

InterChina Strategy | M&A Advisory

Focus: Our Healthcare Sector Group



Prepared by: InterChina Consulting

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InterChina



英特华

Strategy | M&A Advisory

IMAP China



Our Value

- China specialist.
- Strategy and M&A advisory
- Sector expertise.
- Retained 18 years experience.

Our People

- Bicultural partnership.
- 60 Advisors.
- Chinese, senior, industrial, technical.
- Located in Beijing and Shanghai.



Our Clients

- Medium-sized to Fortune 500.
- 500 strategy projects.
- 165 transactions (USD 6 bn).
- 2/3 of projects are returning clients.

Our Reach: IMAP

- Leading global mid-market M&A organization.
- 40 offices, 31 countries, 500 professionals.
- Over 200 transactions p.a.
- Exclusive China partner since 2006.

Our Differentiators

Why our Clients are choosing InterChina as their advisor














Strategy Practice

The #1 alternative to the global consultancies, with a practical emphasis

We help our Clients making **complex decisions**, by focusing on **top-line growth opportunities** and protecting **long-term profits**. We provide our **sector expertise** to develop **tailor-made solutions** that meet our Client's **specific needs** in a changing and more competitive China.

Methods	Tailored project	Dedicated team	Hypothesis-driven	Field-work driven
	Involving Client	Practical solution	Client buy-in to actions	
(New) target markets & segmentation	 Fortune 500 Client Successful pilot in lower-tier cities.	 Machinery Client Enabled access to protected market.	 Food brand Client Identified the right product category.	
Best practices in sales, distribution & services				
Product/ offering modification, market launch	 MNC Client Strengthened position in China by buying local player.	 Machinery Client Untapped segment opening with new product design.	 Fortune 500 Client Changed industry standard, doubling market share.	
Localization of activity models and investments				
Go alone versus alliances & partnerships	 Healthcare Client Created new product category in the Chinese market.	 Industrial Client Increased competitiveness via integrated lobby strategy.	 Luxury brand Client Tripled sales by rolling out a new sales organization.	
Game-changing strategies and differentiation				
Strategies based on margin protection				

Our practice of **25 consultants** is organized around **sector specializations** with substantial project experience.

Seniors



- 10–20 years experience.
- 80–150 projects.
- Project supervisor/manager.
- Sector specialization.
- Strategy.

Consultants



- Ex-global consultancies.
- 5–10 years experience.
- 40–80 projects.
- Workstream leader.
- Fieldwork.

Associates



- Overseas MBA.
- 3–5 years experience.
- 10–20 projects.
- Team member.
- Analysis.



M&A Advisory Practice

Among China's top 10 cross-border investment banks, known for getting things done

We initiate and execute mid-market buy-side, sales-side, investment and capital raising transactions for both **inbound and outbound deals**. We conduct **~8-10 deals p.a.**, 90% of which are cross border. 160 accumulated Transactions, 6 billion Usd value, 70% Buy side and 30% Sales side transactions.

