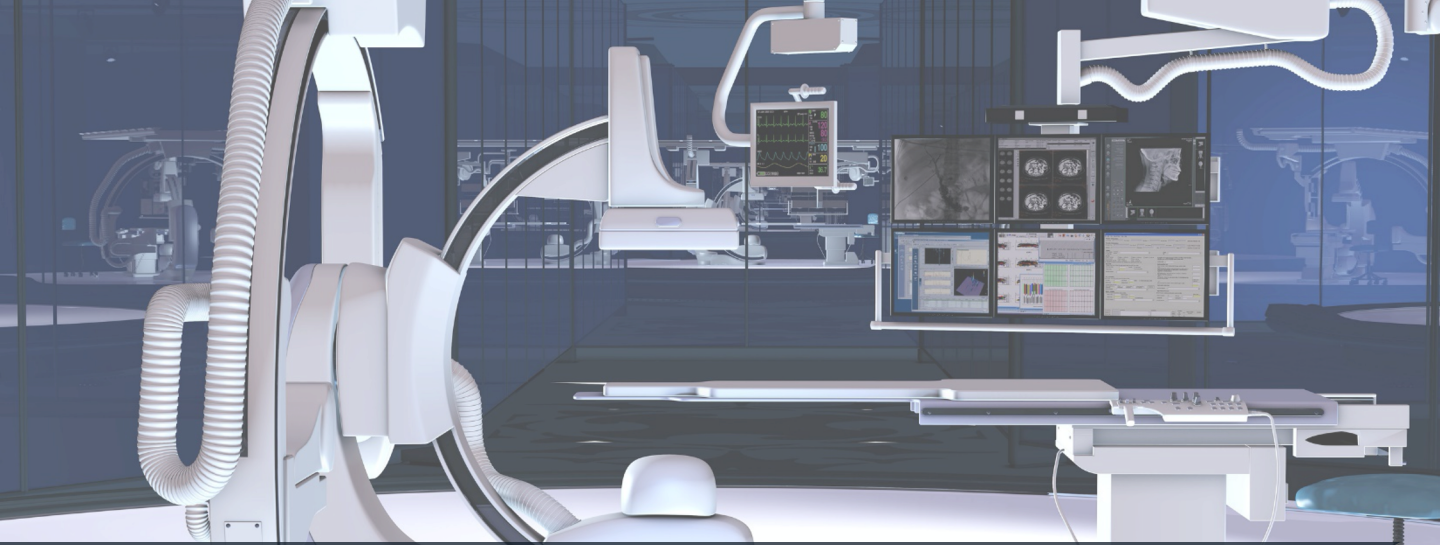

INDIA & CHINA MEDICAL DEVICES INDUSTRY BRIEFING

How to Achieve Sustainable Growth during a Global Transformation

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The global medical devices market finds itself in a major transformation – shift of demand to markets such as **India** and **China**, **digital transformation** as well as **explosive growth vs. sales collapse** and **hypercompetitive markets** in the light of a global healthcare crisis. These are major trends that practitioners need to carefully assess to succeed in the future.

Key questions medical devices players work on include:

- Which are the ***hidden growth trends*** to invest in?
- ***Which emerging markets*** promise the highest ***potential for expansion***?
- ***How to compete*** in relevant segments and what are unnoticed ***opportunities*** and critical ***challenges***?
- What are ***urgent action demands*** to achieve sustainable growth in the mid- to long-term future?

China and **India** make up an impressive **~25%** of the **global medical devices market** which is valued at **~420 bln EUR** in 2019. Future projections up until 2023 indicate that this share will increase with a CAGR of **16%** for India and **8%** for China. Therefore, this briefing gives a picture on both major **global** as well as **India- and China-related developments** in the medical devices market and **resulting growth potentials** for foreign suppliers. Approach us anytime to learn more about what the implications laid-out in this industry briefing mean for your organization.

