

# INDIA & CHINA PHARMACEUTICAL INDUSTRY BRIEFING

## Growth Opportunities for a Sustainable Future



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The global pharmaceutical 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 pharmaceutical players work on include:**


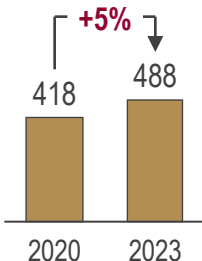

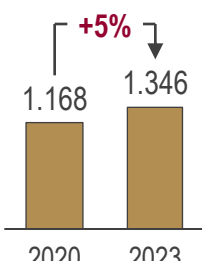

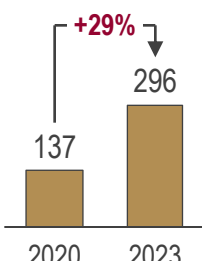

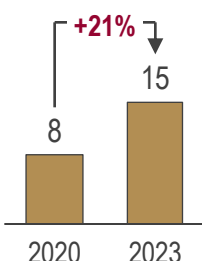
- ▶ Which are the *hidden growth trends* to invest in?
- ▶ *Which emerging markets* promise the highest potential *for expansion*?
- ▶ *How to compete* in relevant segments and what are unnoticed *opportunities* and critical *challenges*?
- ▶ What are *urgent action demands* to achieve sustainable growth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

**China** and **India** make up an impressive 14% of the **global pharmaceutical market** which is valued at **1.1 thsd bln EUR** in 2019. Future projections up until 2023 indicate that this share will increase with a CAGR of 10.5% for India and 5.5% for China. Therefore, this briefing gives a picture on both major **global** as well as **India- and China-related developments** in the pharmaceutical 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.



## COVID-19 & GLOBAL TRENDS

*Globally, pharmaceuticals and medical devices 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)						
<div>Medical Devices &amp; Consumables</div> <div></div>	<ul style="list-style-type: none"><li>Strong <b>short-term growth</b> contributions from demand for products used for <b>pandemic prevention</b>, however, short-term decline for <b>other medical devices</b> and expected <b>austerity programs</b> by governments/ insurers to partly challenge future growth ambitions</li><li><b>Upcoming segments</b> such as 'high-quality' vs. 'good-enough' <b>product lines</b>, <b>3D printed</b> organs and limbs as well as <b>wearables</b> for health tracking as key growth segments</li></ul>	<div></div> <table><tr><th>Year</th><th>Sales (bln EUR)</th></tr><tr><td>2020</td><td>418</td></tr><tr><td>2023</td><td>488</td></tr></table>	Year	Sales (bln EUR)	2020	418	2023	488
Year	Sales (bln EUR)							
2020	418							
2023	488							
<div>Pharma &amp; Biopharma</div> <div></div>	<ul style="list-style-type: none"><li>Demand has <b>been boosted</b> for pharma products with <b>alleviating effects</b> for COVID-19 symptoms, but there has also been a mixed picture for <b>pharmaceutical trials</b> and re-evaluation of continuation due to future expected <b>hypercompetitive markets</b></li><li>Also, overall <b>worsening economic situation</b> expected to deter patients from buying certain pharmaceuticals</li></ul>	<div></div> <table><tr><th>Year</th><th>Sales (bln EUR)</th></tr><tr><td>2020</td><td>1.168</td></tr><tr><td>2023</td><td>1.346</td></tr></table>	Year	Sales (bln EUR)	2020	1.168	2023	1.346
Year	Sales (bln EUR)							
2020	1.168							
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<div>E-Health &amp; Apps</div> <div></div>	<ul style="list-style-type: none"><li>Further pushed by COVID-19 crisis and promotion of 5G and IoT, telemedicine and healthcare apps and software with <b>highest growth potential</b> to bring e. g. <b>higher efficiency</b> and leverage <b>AI/ big data insights</b> based on DNA and surrounding data for tracking and medical treatment</li><li>Special role of <b>VR/AR</b> for training, diagnosis, and treatment</li><li><b>Promotion of medical trials</b> incl. recruitment, cross-regional co-operation, quality assurance, and virtual trials</li></ul>	<div></div> <table><tr><th>Year</th><th>Sales (bln EUR)</th></tr><tr><td>2020</td><td>137</td></tr><tr><td>2023</td><td>296</td></tr></table>	Year	Sales (bln EUR)	2020	137	2023	296
Year	Sales (bln EUR)							
2020	137							
2023	296							
<div>Medical Robots</div> <div></div>	<ul style="list-style-type: none"><li>Positive medical robot market development particularly pushed by <b>care robot segment</b> as of its application potential <b>to reduce virus-related infection risks</b> and <b>improvement</b> in voice recognition, adaptive programming sensors, and cloud technology</li><li>Further drivers pushing general medical robots demand are their <b>application in rehabilitation</b>, <b>R&amp;D funding increase</b> and demand for <b>minimally invasive surgeries</b></li></ul>	<div></div> <table><tr><th>Year</th><th>Sales (bln EUR)</th></tr><tr><td>2020</td><td>8</td></tr><tr><td>2023</td><td>15</td></tr></table>	Year	Sales (bln EUR)	2020	8	2023	15
Year	Sales (bln EUR)							
2020	8							
2023	15							