Recent Transactions

<p>GETINGE</p> <p>Getinge Group Leading Healthcare and Life Sciences Products Provider, Sweden</p> <p>ACQUIRED 100% OF THE BUSINESS OPERATIONS OF</p> <p>Acare</p> <p>Acare Medical Science Ltd. Producer of Medical Equipment, Zhuhai, China</p> <p>InterChina </p>	<p>SMUCKER'S</p> <p>J.M. Smucker Company Leading F&B Manufacturer & Marketer (NYSE-SJM) Orville, Ohio, United States</p> <p>ACQUIRED A MINORITY INTEREST IN</p> <p>西麦 SEAMILD</p> <p>Seamild Biologic Technology Dev. Manufacturer & Marketer of Oats Products, Guilin, Guangxi, China</p> <p><i>Advised the Buyer</i></p> <p>InterChina </p>	<p>BOBST GROUP</p> <p>Bobst Group Leading packaging machinery company in Europe SWITZERLAND</p> <p>ACQUIRED A MAJORITY OF</p> <p>Shanghai Eternal Machinery Co.Ltd Flat bed diecutting & creasing machine manufacturer, CHINA</p> <p><i>Advised the Buyer</i></p> <p>InterChina </p>	<p>GRUPO BIMBO</p> <p>Bimbo Group Leading bakery group in the world MEXICO</p> <p>ACQUIRED 100% OF</p> <p>JingWoMenwei Bread manufacturer CHINA</p> <p><i>Advised the Buyer</i></p> <p>InterChina </p>
<p>LIUGONG</p> <p>LiuGong Machinery Co. Ltd. A leading construction equipment manufacturer, CHINA</p> <p>ACQUIRED THE CONSTRUCTION MACHINERY BUSINESS OF</p> <p>HSW STALOWA WOLA</p> <p>Huta Stalowa Wola POLAND</p> <p><i>IMAP Advised the Seller</i></p> <p>InterChina </p>	<p>INFUN Group</p> <p>INFUN Group Automotive components foundry Barcelona, SPAIN</p> <p>ADVISED IN CORPORATE RESTRUCTURING</p> <p>INFUN CHINA</p> <p>INFUN China Automotive components Foundry, Zhenjiang, CHINA</p> <p><i>Advised the Buyer in this transaction</i></p> <p>InterChina </p>	<p>CEPSA</p> <p>CEPSA MidStream Chemical Manufacturing (raw material) SPAIN</p> <p>ACQUIRED SELECTED ASSETS OF</p> <p>Shanghai SCIP Chemical, CHINA</p> <p><i>Advised the Buyer</i></p> <p>InterChina </p>	<p>JOY</p> <p>Joy Global Mining Equipment and Machinery Milwaukee, UNITED STATES</p> <p>ACQUIRED 100% OF SHARES AND CERTAIN ASSETS OF</p> <p>Wuxi Shengda Machinery Co. Ltd. Mining Equipment Wuxi, CHINA</p> <p><i>Advisor to the parties</i></p> <p>InterChina </p>

Our practice of **25 advisors** is comprised of senior Chinese deal makers with strong industrial and financial background.

Seniors



- Ex-corporate, PE.
- 10~30 years experience.
- 100~200 projects.
- Project supervisor/manager.
- Negotiation.

Advisors



- Ex-big 4 (CFA, CPA).
- 5~10 years experience.
- 50~100 projects.
- Workstream leader.
- Search, DD, valuation.

Associates



- Overseas MBA.
- 3~5 years experience.
- 25~50 projects.
- Team member.
- Analysis.



Typical challenges our healthcare Clients are facing in China

“We will start the development and registration process for a new product in China, but we need to know **how will the market in this therapeutic area look like in 8 years from now**”.

A EU pharmaceuticals company

“We are looking for a **new activity model** in China... what model and partner type should we consider? **Can we afford not to partner up with a large Chinese group?**”.

A MNC pharmaceuticals company

“ We want to **diversify into adjacent product and services areas** ... what the **attractive growth areas** and respective **top players** in each category that should be approached for a **partnership or acquisition?** ”.

A EU medical device company

“We want to import value-added generics to the Chinese market, but do not know how to put the **right portfolio** together, and what the **way-to-market model** should be”.

An European generic drug maker

“ We have already found some potential commercial partners, but there are many uncertainties about how **KOLs will perceive the product**, & what the **patient-pathway** will be”.

An innovative drugs company

“We are playing with the thought to bypass distributors and go directly to the market. **Can we do it, and how should we align our sales organization?**”.

A MNC medical device company

“The premium segment has been developing well, but we may need to invest in **reaching smaller hospitals** in the **lower-price segment**. How could we do this in an **efficient and effective way?**”.

A EU medical devices company

“We want to **grow via acquisition** in China (also to establish a **registration platform**), but couldn't find any good targets.... We need to **systematically search** and establish whether any exist”.