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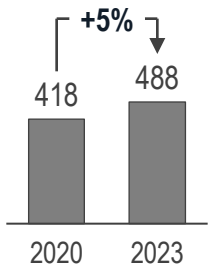
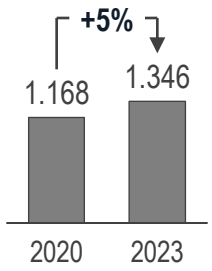
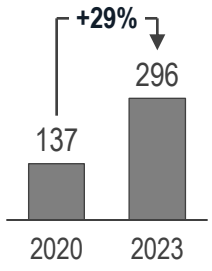
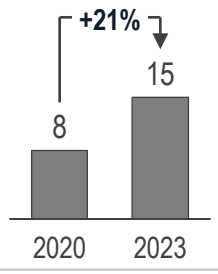
COVID-19 & GLOBAL TRENDS

Globally, medical devices and pharmaceuticals are expected to grow moderately in the next years, in contrast, digital and robot healthcare application are expected to soar in demand

Segment	Expected Global COVID-19 Impact and Beyond	Global Sales (bln EUR & CAGR)
Medical Devices & Consumables	▪ Strong **short-term growth** contributions from demand for products used for **pandemic prevention**, however, short-term decline for **other medical devices** and expected **austerity programs** by governments/ insurers to partly challenge future growth ambitions ▪ **Upcoming segments** such as 'high-quality' vs. 'good-enough' **product lines**, **3D printed** organs and limbs as well as **wearables** for health tracking as key growth segments	
Pharma & Biopharma	▪ Demand has **been boosted** for pharma products with **alleviating effects** for COVID-19 symptoms, but there has also been a mixed picture for **pharmaceutical trials** and re-evaluation of continuation due to future expected **hypercompetitive markets** ▪ Also, overall **worsening economic situation** expected to deter patients from buying certain pharmaceuticals	
E-Health & Apps	▪ Further pushed by COVID-19 crisis and promotion of 5G and IoT, telemedicine and healthcare apps and software with **highest growth potential** to bring e. g. **higher efficiency** and leverage **AI/ big data insights** based on DNA and surrounding data for tracking and medical treatment ▪ Special role of **VR/AR** for training, diagnosis, and treatment ▪ **Promotion of medical trials** incl. recruitment, cross-regional co-operation, quality assurance, and virtual trials	
Medical Robots	▪ Positive medical robot market development particularly pushed by **care robot segment** as of its application potential **to reduce virus-related infection risks** and **improvement** in voice recognition, adaptive programming sensors, and cloud technology ▪ Further drivers pushing general medical robots demand are their **application in rehabilitation, R&D funding increase** and demand for **minimally invasive surgeries**	

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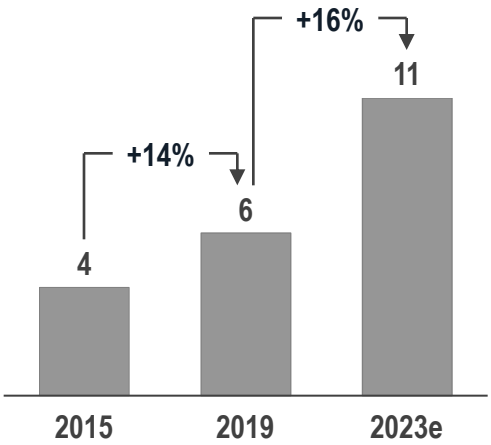
Medical Devices Market Development

Looking at the global market, it is apparent that both, the Indian and the Chinese medical devices market hold significant growth opportunities caused by industry and macro-factors

