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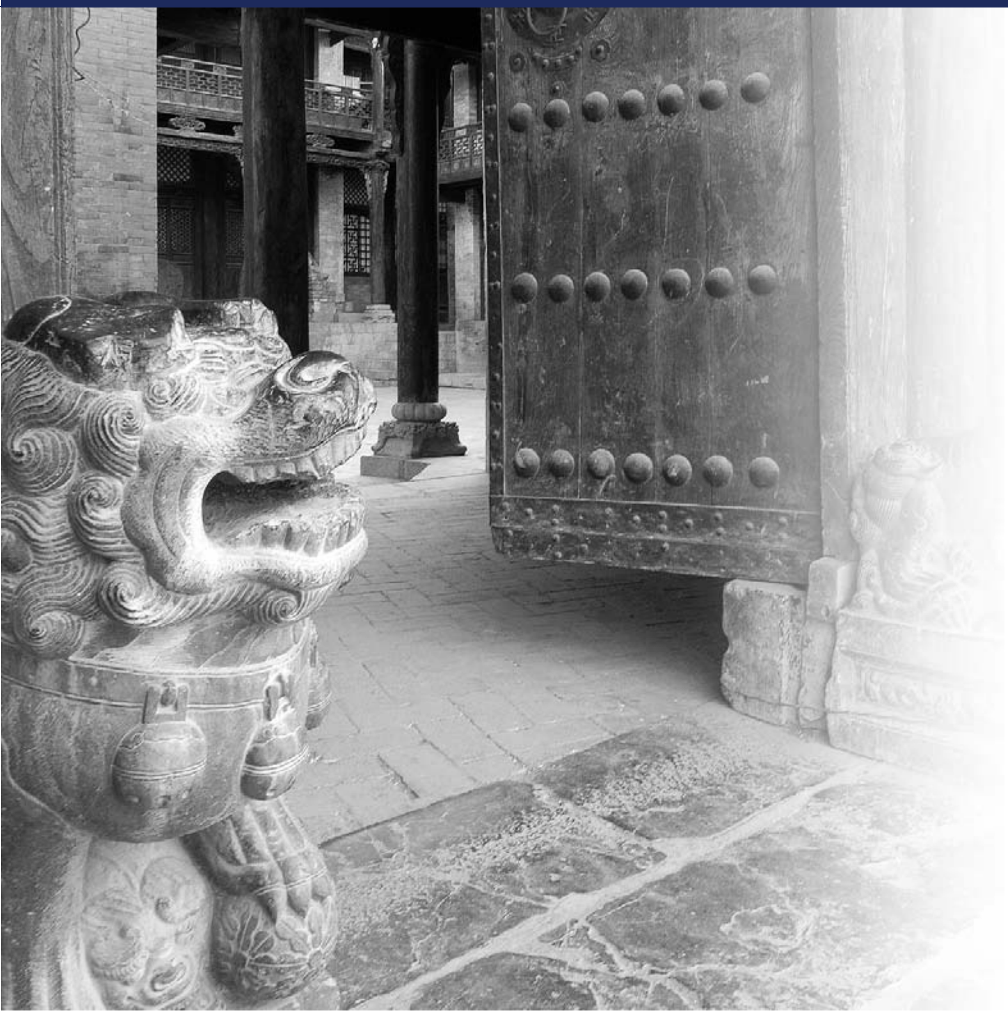
Partnering up to fight cancer

Strategies for the China oncology market

By **Rick Woo** | April 03, 2013



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China's oncology market is on track to become the largest pharmaceutical market in China, and eventually in the world. However, almost no player has all the right strategic success factors (innovation pipeline, commercialized product, extensive sale network) in place. Hence, for many players now is a good time to reassess their strategies. In such a promising and fast growing market, going alone may not always be the right solution. Instead, partnerships and alliances will be extremely practical and valuable to secure a position in the mid- to long-term.

Rising rates of cancer are an unfortunate fact of 21st century life, and a growing number of Chinese are being diagnosed with the disease. The total number of cancer patients rose to 3 million in 2012 from only 1.3 million in 2005, an annual rate of increase of 15% per year.

