the same – a third from outside of China, and two-thirds from Greater China – what has changed is the participation in the partnering process by the Chinese companies. At the first event, in many cases the Chinese companies had never been to similar conferences and may not have known how to take advantage of the partnering system, how to design their profiles or arrange meetings in advance. The first year, there were 400-500 1-on-1 meetings. Last year, the number was 800, and this year was 1,100. Even though 2012 saw only an 11% increase in attendees, we had a 40% increase in the partnering activity. Another positive change is the level of companies. We've always had senior executives from both sides, China, Europe, and the U.S., of which 25% are CEOs, and 55% are VPs and above. While in the past the companies from China had been the mid-tier and some top-tier companies, this year many more of the top-tier companies attended, for example Fosun, Hengrui, Beijing Hamni, and many others. Four of our own clients, in fact, met with many of these

companies, and between them had some 70 meetings with Chinese companies and some Big Pharma as well. The interesting phenomenon is that sometimes the Big Pharma actually meet each other here! Although, of course, the focus is mostly on China-based deals.

### **How mature is the attendance base? Do you foresee maintaining double digit growth?**

We're still definitely expecting growth. The whole industry is gaining sophistication, and we've only just scratched the surface with the large pharmaceutical companies here in China. Which brings me to another driving factor: generics. The government is driving down the price of generics sometimes up to 20-30% per year, and that's expected to continue for at least another year or two. The margins on generics have been hammered, and as a result, you have companies which have been very successful and profitable in generics now hurting, and beginning to realize one way they can stem the tide is by bringing in novel drugs that are patent-protected. But it's a different business, and not all companies will be able to make the transition.

### **Of China's 4,700 pharmaceutical companies, how many will make the transition?**

Obviously the industry can't support almost 5,000 companies, and when I tell people from the west there are so many, they can barely believe it. One client wanted to find all the companies in China that produced tuberculosis drugs, and we did a database search and found 883 companies – of course, we picked only the good ones for them to meet!

China, from a regulatory and compliance perspective, is improving its standards, with new GMP regulations. The last time that happened was 2007, and the result was that about 8,000 drug companies were cut down to about 4,000. With the second round of rising GMP standards, we're expecting a similar culling to occur, not to quite the same degree, but we expect a significant number of the companies to be acquired or disappear. Of the many companies currently for sale, they are usually for sale for good reason. If they're a strong company, they're much more likely to hold out and go out in the strong IPO market.

On the generics side, because there is margin pressure driving companies to novel molecules, this actually causes ChinaBio's business to grow in terms of their necessity to partner with Western companies. When they do that, they'll be able to have drugs on the market in China that have IP protection and high margins. How that affects ChinaBio's conferences is that it makes them much more interesting to the Chinese companies. I expect to continue to see an increase in the sophistication of the companies coming to the conference and the interest in partnering. With respect to the partnering conference in particular, I don't see the ratio changing a whole lot, but it will continue to grow in size, sophistication, and the level of the Chinese companies participating will increase.

### **The theme of this year's conference was "Going Global" – will we see Chinese blockbusters and brands abroad?**

The answer is yes, but the real question is: what's the timing? If you look at consumer goods, there are some high quality consumer goods products in China like Li-Ning in sports, but they have had no penetration outside of China, and it will probably be a long time before they can. However, I don't think it will be that long before companies are generating novel drugs for a global market. The question then becomes, how? A few companies, like Tasly, for instance, which has invested \$40MM in Maryland to produce novel drugs, have gone abroad, but for some generics companies it's a stretch to reach the global market. Some companies like Hutchison and Hengrui and Simcere are focused specifically on novel drug development, and they can have an international reach. They will be better positioned because they were founded and built on returnees with Western experience, and were focused outwardly from the very beginning.

**Another interviewee commented that it seems China wants to do everything themselves – from automobiles to wind turbines – and he was of the opinion that China can't do everything in the world better than everyone else in the world. What potential do you see for Chinese biotechnology catching up as some other sectors have?**

It comes down to a matter of timing. When China sets out to do something, they'll do it. Even if they fail, they'll try again, they'll change, adapt, and keep moving until they succeed. Biotech is one of the top two industries the government is focused on, and that trickles all the way down to the little municipal governments, all pumping money into biotech and life science. I've read that China's use of capital is only 10% efficient, and I think that probably applies to the biotech industry, as well. There's a lot of money that goes out and doesn't really do anything, but there's still so much money that there will be some good things to come out of it, and we're seeing this already.

Despite the increased sophistication, particularly of the bigger domestic companies, we notice that although contract terms are improving, still Chinese companies are not willing to pay very much. This stems from the fact that the Chinese generics model was to get the government to give you land and build the plant for you, then turn the switch and pills and profits come out the other end. Now they have to invest millions or tens of millions of dollars to get a drug to market, even if it's in-licensed, and even then there's risk. In many of our early negotiations, we had difficulty convincing companies to give an up-front. Some wanted guarantees that the drug would be approved and that they'd get all their money back. If life were like that, we should all be in the drug industry!

A big part of ChinaBio's role is education, both to the Western companies about China – because even Korea and Japan are much more sophisticated in their deal structures at this point – and to the Chinese companies to step it up if they want Western companies to come to China. I talked to a company at our conference that said they wouldn't come to China unless they could get \$100 million up-front. I said, "Nice to meet you, and good luck!" Companies need to have more reasonable expectations, ranging from a few million up to \$20 million in the case of on-the-market approved drugs. If you think in Western terms and try to translate the value in China using that framework, it doesn't work. Conversely, there are Chinese companies who don't want to pay

anything up-front, only on the backend, and that doesn't work either. They have to meet somewhere in the middle.

### **What specific operational or strategic advice would you give to foreign businesses interested in Chinese biotech?**

I met with one company's senior leadership team a couple of months ago, which was in China for the global market yet was proud of having no in-China strategy, and my first recommendation was very simple: have a China strategy! That was a good place to start. Some companies have been quick to adapt, and others slow, but they have to have a China strategy sooner or later or they'll lose in China completely.

Continuing on this "In China, For China" theme, while it might seem obvious and superficial, it's important to deal with the culture, because China works differently than everywhere else in the world. You see this in the commercial market too. What makes companies like KFC very successful? They turned the Chinese team loose and let go of preconceptions of "what KFC really means." They've adopted a different approach, which has even gone so far as developing different menus and creating an orange version, a "Chinese KFC." You see the same mindset at General Motors as well, which has a Chinese design team. In traditional four-door sedans, the back doors are usually narrow and hard to enter. But in China, it's very important that the back door be wide, so if you look at many of the back doors in China, they are actually wider than the front doors!

### **What do Pharmaceutical Executive readers need to know about ChinaBio?**

First, China is definitely the next wave. If you look at critical mass, it's only a matter of time before it will be the world's number one pharmaceutical market. It will definitely be home to innovation drugs on the global market. You have to be here – and eventually be here in some significant way. You can dip your toe in the market via partnerships, but sophisticated companies need to look not only for partnerships to bring products to market, but true collaborations where they can build R&D facilities and truly have a presence in China.

In terms of ChinaBio, though it sounds cliché, we do provide the bridge, the connections between the West and the East. We know the Chinese companies and most of the leadership of the Chinese companies, and can identify which ones will make the best partners for the Western companies. A big part of it is education. We communicate how the West works, and how China works, and if you don't have both of those pieces, you're probably not going to be successful here.

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