A int'l pharmaceuticals company

“ We've been sourcing from a Chinese API maker since many years – We need to assess the **benefit and feasibility of acquiring** an interest in them in order to vertical integrate in China”.

An API company

Our **typical services** include strategy advisory and the facilitation of M&A / partnerships in the healthcare and life sciences space

Strategy

- Opportunity assessments on new customer / markets.
- Product portfolio analysis.
- China market entry strategy.
- Sales, distribution, channel restructuring strategy.
- Expansion strategy, across different cities and channels.
- Business model adaptation.

M&A / Alliances

- Partners / target search
- In/ Out-licensing deals
- Evaluation of potential partner / target
- Due diligence, valuation
- Deal negotiations
- Acquisition mandates.
- Divestiture mandates.

Value-added for our Clients

On-the-ground view

- Hospitals, clinics
- Patients
- Physicians, KOLs



Pioneering solutions

- Delivery systems
- Market education
- Distribution

Drs are using blog (micro-blog) as marketing vehicle...

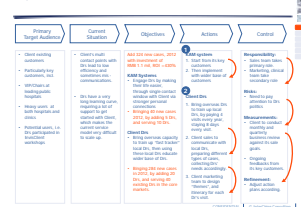


Source: InterChina Interviews and analysis.

Clear action plans

- Tested strategies
- Commercially practical
- RoI, P&L

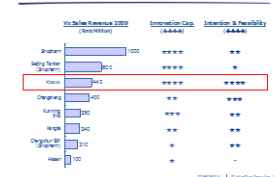
Improve sales & service model



Implementation

- Distribution partners
- Acquisition targets
- Strategic alliances

After joint visits of the most promising players, Xxxxx appeared as the best quality player and most feasible partner



Case study: Product category prioritization and way-to-market strategies for a med device maker to reach USD XX m by 201X

Client:

- International med. device firm.

Problem:

- Client was aiming at introducing a new portfolio of different product categories to China, but did not understand the market and find the best way to reach the market for those specific products.

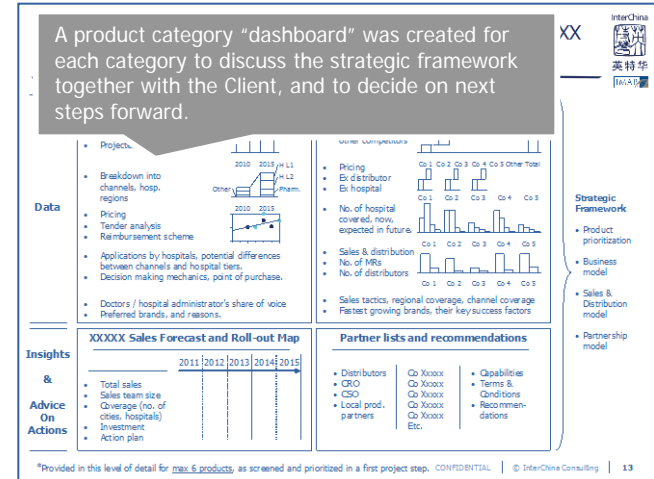
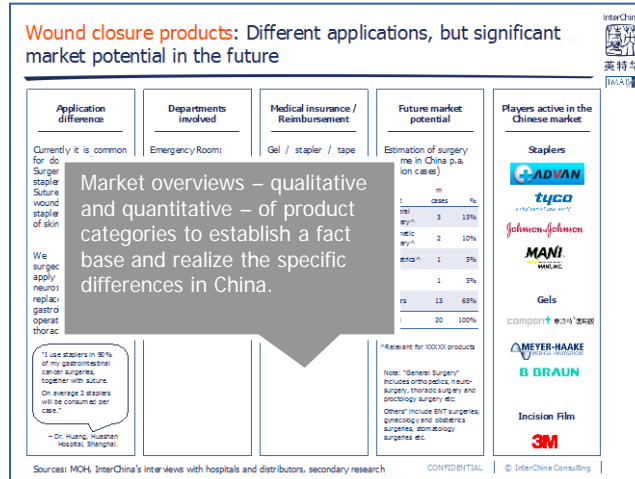
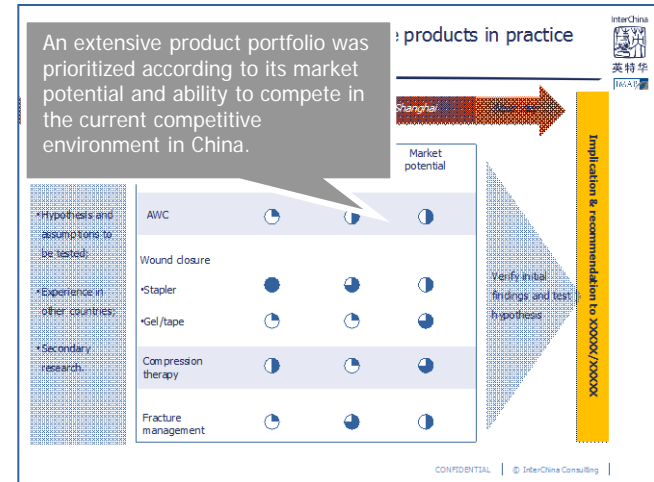
Method

