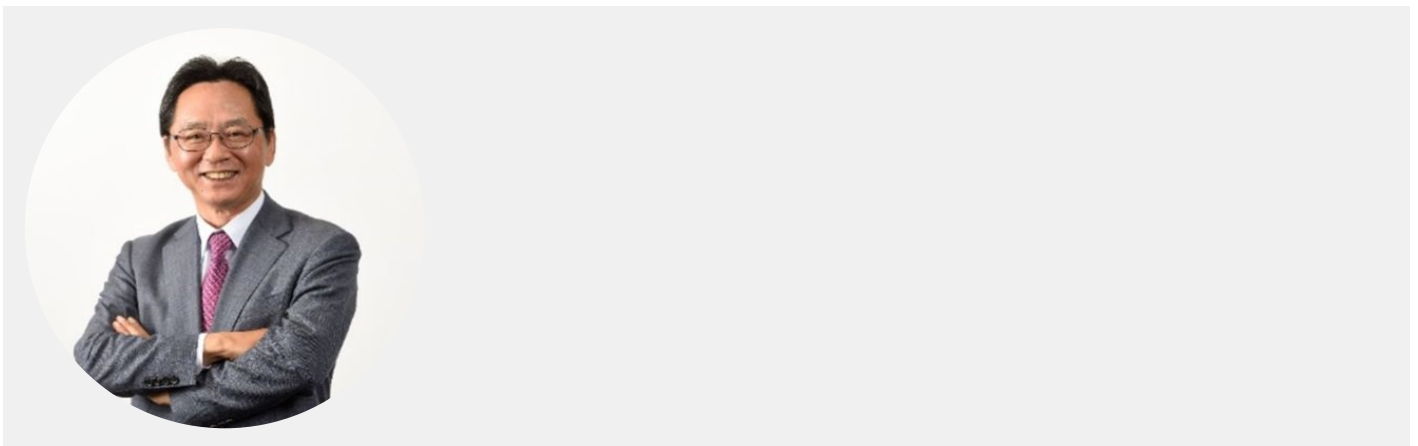


# Yan Hao - Chairman and CEO, EPS Group; CEO, EPS China Group

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*Yan Hao, chairman and CEO of EPS Group shares the company's journey to become Japan's largest and most comprehensive provider of optimal outsourced solutions to the healthcare industry through its CRO, SMO and CSO operations. As CEO of EPS Group's subsidiary company EPS China Group, Yan also outlines the China Group's recent milestones, how the company can be a bridge between Japan, Europe, the USA and China, and the opportunities for collaboration between Japanese and Chinese companies.*

## **Mr Yan, could you please first start by introducing EPS Group to our international audience, and your operations in China?**

The story of EPS Group began in Tokyo, Japan in 1991. I was born in Suzhou in China but went to Japan to study and remained there ever since. Since 1991, I have grown EPS Group which consists of the largest clinical CRO, the largest SMO and leading CSO in Japan.

In 2008, I decided to 'return' to China to establish EPS China Co., Ltd. as a CRO with a rather large investment - USD 45 million - especially considering that we were a service provider. We decided to establish it as an investment company as approved by the Ministry of Commerce as a foreign-investment company so that we could subsequently make investments into local companies and establish affiliates and JVs, which we have.

Our second milestone was our decision to diversify from being just a CRO service provider to becoming a product company. We started in the medical devices space, through various M&As, we established a medtech company that acted as a distributor within China for Japanese companies. Our clients include Hitachi Medical and Konica Minolta. In addition to the sales organization, we also set up a production facility in Nantong in Jiangsu province. For a brief trial period, we also sold flu diagnostic kits. As you might know, Japanese medical technology is very advanced and well-regarded globally, so we wanted to leverage on our industry network and contacts within Japan to develop a medtech manufacturing, sales and distribution business here in China for Japanese companies.

The third milestone is our foray into the pharmaceutical industry. We actually had a rather interesting experience here. We started this business by in-licensing the China rights to an analgesic patch from Japanese pharma giant Daiichi Sankyo, which we successfully commercialized and brought to the Chinese market as an imported drug. However, at that time, we were still unsure if we wanted to develop our own pharmaceutical sales capabilities in China since our core business was still in the CRO space. In the end, we decided to sell the rights back to Daiichi Sankyo, who also wanted to take the rights back for their Chinese affiliate!

