

China fastest growing biotech market worldwide

Following a survey on European biotech companies, Novumed Life Science Consulting recently concluded an exclusive study on therapeutic biotech companies of the Asian Pacific region. China now positions as number 5 of most innovative biotech countries behind the US, the UK, Germany and Australia. In recent years, Chinese government incentives, low labour costs and well trained personnel sparked an increase in the number of innovative small biotech companies; China has moved from manufacturer to innovator.

China has long been in the focus of attention as an attractive pharma market for two main reasons. First, its 1.3 billion population holds a tremendous sales potential. Especially the rising middle class has the necessary purchasing power to afford western branded drugs. Secondly, low labour costs made it attractive for many pharma companies to outsource part of their manufacturing and services to Chinese contractors. Since a long time, Chinese CROs (contract research organisations) provided services ranging from combinatorial chemistry and high throughput screenings to preclinical tests.

However, what about innovation? In Novumed's exclusive Asian biotech study, a team of 9 analysts and consultants investigated more than 4470

biotech firms, focusing on small companies with less than 600 employees and own drug development. Companies offering only service or diagnostics were excluded and the focus of analysis concentrated on innovative companies, *i.e.* those with own drug R&D. China was particularly difficult to research as few associations exist that would help to identify companies and information on websites is scarce or even inaccurate. Hence, the team conducted direct research on ground.

By speaking to many companies, information on company size, funding and detailed pipeline status was obtained that paints a picture of the Chinese biotech landscape in unprecedented detail.

In terms of total projects by drug developing biotech companies, China follows behind Australia and beats other Asian countries, including Korea and Japan (Fig. 1). Moreover, Chinese projects have already well progressed down the pipeline with more than half being already in clinical or approval stages. Chinese drugs focus very much on infectious diseases and most of the drugs in development are small molecules. However, biologics are increasingly represented (Fig. 2).

This position is a result of a number of factors with the most important one being governmental funding. "The Chinese government invests heavily in High-Tech Parks and offers funding for new biotech start-ups," as Gina Jiang of the Beijing Pharma and Biotech Center told Novumed at the ChinaBio partnering forum in Shanghai in 2009.

There are currently about 50 industrial development zones or so-called high tech parks in China, 5 of which are particularly focused on life sciences (Fig. 3). These parks offer new companies the buildings and infrastructure needed to quickly start their businesses. Combined with generous funding by the Chinese government, a rapidly growing biotech industry was created.

Across all industries, the proportion of Chinese companies in the fortune 500 went up from 36 on 2008 to 57 in 2009, showing that large Chinese companies are becoming increasingly valuable.

This also holds true for small biotech companies and is reflected by the current investment atmosphere. National and international investors are swarming from conferences to partnering forums to find promising Chinese biotech newcomers that need extra cash.

Paired with governmental seed funding, the stream of money provides small biotech companies with flexibility to develop their businesses. Chinese biotech appears attractive as "one can finance 5 companies in China for the price of one in Europe" said Peter Bissinger, Partner at Innovis Investments, "that's what I call risk management".

A crucial factor in driving the innovation are well educated Chinese researchers who gained experience in

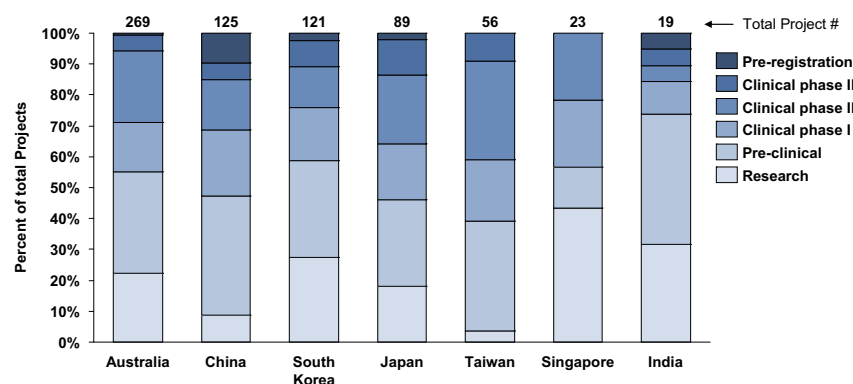


Figure 1. Pipeline status of all projects currently conducted by innovative biotech companies in the seven countries analysed by Novumed.

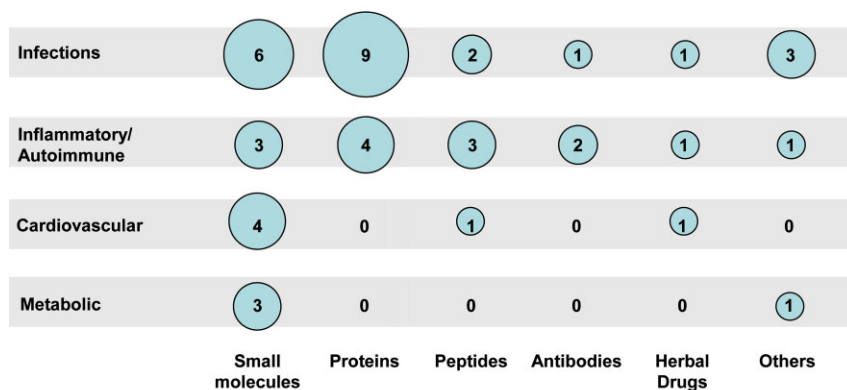


Figure 2. Main therapeutic fields of Chinese research focus and technological basis.

the west, as Nicolas Milonas, CEO China Acropolis Recruitment pointed out to Novumed, “a high number of Chinese are moving back home from the US and EU. These people are talented, well educated and will improve the output and quality of the companies here.”

This combination of government infrastructure, private funding and well educated staff bring China on the track to becoming a major pharma hotspot. Western big pharma enterprises have already reacted and are represented in China, for instance Bayer with more than 30 sales offices and production plants. Liam Condon, Managing Director at Bayer Health Care China told Novumed at a meeting in

the Zhangjiang high tech park: “China is already the third largest market worldwide for the Bayer group and we don’t ask if China can become our number one market, we ask when will this happen.”

“China has moved from manufacturer to innovator.”

While euphoric voices dominate, one should also mention that there are several pitfalls. Novumed met with more than 30 Chinese biotech companies in one-to-one meetings and while very promising players were encountered, several companies were lacking any coherent business model or strategy. The differences between individual companies were astonishing as some received the same substantial governmental funding. In addition, patenting

issues and IP protection in general are still considered amendable and acquisitions have to be approved by the government.

Nevertheless, China still holds great potential as a biotech market and the future will remain exciting as stated by Gerald Chan, Co-founder of Morningside Group, a Hong Kong based investment firm at a partnering forum in Shanghai last year: “The Chinese biopharmaceutical industry has developed at a pace that is unprecedented in history and it is unlikely to repeat itself anywhere else. It is truly the most exciting market there is.”

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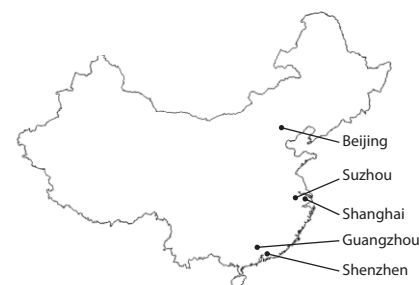


Figure 3. Geographic location of 5 major industrial development zones/high tech parks with focus on biopharmaceutical production and development.

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