- Creation of detailed application understanding through detailed research and analysis on 20 Chinese hospitals (multiple departments).
- Creation of relevant market understanding by interviewing distributors, agents, peers of relevant product categories.
- Work out of ideal way-to-market model for each category.
- Identification of ideal sales & distribution partners

Solution by InterChina:

- Strategic framework
- Prioritization of products
- Way-to-market strategy
- Partner strategy
- Action plan

How can the Client achieve USD XX by 2015/16 in China?





Case study: Distribution strategy for medical device maker

Client:

- European blood typing diagnostics and analyzer maker.

Problem:

- The client was active in the Chinese market since over 10 years, using one major distributor to cover the market. The Client had little feedback from users of its devices, and was unsure how effective his distribution set up was in China.

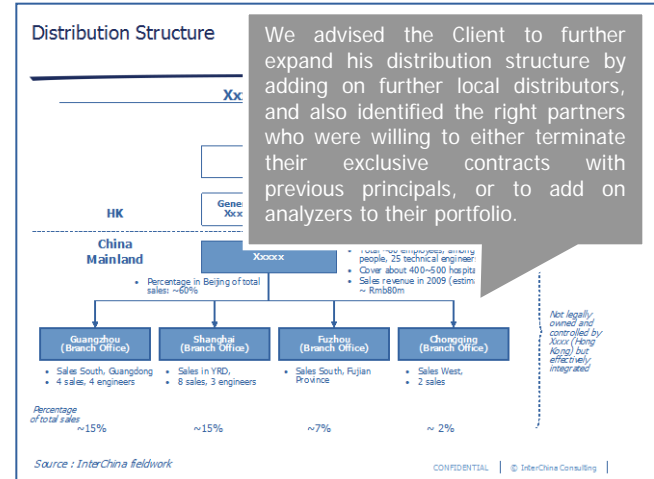
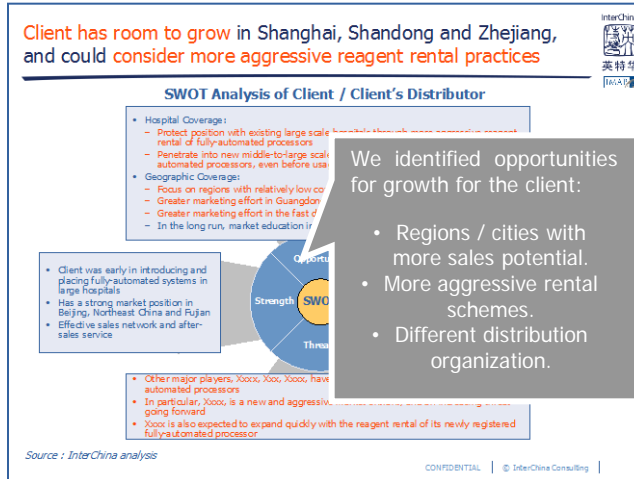
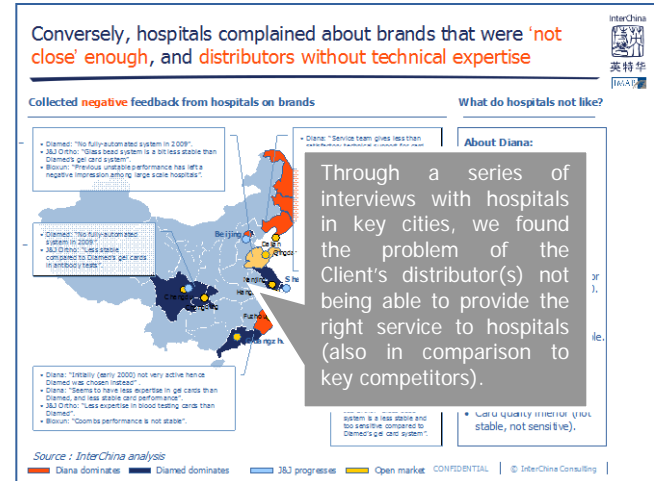
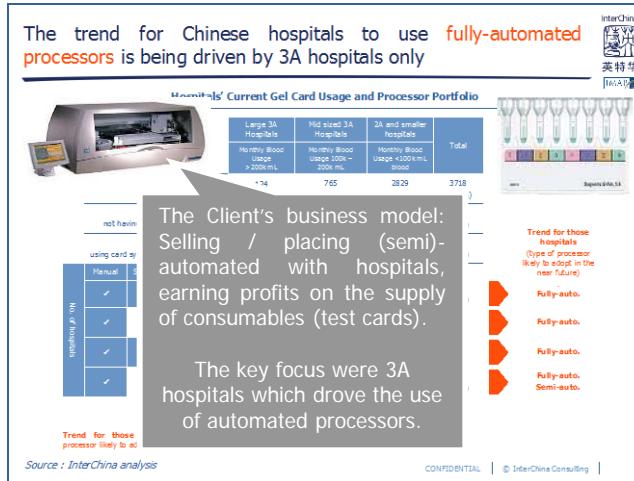
Method

- Interviews with over 30 hospitals, 20 distributors, and 10 peer representatives.
- Customer satisfaction and needs analysis.
- Competition benchmarking.
- Distribution analysis based on number of distributors, capabilities, structures, margins and mark-ups, effectiveness.

Solution by InterChina:

- Identification of growth opportunities in terms of regions and sales practices.
- Restructuring of distribution set up for more effective coverage and reach of key hospitals.

Creating the optimal distribution structure for blood analyzers in China



Case study: Growth plan for Chinese biotech firm, following future market opportunities and expanding its business model

