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As venture capital slows in China, biotech booms

Aug. 11, 2020

By Bryan Wong

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HONG KONG – Venture capital investment into most sectors in China has generally plunged throughout the COVID-19 pandemic but biotechnology has been a noticeable exception.

China's biotech industry has continued to attract investors, not only because of its importance in dealing with the pandemic but also as a result of increased maturity and a growing list of government incentives.

There were 95 biotech-related deals to June of this year, drawing $12 billion in total investment, an unprecedented volume of deals, according to Biomedtracker and Chinabio. Two thirds of the deals involved financing, 21 were business development or licensing deals and there were 11 IPOs or follow-on public offerings.

"There has been a step-change in quantity and quality of companies over the past few years, and unsurprisingly, the amount of capital funding in these investments has also risen. We see companies with bigger and bolder visions than ever before in terms of portfolio breadth, level of innovation, and ability to attract world-class talent," Judith Li, a partner at Lilly Asia Ventures, told *BioWorld*. "It seems to us that COVID-19 has drawn significant attention to health care as a sector."

Investors are increasingly focused on R&D-intensive companies that are innovative or have notable track records.

The top biotech IPOs in Shanghai or Hong Kong this year have been from companies focused on developing or discovering first-in-class or best-in-class products. For example, synthetic human insulin specialist Gan & Lee Pharmaceuticals Co. Ltd., which raised $360 million from an IPO in Shanghai in early July, developed Basalin (glargine), China's first long-acting human insulin analogue, and the premixed insulin analogue injection Prandilin. In February, Bio-Thera Solutions Ltd. launched a $241 million IPO on the Shanghai Stock Exchange's STAR board.

Gan & Lee (SHA:603087) shares closed at ¥208.50 (US$29.90) on Aug. 4, up 56% from the beginning of July. Bio-Thera shares closed at ¥58.41 on the same day, essentially flat since February but at almost double the IPO price of ¥32.76.

One reason for the sharp increase in investment is the growing number of innovative companies in China. Another was the introduction in 2018 of new listing rules for the Hong Kong Stock Exchange (HKEX) that allow for issues by pre-revenue companies and similar rules introduced last year for the Nasdaq-style Shanghai STAR board.

"This has given pre-revenue companies access to the capital markets, which is absolutely critical for a R&D-heavy industry like biotech," said Li.

"One of the sectors that are gaining more interest is the innovative drug R&D. People have the expectation that innovative biopharmaceuticals are likely to go public," said Nisa Lin, managing partner of Qiming Venture Partners. "With the country's policy support to the industry and the growing needs surging from an aging society, many subsectors will have a promising development."

However, not all R&D-focused innovative biotech companies are on equal footing when it comes to attracting investment.

"In terms of therapeutic areas, I have seen more investments in cancer treatment and precision medicines," Liu Da, managing director of CRCP Life Science Fund, told *BioWorld*.

It was a company in this space that raised the second largest IPO in Hong Kong this year. Akeso Inc., which specializes in new investigative drugs for the treatment of major diseases like cancer and autoimmune diseases, raised $335 million in April. Share prices have risen from HK$26.20 (US$3.38) on April 29 to HK$30.40 on July 30.

The top two fundraising deals this year were from Everest Medicines Ltd. and Mabwell Bioscience Co. Ltd., which raised $310 million in June and $279 million in April, respectively. Both companies have oncology and immunology products in their pipelines.

Innovent Biologic Inc.'s $2 billion R&D collaboration with Roche Holding AG in June also focuses on the discovery and development of cancer and T-cell therapies, specifically the 2:1 T-cell bispecific antibodies and universal CAR T therapies for hematological and solid cancers, signaling a clear drift toward this sphere among investors.

Even though China's biotech industry is booming and has been given an extra boost by the need to find solutions for COVID-19, it is not necessarily in bubble territory. Maybe the opposite.

"In our view, the biotech sector will remain in the spotlight for investors until an effective [COVID-19] vaccine or treatment becomes available for the broader public globally," Bin Li, chief investment officer and CEO of Lake Bleu Capital (Hong Kong) Ltd., told *BioWorld*. "However, China's biotech industry is still in the nascent growth stage. There will be more innovation and growth in the sector in the near future, and assets developed in China will continue to expand into the global market.

"With the COVID-19 volatility, many quality companies seem to be coming out with financing rounds in order to maintain healthy balance sheets for the one to two years ahead. We have deployed quite a bit of capital over the past two quarters and anticipate we will do so over the next few quarters as well," said Li.

"It seems quite evident that China's biotech industry's strong growth trend will sustain for the years ahead. All the factors we mention above are only in their early days. For example, the launch of the HKEX and STAR board. I anticipate we will see many additional companies hitting the billion-dollar market cap stage in the next few years," said Li.

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BioWorld Asia Financings IPO China
KEYWORDS Akeso Inc. Bio-Thera Solutions Ltd. Gan & Lee Pharmaceuticals Co. Ltd. Innovent Biologic Inc.
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