Medical Devices Market

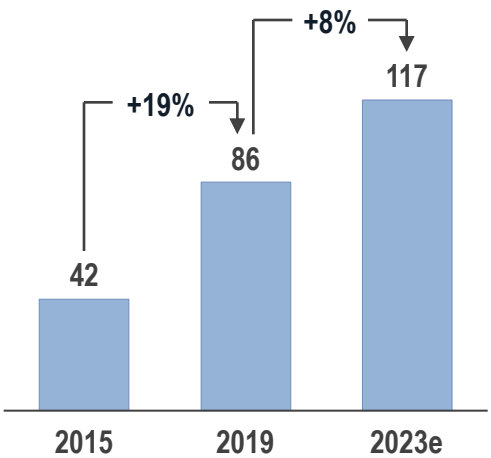
bln EUR & CAGR



Key Insights

- **Growth Drivers:** Increase of 'modern' diseases, insurance penetration and healthcare spending
- **Selected Trend:** Local manufacturers seek fast-tracking regulatory clearances to boost medical devices market
- **Leading Segments:** Diagnostic imaging (30%), consumables (16%) and patient aids (12%)
- **Trade Scenario (Import Dependency):** ~75% import share (equal to 4.4 bln EUR) in 2019 such as for diagnostic imaging and ortho- and prosthaetics
- **Manufacturing Ecosystem:** Manufacturing landscape of >800 players; domestic manufacturers are limited to low-end technologies

bln EUR & CAGR



- **Growth Drivers:** Aging population, rapidly growing middle class, increase of 'modern' diseases and healthcare spend upgrade
- **Selected Trend:** Local tech. limitations drive high-end input of medical devices from abroad (esp. US, DE, JP)
- **Leading Segments:** >50% of demand is taken up by consumables (24%), diagnostic imaging (16%) and IV diagnostics (11%)
- **Trade Scenario (Import Dependency):** ~25% import dependency (equal to 21.4 bln EUR) in 2019 such as for diagnostic imaging and endoscopy
- **Manufacturing Ecosystem:** Manufacturing landscape of >17,000 players; >90% of manufactures have turnover less than 2.6 Mio EUR

Note: Medical devices incl. seven segments – Diagnostic Imaging, Consumables, Dental Products, Intravenous (IV) Diagnostics, Patient Aids, Orthopaedic-Prosthetics and Other Devices.

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Market Segmentation & Players

Both medical device markets' sub-segments are characterized by strong presence of foreign players and different focus segments – However, markets allow for further growth potentials

Medical Devices Key Segmentation and Analysis – India & China

	India: Est. Segment Market Share (%)	India: Key Players by Segment	China: Est. Segment Market Share (%)	China: Key Players by Segment
Diagnostic Imaging	30%	Siemens Healthineers, GE Healthcare, Carestream, Fujifilm, Philips Healthcare, Hitachi Medical Systems, Esaote	16%	GE Healthcare, Siemens Healthineers, Philips Healthcare, United Imaging, Mindray 迈瑞, Neusoft
Consumables	16%	Bentley Healthcare, Henkel, BD, Bostik, Medtronic, B Braun, ResMed	24%	Medtronic, Boston Scientific, B Braun, Cook, 乐普医疗, MicroPort, Wego 威高
Patient Aids	12%	Medtronic, Schiller India, Allied Medical, Air Liquide, Smiths Medical, Covidien, Johnson & Johnson, Dräger	6%	Philips Healthcare, Dräger, 宝莱特 Biolight, 鱼跃医疗, Qian Jing, Shinva 新华医疗
IV Diagnostics	10%	Siemens Healthineers, Alere, BD, Danaher, Altona Diagnostics, Abbott, ThermoFisher Scientific	11%	Roche, Abbott, Danaher, Siemens Healthineers, Illumina, Sysmex, Mindray 迈瑞, Autobio
Ortho & Prosthetic	7%	ottobock., Blatchford, Kare, Össur, LeMaitre Vascular, Nidek, Link, Phoenix Healthcare Solutions	6%	ottobock., Zimmer Biomet, Stryker, Blatchford, Wego 威高, Össur
Dental Products	3%	Kavo, Blatchford, TRATE, Nobel Biocare, Renfert, straumann group, biodenta, Dentsply Sirona, BioHorizons	1%	OsteoMed, bicon, Nobel Biocare, straumann group, Osstem Implant, ZH-BIO 正海生物, Zimmer Biomet
Others[1]	22%	Fresenius Medical Care, Philips Healthcare, Abbott, Boston Scientific, Stortz, GE Healthcare, Schiller India	36%	BD, Covidien, Abbott, United Imaging, 乐普医疗, 宝莱特 Biolight

