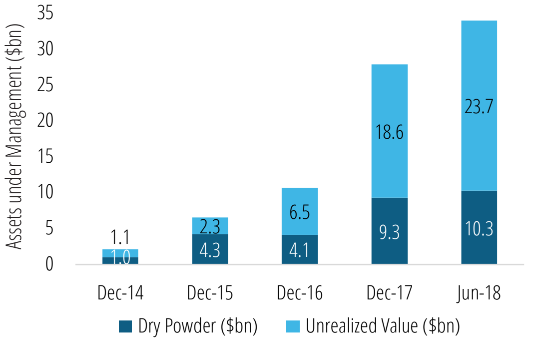
CHINESE HEALTHCARE-FOCUSED PRIVATE EQUITY

The healthcare industry in China has attracted a lot of attention in recent years. The combination of an ageing population and a growing middle class has created huge demand for healthcare services. In addition, the state has the ambitious aim of providing universal health coverage by 2020. The National Health Commission estimates that the market will double in size from $1tn in 2020 to $2tn by 2030.[1]

As part of the Chinese Government's five-year plan for 2016-2020 (13th FYP), private capital investment in the healthcare sector is greatly encouraged. The private equity industry has responded to that call in a big way, with Chinese healthcare-focused assets under management (AUM) ballooning to a record-breaking $34bn as of June 2018 (Fig. 1).

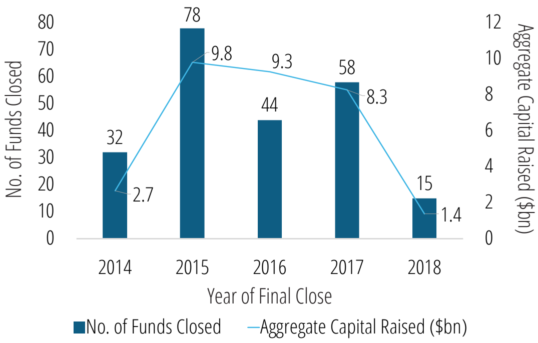
After consecutive years of growth, however, the industry has started to experience some headwinds. The accumulation of dry powder, tightening credit conditions and Sino-US trade tensions made fundraising challenging in 2018 for private equity managers. One of the largest healthcare-focused GPs in China told Preqin that weakness in the overall domestic fundraising market has dampened interest, despite the widely held view that healthcare is a defensive sector. Our data shows that only $1.4bn

Fig. 1: Chinese Healthcare-Focused Private Equity Assets under Management, 2014 - 2018



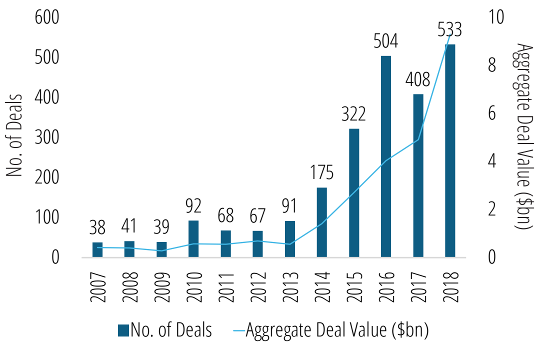
Source: Preqin Pro. Data as of June 2018

Fig. 2: Annual Chinese Healthcare-Focused Private Equity Fundraising, 2014 - 2018



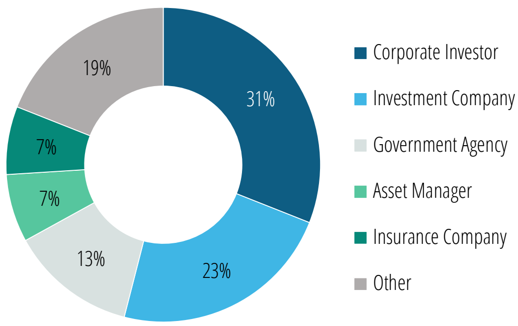
Source: Preqin Pro

Fig. 3: Healthcare Venture Capital Deals* in China, 2007 - 2018



Source: Preqin Pro

Fig. 4: China-Based Investors with a Preference for Healthcare Private Equity by Type



Source: Preqin Pro

[1] *http://www.gov.cn/zhengce/2016-10/25/content_5124174.htm*
**Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.*

was secured in 2018 (Fig. 2), representing a drop of 83% from 2017. In terms of fund type, growth vehicles contributed 53% of aggregate capital raised in the last five years, ahead of venture capital (37%).