However, through this experience, we realized that we were able to successfully bring drugs to the market. Therefore, we started to look for more products to bring to China. We currently have an innovative product in-licensed from Okayama University, one of the top medical schools in Japan, a viral vector for use in gene therapy. This product is already in Phase II clinical trials in Japan and about to enter Phase II in the US. In China, we look forward to taking this drug into the clinic and ultimately to the market. As you know, Japan is very strong in immunology. In fact, last year's Nobel Prize in Physiology / Medicine was jointly awarded to James P. Allison and Tasuku Honjo. Tasuku Honjo is a Japanese immunologist at Kyoto University in Japan.

We have also established a joint venture with another Chinese-Japanese company, GNI Group, called GEP, which is developing a liver fibrosis drug, F351. We have also helped our JV to in-license a leukaemia drug from Japan, which we hope to launch on the market soon!

Finally, three years ago, we acquired another company in Shanghai, Shanghai Huaxin Biotechnology Inc., who already had three products on the market, including their flagship, which is an interferon capsule for HPV infections. That drug currently possesses 21 percent of the whole interferon market in China, and within the niche gynaecology market, it has over 55 percent market share. We also have an interleukin injectable and an interferon injectable.

As you can see, in the past ten years, we have had quite a few milestones. Essentially EPS China Group has transformed from a more conventional CRO service provider into a diversified product company!

**How significant will your CRO business remain within the Chinese market? What are your current strategic priorities for EPS in China?**

The CRO landscape in China is a little different. The best example is WuXi AppTec, which started off as a CRO but has grown to something far bigger and more complex, including investing in biotechs, supporting their new drug development, offering contract manufacturing services and so on.

For us, we are still a more standard clinical CRO. Our business model is low-risk, medium-return. We offer professional services to our clients and our revenues derive from our order book. To do that, we must offer a fully integrated solution and service platform. The challenge of the CRO sector is that it is not difficult to enter the industry but it is very difficult to scale up. Setting up an CRO does not require too much investment but if you want to scale up from 50 or 100 people to 300 people, that requires a lot of investment and knowhow of organization building. Today, there are many Chinese CROs but very few of them have over 300 employees! Therefore, we will not replicate our successful CRO model in Japan here in China.

Considering the characteristics of the Chinese market, we have seized the opportunity to collaborate with a local Chinese CRO Tigermed, the largest clinical CRO in China, on Big Data and clinical data management.

Our main priority now in China is to focus on our core value proposition here in China. This means leveraging on our positioning as the largest clinical CRO in Japan with 28 years of excellent track record and an extensive network within the Japanese pharmaceutical and medical device industry, to offer them our services and business development platform here in China. We have started to do this a few years ago and we are now committed to strengthening our capabilities here.

I like to use a Chinese proverb which means 'building a nest to attract phoenixes'. This is what we want to do. We spent the past ten years building our service capabilities in China and now we are ready for the phoenixes to come - whether from Japan, where we have an extensive presence, or other regions in the world!

**You are in a very interesting position to share some insights into the Japanese and Chinese pharma industries, which are two of the top three pharma markets globally! How much scope is there for fruitful collaboration between the Chinese and Japanese pharmaceutical and healthcare industries?**

What is interesting is that Sino-Japanese relationships and collaborations have never run as deep or as broadly or as fruitfully as Sino-US partnerships, despite the geographic proximity and cultural similarities. This is another reason we think we have something to contribute here - there is certainly great potential here.

First and foremost, Japanese technology, especially in the area of healthcare, is very well-regarded by the Chinese population. Just anecdotally, if you visit major cities in Japan now like Tokyo or Osaka, you will see hordes of Chinese tourists there. They are not just there to admire the cherry blossoms, they are also in all the Japanese pharmacies buying medicines and medical devices!

In addition, Japan is an aging society with a birth rate below the replacement rate, very similar to the way that Chinese society is developing. In these demographic trends, Japan is perhaps a couple of decades ahead of China. This means that they will develop - as they already have - a lot of technology and products specifically catering to age-related conditions, which China can also benefit from in the future.

From a pharmaceutical industry standpoint, both countries also have interesting differences. In recent years, the Chinese biotech industry has developed rapidly with the influx of overseas returnees, the huge injection of capital by investors, and significant support from the Chinese government. All these factors have accelerated the pace of Chinese innovation development significantly. However, compared to Japan, China is still a newcomer to this area. Japanese companies have a longer history and track record of expertise in new drug development. In addition, in Japan, it is the large pharmaceutical enterprises that possess strong R&D and innovation capabilities, whereas in China, it is usually the new biotech start-ups focusing on innovative drug development. Therefore, China may be catching up fast, but Japan still has that strong foundation and is still ahead when it comes to pharmaceutical innovation.

