

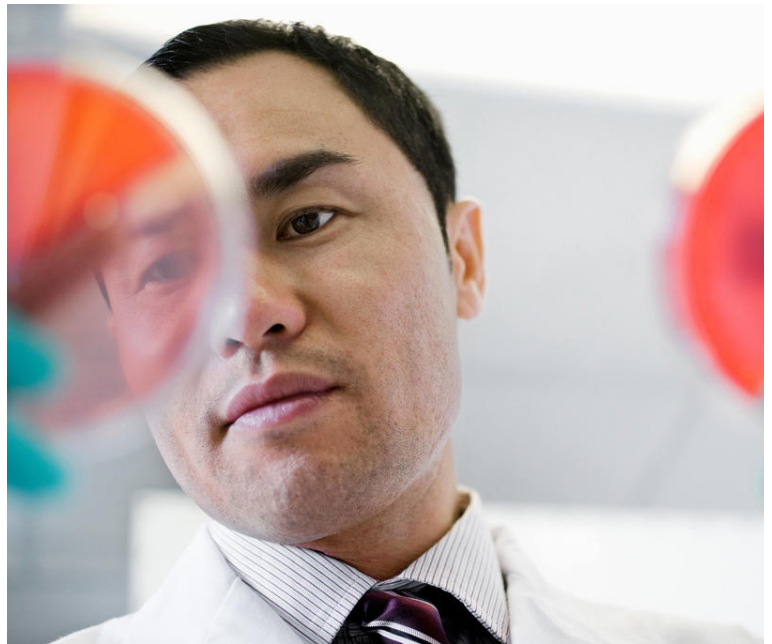
“It’s time for the healthcare industry to build its cross-border investment strategy”



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“Healthcare innovation has a long history in effective collaboration, whether that’s across academia and industry or borders. Some of the most transformative therapies available today – like [CRISPR](#) or [CAR-T](#) – have been built from decades of partnership-based advances. As great minds work together, we have reached an era of medicine where the word ‘cure’ has the potential to replace the word ‘treatment’. However, there is more to be done. If the healthcare industry wants to continue capitalising on the power of collaboration we need to open doors to cross-border investment. More specifically, we need to invest in the right places. This means bringing together businesses from the East and the West. Primarily, we believe the future lies in a partnership with China.

The East and West have their own very different healthcare challenges, but it is precisely these differences that present us with a unique opportunity for cross-border collaboration. As Silicon Valley Bank’s Head of Technology & Healthcare Banking, David M Sabow [declared](#), “while the U.S. is focused on reducing healthcare costs from the current 17.5 per cent of gross domestic product (GDP), China is hoping to increase its own spending from current levels of 6.2 per cent of GDP”. As China looks to make this transition, it is determined to attract global innovation and to learn from the mistakes of others in creating a sustainable healthcare model. At the same time, US businesses need to pursue revenue opportunities in other markets, meaning there is opportunity for mutual benefit. It is promising to see that there is already some



China wants to evolve from consumer to developer of drugs and therapies

“A pure, organic growth strategy will mean that it takes China decades to catch up to Western levels of innovation.”

cross-border investment already taking place. In fact, despite concerns that [CFIUS](#) would stifle Chinese investment in US biopharma in 2019, the percentage of dollars invested by syndicates with China-based investors this year equalled 2018’s levels. However, as we will see, it is critical that the level of collaboration increases in the year ahead.

China: investment, insight and innovation

As the most populous country in the world, and the second-largest healthcare market, China is focused on accessing and creating more advanced healthcare options for citizens. This has been backed with plans to develop [100 new drugs](#) ►

- ▶ and build [10 to 20 science parks](#) dedicated to biomedicine. Beijing has also listed biotechnology as one of the 10 critical sectors for development under its '[Made in China 2025](#)' industrial strategy. The aim is to evolve from a nation that is primarily a consumer of drugs to a local developer of innovative therapies and treatments.

However, to become a globally recognised leader in areas such as biotech, local innovation alone will not be enough. A pure, organic growth strategy will mean that it takes China decades to catch up to Western levels of innovation. Instead, Chinese businesses and investors are open to collaboration through cross-border investment. China is capital rich, so investing in UK or US life science businesses can provide immediate access to insight and IP to speed up its own product development. For a country that is hungry for the most advanced healthcare technologies, this is the smartest way to boost international collaboration and enhance local R&D.