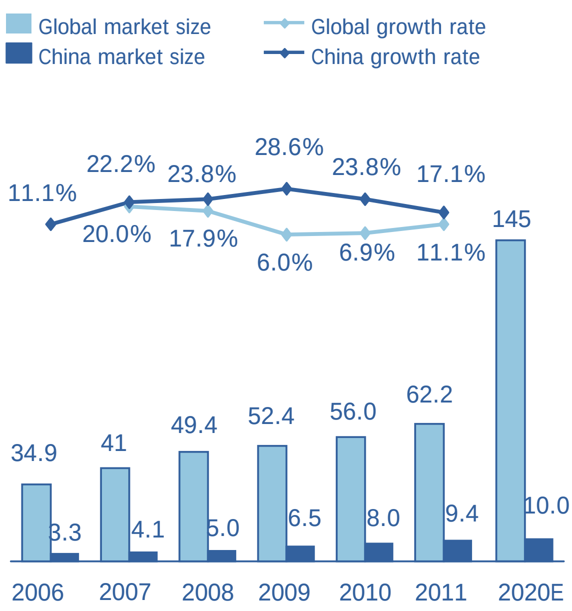
China's oncology market is still small in terms of size but it is growing at about 20% per year. The rapid market expansion is driven by the strong demand not only for target therapeutics but for all types of oncology drugs. The China oncology market will total about USD 40 - 50 bn by 2020, up from USD 9.4 bn in 2011, and will be about one-third of the world market, which is estimated at USD 140 - 150 bn.

China's oncology drug market is dominated by local companies, which have about a 70% share of the market, while the remaining 30% is held by multinational companies. With rapid growth of the overall market size, we do not expect that this ratio is going to dramatically change in the next 10 years. Multinational companies are focused on selling high priced products at the high end of the market, while local Chinese companies dominate the lower end of the market. InterChina believes that it makes sense for foreign newcomers to adopt an innovation strategy, focusing on unique high-end oncology products developed in-house or through licensing.

China is the world's third-largest pharmaceutical market, at USD 115 bn in 2011 and has lead global growth due to strong demand from its aging population, its fast-growing economy, improving social insurance coverage and increasing purchasing

Total pharmaceutical market, USD bn

Total oncology market, USD bn



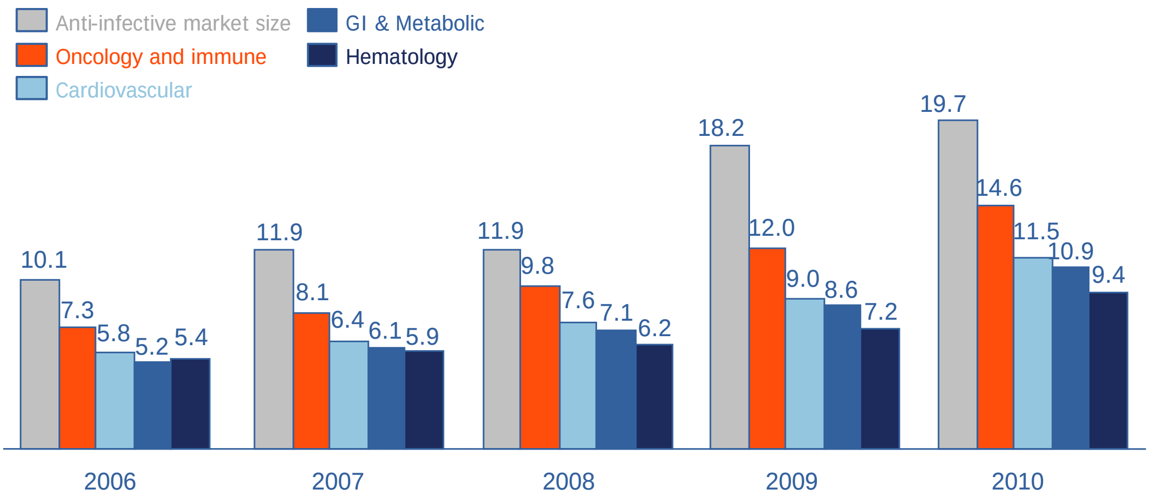
Note: Market size refers to sales ex-distributors to hospitals.
Source: IMS Health Prognosis, Menet.com.cn, InterChina analysis

power. China is expected to become the second-biggest pharmaceutical market, at USD 300 – 400 bn, by 2020. By that time the global market, which was more than USD 942 bn in 2011, is forecast to grow to USD 1.4 - 1.5 tn.