The final factor we must consider is an external one. I personally believe that the China-US trade war has grown beyond a simple trade conflict. Without discussing politics, the fact remains that this tension exists and it will not be resolved quickly. Therefore, it presents the opportunity for China to look at potential collaborations with other countries, and for all the reasons I highlight above, in the healthcare industry, Japan is a very complementary partner. While Sino-Japanese political or

diplomatic relationships may fluctuate, Japanese products and services are still very highly-regarded by Chinese consumers!

**What have been some of the stumbling blocks in terms of Sino-Japanese collaborations within the healthcare space, and what role can EPS Group play in terms of bridging these two markets?**

Indeed, our value proposition is to be the bridge between China and Japan, a professional enterprise that links the Chinese and Japanese healthcare industries.

From my perspective, both the US and China's industrial development culture is more focused on platform development. The US has companies like Google, Amazon, and so on. China has companies like Alibaba, Tencent and Baidu – these are platform companies. They are used to talking about platforms, which facilitates cross-border discussions and partnerships between the US and China, and this mindset also helps the US-educated overseas Chinese returnees pitch their ideas to Chinese government officials for funding and support, because they also understand and accept these 'platform' ideas.

But Japan is almost the opposite, they focus on individual products, on concrete details – what I call 'craftsmanship'. Therefore, when they try to pitch their projects or companies in the Chinese market, their ideas do not resonate with the Chinese market. To put it another way, if you look at Chinese biotech companies from a micro perspective, you can find many flaws or issues because it is a new industry. In the biotech industry, people talk about 'burning money' because R&D is so capital-intensive. But this is not relevant for the Chinese government or the Chinese industry. Their objective is simply to develop the Chinese innovative biotech industry. The Japanese perspective is very different and they play a different game, so it can be difficult for them to navigate the Chinese market successfully.

Part of this difference also has to do with the fact that Japan is a very mature and stable market while China is obviously a very dynamic and emerging market. There are a lot of opportunities and also risks in the Chinese market – and many new entrants, which keeps the playing field very dynamic and exciting,

Therefore, our mission is to connect this Japanese 'craftsmanship' mentality with the Chinese 'platform' thinking. How can we help companies succeed in China? First and foremost, we must develop good, high-quality products.

However, it is not just about the products – and this is an area that I think Japanese companies do not yet fully appreciate or have not yet fully solve. Products are important, but you cannot rely on or only focus on developing the best products. For instance, if you want to wait until you have developed a drug that cures cancer, your company will not go anywhere! Having a good product is important, but what is also important is having the right commercial and business model. This is what we can help our Japanese partners do in China through our platform and our various services.

**Today, China is already 15 percent of EPS Holdings’ global revenues. How do you hope to further grow the business here?**

In 2018, our revenues in China were USD 100 million. In the next two to three years, I hope to increase that by 50 percent to USD 150 million – and this is my Japan-acquired conservatism speaking! If we were a purely Chinese company, I would probably tell you we hope to triple our revenues in three years!

We also hope to strengthen our product portfolio further across the pharmaceutical and medical devices sectors, as well as build out our service capabilities further.

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Secondly, we want to re-evaluate our business model to leverage the Chinese capital markets more. For our subsidiary, Shanghai Huaxin Biotechnology Inc., for instance, an IPO could be potentially in the case. EPS Holdings is already listed on the Tokyo Stock Exchange, but we might consider if we would also IPO in China, primarily as a way to localize our organization here and to attract talent. However, as a Japanese company, we are still more steady in our approach and we will develop at a pace that best suits our company.

**A final message to our international audience on behalf of EPS Group?**

Firstly, on behalf of the global EPS Holdings, I would like to reaffirm that we are the largest and comprehensive provider and related businesses of optimal outsourced solutions in the healthcare industry in Japan with a strong track record of performance and client satisfaction. Many global Big Pharma companies are our clients in Japan, and we hope to also expand our business to cater more to American and European midcaps and other SMEs.

In China, as I mentioned, we have built our nest for the phoenixes. I hope we will not only attract many Japanese 'phoenixes' - innovative pharma and medtech companies - but also American and European ones. As our name suggests - 'EPS' stands for 'Ever Progressing System' - we are very open to collaboration and new ideas, and we welcome all potential partners and clients. We hope to be your partner in China!

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