Industry Structure & Production Hubs

- Fragmented market with >800 players focused on small- and low-scale segments
- Northern India with focus on low-end consumables, Western India with focus on implant producers and Southern India with focus on diagnostics

- Highly fragmented market with ~17,000 manufacturers with ~90% of players with turnover of <2.6 Mio EUR and <1% with revenue >13 Mio EUR
- Manufacturing hubs in Yangtze and Pearl River Delta and in the Bohai Rim region

1 Oxygenators, electrocardiogram, patient monitor, defibrillators, endoscope, etc.

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India Deep-Dive

Foreign players have significant opportunities incl. growth prospects and government incentive schemes to operate and settle in India as hub serving India and the APAC region

Selected Opportunities

Building on Indigenous Innovation and Exports

So far, only few Indian companies have developed indigenous products and export them to Japan, South East Asia, the Middle East, and African markets

New De-Risking Option

India is among the preferred destinations to de-risk operations related to China which has been affected by trade war, rising costs and supply limitations

Make Use of Domestic Competencies & Capacities

Particularly, through COVID-19 new domestic suppliers of Personal Protective Equipment have sprung up and are expected to grow in the future

Growth Prospects and Governmental Support

Market is expected to grow by ~16% until 2030 fueled by government plans to achieve universal health insurance[1], 'Make in India' and '100% FDI'

Selected Challenges

Lack of Accessibility

Healthcare system still not adequate, inefficient and not evenly distributed – ~70% of the population lives in rural areas served by only 8% of the total doctors

No Adequate Regulatory System

Lacking alignment with global regulatory standards, lengthier approvals, little transparency and lack of quality product testing infrastructure

Limited Innovation Capability

Nascent innovation and customization competencies are a challenge and opportunity at the same time leveraged by global manufactures in the Indian market

Limited High-End Domestic Capabilities

Local companies focus on low-end/ low-value products due to limited technological edge and innovation competencies

M&A Opportunities in India's Healthcare Sector

- EV/ EBITDA multiples in FY'19 and FY'20 are trading at lowest levels in last five years making it an opportune time for MNCs looking for M&A or JV with Indian companies considering future growth
- Transaction multiple (EV/ revenue) in the range of 2x-6.6x
- Diagnostic imaging, IV diagnostics, consumables, and implants are current key segments for M&A

Healthcare Sector-Related Government Initiatives

Government intends to establish four medical parks in states of Andhra Pradesh, Telangana, Tamil Nadu, and Kerala and plans to provide incentives for production of prioritized devices with ~457 Mio EUR financial support

Promotion of Medical Device Parks

- **Funding:** 47.8 Mio EUR
- **Period:** 5 years, 2020-21 to 2024-25

Production Linked Incentive Scheme (PLI)

- **Funding:** 408.7 Mio EUR
- **Period:** 5 years, 2020-21 to 2024-25

1 Covered by Rashtriya Swasthya Bima Yojana Scheme

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China Deep-Dive

Also, the Chinese market harbors great opportunities for foreign players incl. need for high-quality care and demand caused by COVID-19 – challenges need to be well-considered

Selected Opportunities

Increasing Complexity of Healthcare Demand

With upcoming Chinese middle-class more diversified and complex medical treatments are demanded increasing scope of offering and driving segmentation

Expanding Basic Medical Insurance

Gradual promotion of basic medical insurance system (from 40% in '20 to 95%) of the population expected to improve affordability and thereby boost demand

Increasing Demand for High-Tech Medical Devices

Due to growing chronic/ age-related diseases and push for high quality of care, there is an ongoing demand for high-tech devices not covered by local producers

Partly Positive Impact of COVID-19 Crisis

COVID-19 epidemic has revealed apparent gaps in China's healthcare systems which government seeks to close throughout the coming 2-3 years

Selected Challenges

Volatile Regulatory System

Chinese regulations change rapidly and can seem ambiguous and overly strict such as requiring local setup for market entry for a wide range of segments

Government Ambition to Raise Local Champions

Driven by initiatives such as 'Made in China 2025' China seeks to grow local champions especially in Med-Tech segments such as AI and 3D printing

Strict Data Regulations – 'Cybersecurity Law'