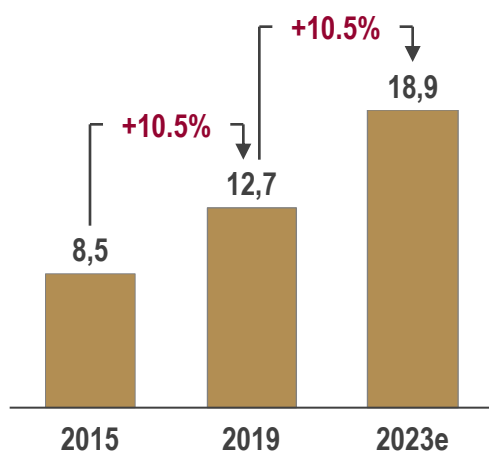


## PHARMACEUTICAL MARKET DEVELOPMENT

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

### PHARMACEUTICAL MARKET

#### bln EUR & CAGR



### KEY INSIGHTS



**Growth Drivers:** Rising diseases (esp. cardiac and diabetes), improved access, low-cost manufacturing, rising investments and regulatory support



**Selected Trend:** End-to-end tech-penetration generate new opportunities in pharmaceutical sales (e-commerce)



**Leading Segments:** Generic drugs (70%), OTC (21%) and patented (9%)

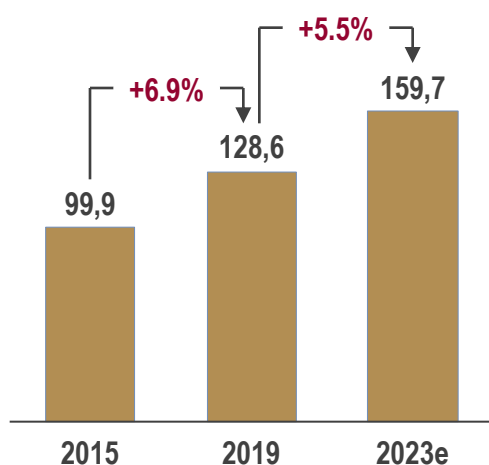


**Trade Scenario (Import Dependency):** Global export leader of generic drugs with 20% share; however, 70% import dependency on China for ingredients (API)



**Manufacturing Ecosystem:** Manufacturing landscape of >3 thsd players (with 10.5 thsd manufacturing units) with no clear leadership in fragmented market

#### bln EUR & CAGR



**Growth Drivers:** Aging population, increasing urbanization, rising health care awareness, increase of 'modern' diseases and healthcare spend upgrade



**Selected Trend:** Increasing local R&D capabilities challenge intl. leading player's centric R&D models



**Leading Segments:** Generics (64%), OTC (13%) and patented (23%)



**Trade Scenario (Import Dependency):** 4<sup>th</sup> largest global importer contributing 5% to global pharma imports in 2019









































**Manufacturing Ecosystem:** Fragmented market landscape of >5,000 players and 80-90% share of local manufacturers

Note: e: Estimated

## MARKET SEGMENTATION & PLAYERS

*While local players play a strong role in serving low- to mid-market segments, foreign players manage to take up strong positioning for higher value pharmaceuticals across segments*

### PHARMACEUTICAL KEY SEGMENTATION & ANALYSIS – INDIA & CHINA

				
	Est. Segment Market Share (%)	Selected Players by Segment	Est. Segment Market Share (%)	Selected Players by Segment
Generic Drugs <sup>1</sup>	70%	    	64%	     
Over the Counter (OTC) Drugs	21%	     	13%	      
Patented Drugs <sup>1</sup>	9%	    	23%	      

#### Industry Structure

- Fragmented market with >10,000 producers – yet no clear market leadership
- Local companies control at least 60% of the market attributed to an early-mover advantage, strong distribution network, comprehensive product portfolio, business partnerships, JVs and M&A