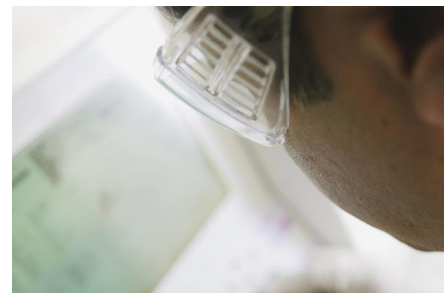
What's in it for the West?

Meanwhile, on the opposite side of the globe, tensions are rising. US healthcare and life science organisations are facing a race to the bottom on pricing. Many medications are currently retailing 90 per cent cheaper in the U.S. than in Europe. If US pricing falls any lower, many established and emerging businesses will find themselves struggling. Against this background, collaboration with China should be a key part of any organisation's growth strategy. Working with Chinese investors opens up a huge new market, helping to increase revenue generation. However, the focus on R&D in China could also bring the opportunity for collaboration, with East and West

“Access to Chinese investors and its healthcare market will become a critical competitive differentiator for healthcare and life science businesses”



Nick Conley, CEO of EpiBiome, a successful case of cross-border investment with China.



China's focus on R&D brings opportunity for collaboration

working together to deliver a step-change in how healthcare is developed and delivered.

Moving forward, access to Chinese investors and its healthcare market will become a critical competitive differentiator for healthcare and life science businesses. Nick Conley, CEO of precision microbiome engineering company [EpiBiome](#) said, “in healthcare, it is no longer unusual for a US company to have a Chinese investor or corporate as part of the cap table, and cross-border partnerships, collaborations and out-licensing have evolved from fad to reality for the most forward-thinking companies”.

The problem, right now, is there are not enough forward-thinking companies out there. Many organisations are putting off cross-border investment and collaboration with China because it is perceived to be too difficult a task. But Western businesses would be foolish to ignore the opportunity and to do so would mean missing a huge economic opportunity and losing competitive advantage. Yes, the markets are very different, but with the right knowledge and partners, capitalising on the investment and collaboration opportunity is achievable. ▶



China: the new land of opportunity for cross-border investment in healthcare

► Simplifying cross-border collaboration and investment

To illustrate how Western businesses can overcome the complexities involved in working with Chinese investors, it is useful to look at EpiBiome, which has been doing business in China for three years. The issues they faced included currency exchange rules, local and national regulatory environments, product pricing, restrictions on foreigners and unpredictable patent and legal processes. CEO Nick Conley recommends that, “companies go in with an open mind and be prepared to adapt original value propositions, customer targets and product for the Chinese market”.

Conley also [highlights](#) the role of partners and investors when it comes to addressing these challenges. He continues, “consider your Chinese investors as strategic partners, not just sources of money. They should be able to connect you with Chinese banking and regulatory advice”. He recommends tapping into a network of contacts with local experience, “get access to people who have already done business in China and who know the lay of the land”. This is the route that EpiBiome took by attending conferences focused on cross-border investment and talking to sponsors and attendees to build up a bank of relevant expertise.

At Silicon Valley Bank we have seen many different approaches being taken to developing a strategy for entering the Chinese market. Some businesses partner on research with Chinese institutions while others bet on licensing to help local businesses address the country’s unmet medical needs.



Different currency exchange rules are a challenge, but Chinese investors can help businesses navigate them

“Whatever your strategy for cross-border investment, full due diligence is a critical first step to making sure that your approach is operationally sound.”

Whatever your strategy, full [due diligence](#) is a critical first step to making sure that your approach is operationally sound.

Healthcare and healthtech companies from the East and West will inevitably benefit from working together. For US businesses the promise of an economically robust new market cannot be ignored. For China, access to innovation and insight is critical as the country scales up to create a sustainable healthcare model. While there is no denying that the mechanics of cross-border investment can be complex, it is nowhere near complex enough to merit kicking the can down the road.

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Access to innovation is critical as China scales up to a sustainable healthcare model

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