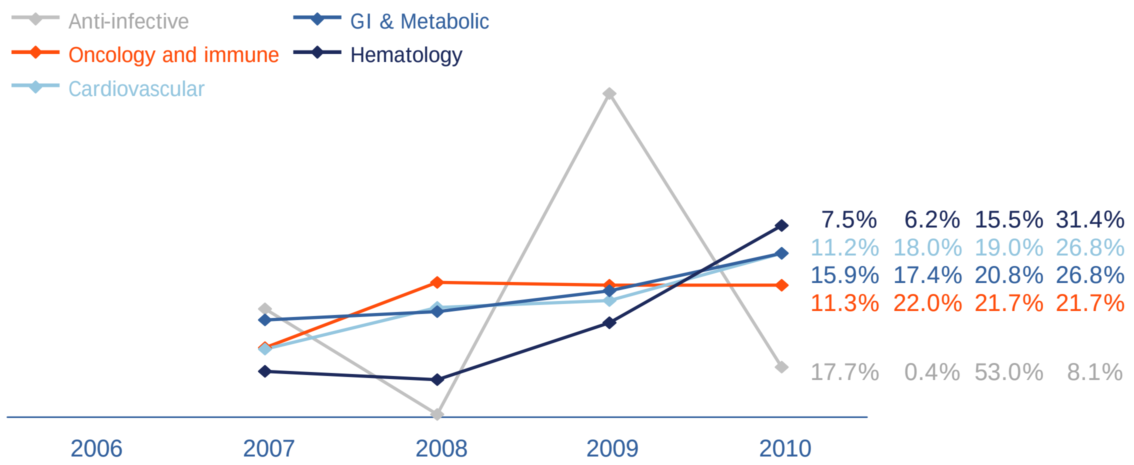
Strong Momentum for Growth in China Oncology Drugs

The top five therapeutic classes of drugs account for over 75% of China's consumption. Anti-infectives are the biggest class but the growth is slowing due to policy changes by China's SFDA last year. It is predicted that oncology drugs will replace anti-infectives as the top-selling category of drugs

China pharmaceutical market (US bn) by therapeutics areas



China pharmaceutical market growth rate by therapeutics areas



Source: Menet.com.cn

due to strong demand, new product launches, and improved reimbursement for oncology treatments. Many pharmaceutical companies, either already in the market or newcomers, obviously want to capture a share of this lucrative market, yet the strategies of MNC pharmaceutical companies and local companies differ.

Cancers in China

Cancer in China is spreading quickly as the population ages and lifestyles change. Heavy smoking and unhealthy diets and lifestyles have helped make cancer the leading cause of death in China. Prices for oncology drugs range widely, from a few hundred yuan a month to tens of thousands of yuan for imported target therapeutics. As Chinese doctors increasingly attend international conferences, treatment regimens are catching up with those in developed countries. In the past, it took at least 4-5 years after new cancer drugs were approved in the U.S. and Europe to become available in China because local clinical trials are needed. International pharmaceutical giants are becoming more aggressive in product registration, and global clinical trials including Chinese patients are growing more common. This enables simultaneous global and China approvals, giving products longer periods of patent protection in China.

More and more premium cancer drugs have been developed and approved in the last decade, but the China market for such drugs is limited because costs for them are not reimbursable. Only a few patients can afford to use them. However, growth in use of such expensive drugs is highest among all other cancer drug classes, most likely because patients, given the nature of their illnesses, are willing to use expensive drugs by all means.

Multinational companies are focused on high priced and less competitive target therapeutic drugs. Most of the top 10 companies have at least one or more of these products and many have this class of products under development. Rising purchasing power will contribute to faster growth in this mostly self-pay market. Growth is also accelerating as products with well-proven efficacy and safety, such as Mathera and Glivec, are included in some provincial reimbursement lists.

