

## China Healthcare

## New policy announced to foster innovative drug development

Industry Overview

## Supportive innovative drug policy announced

We noticed multiple media mentioned a supportive policy on biotech - Implementation Plan of Full Supply-chain to Support the Development of Innovative Drugs. Including **key objectives**: By 2025, to incubate a batch of innovative drug projects; announce a series of reasonable supportive policies; accelerate NRDL inclusion and promote commercial insurance payment; and support fund-raising activities for high-quality biotech companies. By 2027, more self-reliance on innovative drug core technologies; over 10 FIC drugs were approved in China; achieve over 10 innovative drugs approval in the overseas market; and the growth of innovative drugs should outpace industry average growth rate. **Framework**: 1) **accelerate drug R&D**: develop a key R&D catalogue to include drugs with new targets/MOA/structure/ technology that cater unmet medical demand or have meaningful clinical value; and major government departments shall provide support accordingly; 2) **improve drug review mechanism**: shorten review time for drugs listed in the key R&D catalogue; further improve priority review/breakthrough drug/conditional approval system; 3) **increase innovative drug usage**: develop a encouraged drug use catalogue; accelerate drug listing and hospital entering process; the prescription of catalogue-listed drugs could be excluded from hospital's drug expense KPI review; 4) **introduce multiple types of payment method**: allow innovative drug to be priced based on global peers' level; offer support to catalogue-listed drugs during NRDL negotiation, NRDL price shall cover all R&D expense and less price cut for newly added indications/re-negotiation; explore new methods of NRDL payment and broader use of commercial insurance; and 5) **enrich fund-raising channel for biotech**: allow non-profitable biotech companies to utilize IPO/refinancing/M&A channel for fund raising; develop medium-to-long term investors (government-based fund, CDB, CIC, etc.) to support the industry. Initiate corresponding pilot plans in qualified regions in 2024.

## Our thoughts on the innovative drug plan

In our view, innovation can't be planned. Instead, China needs to build a healthy ecosystem which can nurture biotech companies, relying on the market instead of NHSA. We are not sure if healthcare authorities and related parties are well prepared and ready to fully support the industry with a deep pocket. Instead, we are curious and prefer to wait for more details on below questions: (1) would the approved innovative drugs to benefit from the supportive policy, having a chance to lift their drug price through national negotiation?; (2) whether there would be a great financial support? If so, where would the new money come from considering the tight healthcare budget from long-term aging population issue? The investment into biotech companies, especially from sector-wide policy perspective, should not be expected with a sound return in the short term, considering the risky and time-consuming process. Compared with this new document, we believe a strong introduction and promotion of commercial healthcare insurance should matter more. Amid lack of details on above questions, we do not change the long-term growth rate for our covered biotech companies and maintain our views.

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**David Li** >>  
Research Analyst  
Merrill Lynch (Hong Kong)  
+852 3508 4531  
[davidbo.li@bofa.com](mailto:davidbo.li@bofa.com)

**Sandra Sun** >>  
Research Analyst  
Merrill Lynch (Hong Kong)  
[sandra.sun@bofa.com](mailto:sandra.sun@bofa.com)

**Ethan Cui** >>  
Research Analyst  
Merrill Lynch (Hong Kong)  
[ethan.cui@bofa.com](mailto:ethan.cui@bofa.com)

**Changyang Ji** >>  
Research Analyst  
Merrill Lynch (Hong Kong)  
[changyang.ji@bofa.com](mailto:changyang.ji@bofa.com)

## Abbreviations:

FIC: first-in-class

MOA: mechanism of action

CDB: China Development Bank

CIC: China Investment Corporation

NHSA: National Healthcare Security Administration

NRDL: National Reimbursement Drug List

KPI: key performance indicator

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