- Fragmented market with >5,000 producers with majority being SMEs
- Regional companies control at least 80-90% of the market also issuing strong control over distributor networks
- Market characterized by steep projected future growth and high import share (>15%)

#### Production Hubs

- Northern zone: largely focused on manufacturing drug formulations
- Western zone: >55% of pharma supply
- Southern zone: accounts for 33% of API production and >40% of biotech output

- Manufacturing hotspots lie in eastern China focused on API manufacturing (incl. Zhejiang, Shanghai, Jiangsu), Hebei in the north and Guangdong in the south with focus on biologics





## INDIA DEEP-DIVE

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

### SELECTED OPPORTUNITIES

#### 'Self Reliant India' Vision

India with increasing tendency to reach pharmaceutical self-reliance such as via proposal to manufacture 39 APIs in India and reduce imports from China

#### 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

#### Growth in Contract Research & Manufacturing

Foreign players can profit from >3 thsd players in research & manufacturing contract and is expected to grow by 10% by 2022

#### Improving Healthcare System via Investments

Government plans to invest significantly, e. g. with 400 Mio EUR in API parks until 2025, providing incentives for potential foreign suppliers

### 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

#### Current Heavy Import Dependency for API

70% import dependency on China for APIs make India vulnerable to supply disruptions, currency volatility and global trade instability

#### Lack of Stable Pricing Policy

Frequent and unexpected changes in the Indian domestic pricing policy for pharmaceuticals creates an uncertainty for investments and innovations

#### 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
- Under-valued targets in drug discovery-development, clinical trials, manufacturing, and data management

### 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 API and Medical Devices

- **Funding:** 18 bln EUR
- **Period:** 5 years, 2020-21 to 2024-25

#### Production Linked Incentive (PLI) Scheme

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



## CHINA DEEP-DIVE

*Also, the Chinese market holds great opportunities for foreign players such as due to 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

#### High-Coverage of Basic Medical Insurance

Promotion of basic medical insurance system (from 50% in 2006 to 95% in 2020) of the population leading to improved pharmaceutical affordability and hence boost of demand

#### Growing Demand for High-Quality Pharmaceuticals

Due to growing chronic and age-related diseases and push for high quality of care, there is an ongoing demand for high-quality pharma 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, can seem ambiguous and overly strict such as requiring local setup for market entry – nevertheless, approval processes shortened significantly over the past years

#### Fierce Competition through Local Champions

Driven by initiatives such as 'Made in China 2025', China seeks to grow local champions in pharma and biotech – denial of license approvals for foreign players as potential resulting outcome

#### Increasing Price Pressure

Regulations such as the rollout of generic-quality consistency evaluation and new tendering rules require multinationals to consider further price drops to capture volumes or as worst-case market retreat

#### Accelerated Price Erosion for Certain Segments

Due to contraction of China's healthcare budget caused by COVID-19, especially commoditized pharmaceuticals expected 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 Particularly 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

## DEVELOPMENTS & ACTION DEMANDS

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

### PHARMACEUTICALS – 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 segments paired with hypercompetitive markets due to governmental cost-saving initiatives require sustainable business setup  
**Action Demand** ▶
  - Assess growth potentials via market modeling, customer requirements as well as competitor analysis and distribution channel and partner assessment

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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

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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

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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

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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

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

## SELECTED EAC CASE STUDIES HEALTHCARE – INDIA & CHINA

<p><b>Medical Equipment</b></p> 	<ul style="list-style-type: none"> <li>▪ Market sales push incl. value chain and cost benchmarking, distribution channel assessment, technology assessment, licenses, policies, and trends</li> <li>▪ Deep-dive on customer requirements supported by in-depth market interviews and competitor benchmarking for derivation of threat potential and countermeasure</li> </ul>
<p><b>Pharmaceutical Producer</b></p> 	<ul style="list-style-type: none"> <li>▪ Organizational readiness assessment and re-structuring of processes focused on roles and data flows to reach overall efficiency gains</li> <li>▪ Support of strategy and growth targets by an integrated approach</li> </ul>
<p><b>Patient Aids</b></p> 	<ul style="list-style-type: none"> <li>▪ Market assessment and modeling of amount of hospitals, operating rooms, type of ownership, type of treatment, bed capacity, and location</li> <li>▪ Deep dive analysis of operating room space, infrastructure, air conditioner standards, basic equipment requirement, and anesthesia equipment standards</li> </ul>

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.



Extensive consulting portfolio including **strategy development and operations**



Numerous conducted projects in **pharmaceuticals and medical equipment**



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