Companies with strong target therapeutic portfolios have begun to outsource non-core oncology products to third-parties companies in order to concentrate their resources on the more profitable target therapy market. Pfizer granted NovaMed sole distribution and promotion rights for five of its old oncology products: Adriamycin, Daunoblastina, Leucovorin, Methotrexate, Estracyt and Farlutal, in 2008. In 2012, Roche, the top oncology company, entered into an agreement with Guangzhou-based

Key players in China's oncology market: Multinational pharmaceutical companies

Rank	Company Name	Market Share	Key products
1	Roche	12.3%	Capecitabine (Xeloda), Rituximab (Mabthera), Trastuzumab (Herceptin), Ibandronate (Bondronat), Erlotinib (Tarceva) , Bevacizumab (Avastin)
2	AstraZeneca	4.6%	Getfitinib (Irressa), Anastrozole (Arimidex), Goserelin (Zoladex), Bicalutamide (Casodex)
3	Sanofi Aventis	4.2%	Taxotere, Eloxatine
4	Pfizer	3.4%	Epirubicin (Pharmorubicin), Idarubicin (Zavedos) Cytarabine (Cytosar), Exemestane (Aromasin), Sunitinib (Sutent)
5	Sciclone	2.6%	Thymalfasin
6	Novartis	2.7%	Imatinib (Gilvec), Letrozole (Femara), Zoledronic Acid (Zometa), Tropisetron (Navoban), Desferrioxamine (Desferal)
7	Eli Lilly	2.1%	Gemcitabine (Gemzar) Pemetrexed (Alimta)
8	Bristol Myers Squibb	1.5%	Paclitaxel (Taxol), Carboplatin (Paraplatin), Dasatinib (Sprycel)
9	Merck Serono	1.3%	Cetuximab (Erbitux)
10	Bayer Schering	1.3%	Sorafenib (Nexavar)

Source: MENET. Sales refer to ex-distributor to hospital prices.

Techpool for Bondrant, Roche's diphosphonate with indications of bone pain due to cancer metastasis. This is the first product Roche has outsourced, but Roche wants to focus on its patented target therapeutics, such as monoclonal antibodies. The agreement also calls for Techpool's sales team to help Roche promote non-core oncology products.

In the past, most multinational companies have developed their oncology products in-house. Now, increasingly they are strengthening pipelines through licensing or acquisition of other companies with attractive oncology pipelines. A good example is Roche's acquisition of U.S. company Genentech in 2008. Genentech has driven Roche's sales in its focus area of monoclonal antibodies in oncology, providing synergy between strong research know-how and commercial capability.

As China becomes an increasingly important oncology market, companies are beginning to realize the need to strengthen development of products for the local market. Many companies have set up research centers in China, aiming to bring in more products. Their China strategy is to allow more flexibility in local collaboration in research to capture opportunities in the oncology market. Three examples illustrate this trend. Bayer signed an agreement with the Life Science Faculty of Tsinghua University for research on identifying potential small molecules of target therapy - the collaboration began in 2009 and an extension of the agreement was signed in 2012. Roche collaborates with Suzhou Bio-Nano Park and Harvard University since 2011 to co-develop drugs for cancer, whereas Roche will have the commercial rights of the products. Sanofi Aventis closed a USD 60 m deal for patents and technology with Shanghai Life Science Institute for potential development of protein-based anti-cancer drugs. While these strategic moves reflect the strengthening of local R&D investment, the collaborations are all still in their early stages, no products have been successfully launched so far.

We believe there are good opportunities in the field of oncology, varying according to multinational companies' strategies. Local pharmaceutical companies or contract sales organizations with good oncology customer networks can benefit from MNCs that look to outsource products or activities to them. Local companies with attractive oncology target therapeutic drugs in their early phases could be potential partners for collaboration. Multinationals do not compete with local companies because they do not reduce their own prices, whereas local companies are more flexible in pricing and promotional methods of their products.