Foreign companies are at risk of cross-border data flow regulations hindering their ability to collect the necessary datasets to localize their products

Accelerated Price Erosion for Certain Segments

Due to contraction of China's healthcare budget caused by CVOID-19, especially commoditized medical devices segments to enter price war

Healthcare Sector-Related Government Initiatives

Major healthcare initiative by the Chinese government **'Healthy China 2030'** which includes 13 core indicators such as increasing total investment of health services, registered doctors and proportion of health spending

Further Expected Healthcare Government Initiatives Pushed by COVID-19

1. Tiered Healthcare
Encourage patients to seek treatment in community health centers to outbalance capacity bottlenecks in city clinics

2. Volume Procurement Push
Encourage hospitals to acquire large volumes for expanded medical supply segments to facilitate further cost-savings

3. Supply Chain Localization
Further encourage foreign and local producers to localize production to ensure medical supply in future crisis

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DEVELOPMENTS & ACTION DEMANDS

Caused by latent trends and post-COVID-19 development, following major impacting factors healthcare and pharmaceutical companies should keep in mind for future success

HEALTHCARE SECTOR DEVELOPMENTS & ACTION DEMAND

1. Market & Distribution – *How to access key markets and sustain growth in the future?*

> Combination of on-going growth in certain medical equipment segments paired with hypercompetitive markets due to governmental cost-saving initiatives[1] require sustainable business

Action Demand

- Assess growth potentials via market modeling, customer requirements as well as competitor analysis and distribution channel and partner assessment

2. Sourcing – *Where to efficiently and reliably source crucial inputs?*

> Cost pressure, increasing complexity, and in-transparency as well as fast-changing regulations demand for stable and economical supply of materials for competitiveness and safe operation

Action Demand

- Conduct frequent sourcing initiatives to guarantee ideal setup
- Consider implementation of procurement software tool(s) to increase efficiency

3. Production Footprint – *How to set up production in an unstable global trade environment?*

> Dynamically increasing demand, trend of contract manufacturing and governmental pressure to produce locally require flexible, multi-country production footprint

Action Demand

- Screen and assess future potential production footprint locations
- Consider implementation of digital manufacturing footprint tool

4. Digitalization – *How to innovate and partner up to profit from 'the' key growth trend?*

> Digitalization and innovation trend of products and business models shake up the entire healthcare market while enhancing and substituting existing solutions

Action Demand

- Conduct a trend and startup scouting to generate learnings and insights on future co-operation and M&A potential

5. M&A – *How to identify and evaluate the right target to fulfill future growth ambitions?*

> Changing consumer behavior, upcoming regulations and need to diversify into segments with strong synergies and growth potentials, demand for inorganic growth route

Action Demand

- Strategically assess areas of co-operation in terms of regions, product groups, etc.
- Explore possible ways of co-operation incl. JV, minority/ majority stake acquisition

1 For example, the Chinese government plans to speed up the process of cutting out distributors and bundling purchasing in one organization to facilitate cost-savings for Chinese hospitals

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Based on our long-term and cross-regional experience in healthcare working for globally operating medical and pharmaceutical companies, EAC is the right partner to support you

SELECTED EAC CASE STUDIES HEALTHCARE – INDIA & CHINA

Medical Equipment	▪ Market sales push incl. value chain and cost benchmarking, distribution channel assessment, technology assessment, licenses, policies, and trends ▪ Deep-dive on customer requirements supported by in-depth market interviews and competitor benchmarking for derivation of threat potential and countermeasure
Pharmaceutical Producer	▪ Organizational readiness assessment and re-structuring of processes focused on roles and data flows to reach overall efficiency gains ▪ Support of strategy and growth targets by an integrated approach
Patient Aids	▪ Market assessment and modeling of amount of hospitals, operating rooms, type of ownership, type of treatment, bed capacity, and location ▪ Deep dive analysis of operating room space, infrastructure, air conditioner standards, basic equipment requirement, and anesthesia equipment standards

Note: EAC treats client information with highest confidentiality and therefore does not expose client names; conducted projects can be discussed under confidential environment upon request.

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