Inside China: when dragons go shopping

Michael Alper of NeuvoMedica discusses the Chinese medtech investment landscape

Recently, the idea of raising money in China has been a hot topic in the medical device community. With venture money drying up in the US and Europe, small medical device companies and VC funds are looking to China with renewed hope as a source of potential funding or potential exit strategy. China is brimming with newly created wealth, lacks innovation, has a growing market and is looking to expand internationally – or so that is the common perception.

In the past year, I've had several requests from small medical device companies looking to raise money in China as well as discussions with Chinese companies from medtech, pharma and traditional chinese medicine (TCM) about their interest in acquiring foreign medical device technology.

Though I have maintained a healthy skepticism on this subject matter, I decided to investigate further by organizing a roundtable discussion with the Healthcare Catalyst (HCC), a Shanghai-based professional network, on this very topic. Our 16-strong panel covered a broad range of issues and summarized key take-aways below.

Growing but In its Infancy

China outbound investment into medical device companies can be classified as coming from four major areas:

1. Medical (pharma and med device) corporate M&A – Chinese medical companies acquiring foreign med device companies;
2. Non-medical corporate M&A – Chinese non-medical companies acquiring foreign medical device companies;
3. China VCs – Chinese venture capital firms investing into foreign medical device companies;
4. Investment for China manufacturing and distribution rights – Chinese medical companies investing into foreign medical device companies in exchange for equity, manufacturing and distribution rights (or some combination of)

Overall, though there has been a significant increase in outbound deals in the past couple of years, the number is still relatively small. In the medical corporate space, the recent deals include Microport's $290m acquisition of Wright Medical's OrthoRecon business, Fosun Pharma's purchase of Israel-based Alma Lasers for $240m, BGI's purchase of Complete Genomics for $120m and Mindray Medical's purchase of Zonare Systems for $110m. In these deals, the acquired companies have been those with relatively mature products and have helped the acquirers access new international and therapeutic markets. In fact after the Wright acquisition, Microport turned from a company with over 90% of its revenue coming from stents to a company with a majority of its revenue coming from orthopedics.

As for non-medical corporate M&A deals these appear to be even fewer. Like many developing markets, China is known for having many conglomerates and it is very common to see acquisitions from unrelated industries. However, Ming Feng Group's crossing of industry and national boundaries via its investment in US based FMI Medical Systems is the only deal that I have heard of like this.

Chinese VC companies investing in foreign medical device companies seems to be something new as well and may be an emerging trend. Hony Capital's investment into Singapore-based Biosensors and Legend Capital's investment in JenaValve are two examples of such deals. Usually such deals involve a China play. For instance, Biosensors has a significant portion of its revenue coming from China, and Legend Capital was quoted as stating they are investing in companies with clear China strategies.

Finally, in the area of investment for foreign distribution rights, though also not very common, there are a few known examples. Kanghui before its acquisition by Medtronic had invested and obtained equity in US based Consensus in exchange for China manufacturing and distribution rights.

Though China outbound investment in the medical device sector is relatively small, it's definitely an emerging trend. However, companies looking to raise money in China need to make sure they are the right fit for the Chinese investment environment to ensure they are using their time most effectively.

Chinese companies are good at window-shopping and will be happy to learn more about your company and products; however getting them to invest is extremely difficult. One of the concerns from companies who may be looking for capital and engaging in the early stages of this process, is that the intent is indeed to better learn about the company, its finances and technologies with no real intent on the part of the China suitor to enter into formalized negotiations.

The Chinese medical device market is growing at 15-20%. From the Chinese companies' perspectives there is also more risk in investing in foreign companies because they have less capability, knowledge and relationships. Therefore they end up being more short-term oriented and more risk averse when looking at outbound investment.

In general, good candidates for Chinese investment are those that at least already have approval in their home country (having CFDA approval is major plus), have proven technology not already in the Chinese market, or have some other strong synergy with the acquiring company. Companies whose products are not yet commercialized will probably be wasting their time, as they will find it extremely difficult to raise money in China.

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