Frothy valuations have also contributed to the change in fundraising conditions. The aggregate value of healthcare venture capital deals in the country peaked in 2018 (Fig. 3), while average deal size jumped 54% to $40mn. This is threefold with the dry powder overhang, accelerated reforms and increase in competition from corporate venture capital. Reforms in China's healthcare sector – ongoing since 2009 – were given a major boost in 2016 when the government published 'Healthy China 2030,' a comprehensive framework to guide further reforms with the aim of improving the health of its citizens. Runaway economic performance in the past decade has led to fatter corporate profits, which companies like Alibaba, Tencent and Ping An Insurance have deployed into direct deals.

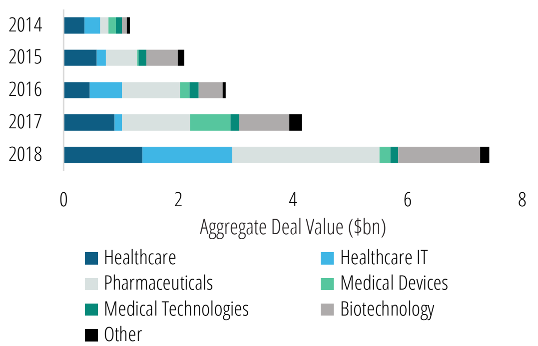
China-based investors form the vast majority (84%) of all LPs that have made commitments to Chinese healthcare-focused private equity funds, while US-based institutions make up 11%. Out of more than 230 China-based LPs that hold a preference for the healthcare sector, most are corporate investors (31%) and investment companies (23%, Fig. 4).

The pharmaceuticals industry is the sub-sector of healthcare that attracted the largest amount ($2.6bn) of venture capital investment in 2018 (Fig. 5), followed by healthcare IT ($1.6bn), healthcare (which hospitals and other medical services fall under) and biotechnology (both $1.4bn). The growth in venture capital funding in these industries is unsurprising given their emphasis in the 13th FYP, Healthy China 2030 and the subsequent reforms that were introduced such as shortening the clinical trial authorization process and a new price negotiation process for the National Reimbursement Drug List.

Mirroring the rise in deals, the value of healthcare venture capital exits in China in 2018 climbed to a record $3.7bn (Fig. 6). From 2007 to 2018, IPOs accounted for the majority (60%) of these exits. New rules announced by the Hong Kong Stock Exchange allowing listings of pre-revenue biotechnology firms on the main board could reinforce this trend.

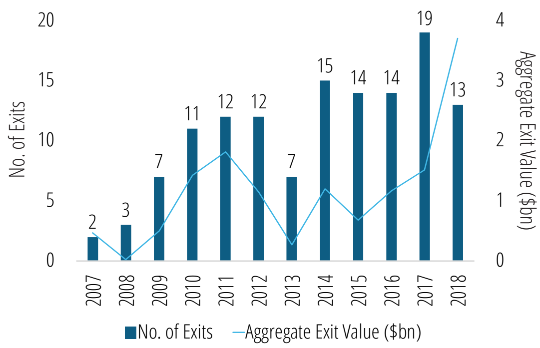
Looking ahead, a slowing Chinese economy could continue to hamper fundraising efforts in the near term but provide relief from high valuations. Given the strong commitment from the state council for a healthy China by 2030, the long-term prospects for healthcare are positive. Further reform in the sector and in the domestic economy could present vast opportunities for institutions and GPs alike.

Fig. 5: Aggregate Value of Healthcare Venture Capital Deals* in China by Primary Industry, 2014 - 2018



Source: Preqin Pro

Fig. 6: Healthcare Venture Capital Exits in China, 2007 - 2018



Source: Preqin Pro

**Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.*