Basically all the key products of local oncology companies are low priced generic drugs, including mostly generic chemotherapy drugs. The value of sales of local companies' products is large compared to those for multinational companies; about 70% of the oncology market is from local generic drugs sales. However, the market is very competitive and profit margins are low. Companies like Hengrui and

Top 10 local oncology players

Rank	Company Name	Market Share	Key products
1	Jiangsu Hengrui	5.8%	Oxaliplatin, Irinotecan, Docetaxel, Ifosfamide
2	Shangdong Qilu	5.3%	Docetaxel, Nedaplatin, Carboplatin, Cisplatin, Saizhen (Pemetrexed Disodium)
3	Jilin Changbai Mountain	2.7%	Kangai
4	Jiangsu Hansoh	2.6%	Gannuo(Vinorelbine), Zefei (Gemcitabine Hydrochloride), Nuoxin (Cisplatin), Pulaile (Pemetrexed Disodium)
5	Nanjing Luye Sike	2.6%	Lipusu (Paclitaxel), Tiandixin (Lentinan)
6	Beijing World Bridge	1.9%	Thymopentin, Paclitaxel
7	Beijing ShuangLu	1.8%	Xinerjin (Paclitaxel), Xinruijin (Vinorelbine), Gengbo, Xinjier, Lishengsu
8	Lizon Limin	1.5%	Shenqifuzheng
9	Shengzhen Wanle	1.3%	Pirarubicin, Docetaxel
10	Bayer Schering	1.3%	Tiboding (Thymopentin)

Shangdong Qilu, which can capture the market through strong sales and marketing, can develop product brand images and will be the leaders in this market.

Some local Chinese companies employ a different strategy for the high-end market. Simcere Pharmaceutical Group successfully established itself in the oncology field by launching its flagship oncology product, Endu, back in 2006. Since then, it has become more aggressive in pursuing different forms of co-operation with international and local partners. Its successful partnerships include co-development with Advenchen Laboratory and Epiomics/Apexigen for two early-phase anti-cancer products. Simcere also was able to establish a partnership with Bristol Myers Squibb on an early phase oncology drug, BMS 817378, in 2010. Simcere's latest deal was a contract with Suzhou Runxin Biotech Co. to develop a small-molecule target therapy for potential cancer treatments.

The efforts of local companies in target therapeutic research and development has started to pay off. In 2011, the approval of Beta Pharma's Icotinib Hydrochloride, the a novel oral epidermal growth factor receptor-tyrosine kinase inhibitor for the treatment of non-small cell lung cancer, signaled the ability of local pharmaceutical companies to develop Class I new drugs in target therapeutics. It is priced about 40% cheaper than Astra Zeneca's Iressa and resulting sales were over USD 10 m eight months after its launch.

We expected the encouraging results would motivate more companies to invest in development of more new target therapeutics for cancer treatments. However, most local companies do not have strong research and development competency and have to opt either for in-licensing of product or establish partnerships with companies with good potential oncology pipelines. However, they face challenges in identifying and evaluating the products and companies, because they lack the global networks and the right team to drive this process, and often chose an opportunistic instead of a strategic approach.

The strategies for oncology companies will generally fall into three categories:

1. **Penetration strategy**: Healthcare reforms focused on developing the lower tier market generate opportunities for local companies with strong commercial capabilities. They will lead the mass market, especially if their products are on the essential drug list and reimbursable, and they continue to strengthen sales and marketing teams. This creates the opportunity for MNCs to offload old products to local companies which have better and more comprehensive sales networks. Other supporting functions to ensure pricing and bidding are also critical to their success.

2. **Specialization strategy**: Most multinational pharmaceutical companies have set up specialized oncology business units with strong support to create product-related cancer awareness and develop new cancer treatment paradigms. They are excellent in commercializing products developed in-house or in-licensed. They will continue to dominate the high end market, especially in the target therapeutics class. Many are establishing research centers in China, aiming to improve pipelines specifically for the local market. Furthermore, we observe multinational companies increasingly reaching out to other international companies that may have a ready-to-go product, and in-license the product for the Chinese or Asian market.

3. **Innovation strategy**: This strategy refers to a focus on development of novel oncology products that lead to a sustainable competitive advantage, carried out either directly by local companies or in partnership with foreign companies. These local companies have a strong commitment to potential partnerships with foreign or local pharmaceutical companies and research institutes to generate novel cancer drugs. Local companies with strong target therapeutics product pipelines will out-perform other local companies with a generic offering in the long run. What these companies lack, however, is the funding of their innovation, and that is where private equity companies or strategic investors (i.e. MNC pharmaceutical companies) are going to play a more important role in the future.

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