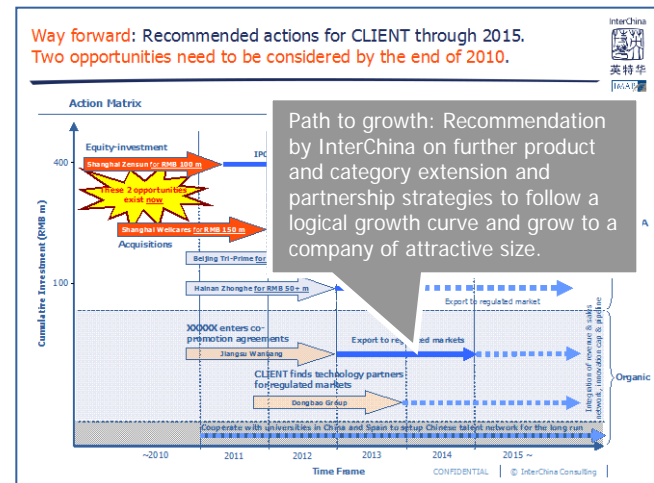
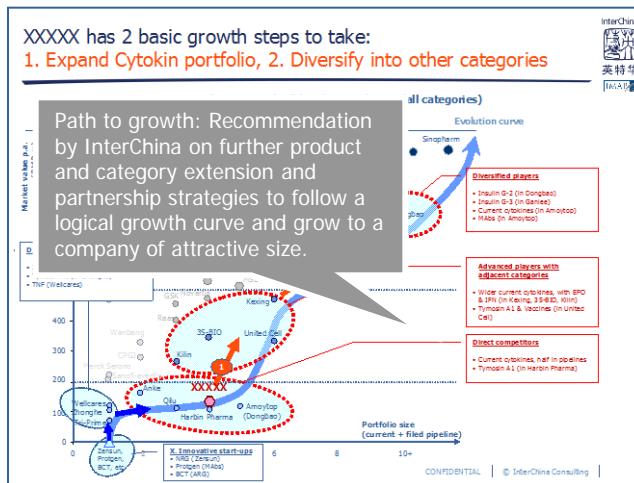
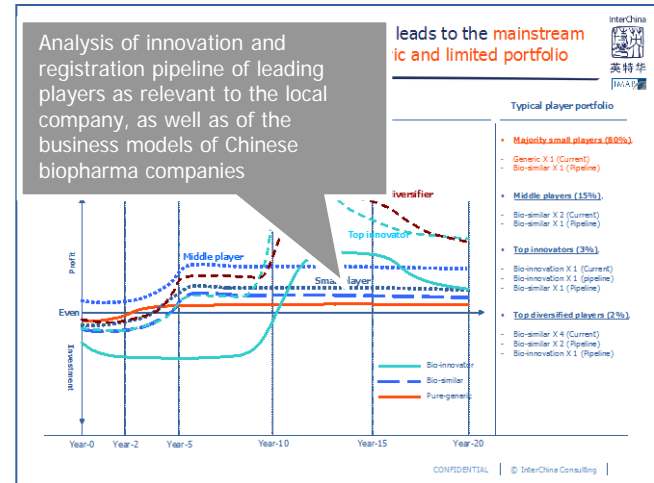
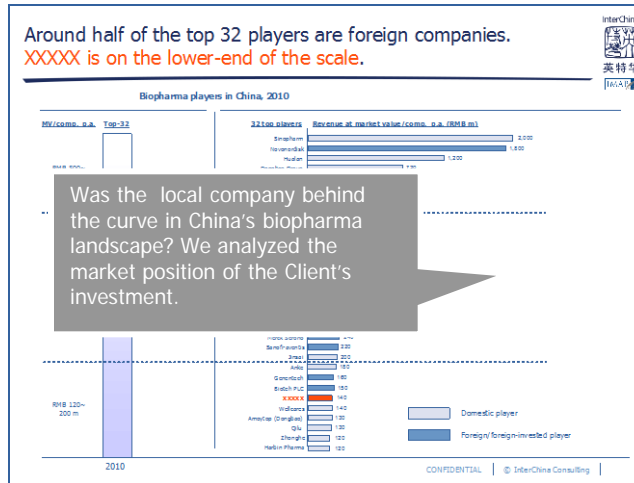
Client:
 • European pharmaceutical firm

Problem:
 • The client held a minority share in a local biotech company.
 • The client perceived a lack of strategic vision of the local management, and needed a strategic framework for the future to justify future investment and potential support to the local firm.

Method
 • Focus on relevant product categories and TA (directly relevant, adjacent, growth opportunities)
 • Exhaustive secondary research
 • Interviews with market players and potential partners.
 • Future scenario build-out (whole industry, for local company) for next 10 years.

Solution by InterChina:
 • Strategic growth vision
 • Lining up of potential partners for commercial, investment, and production activity
 • Action plan for Client and local company.

The right strategic framework for progressing in China's biotech industry?



Case study: Opportunity assessment of T1 cities to understand their limitations in terms of sales growth for US med device firm

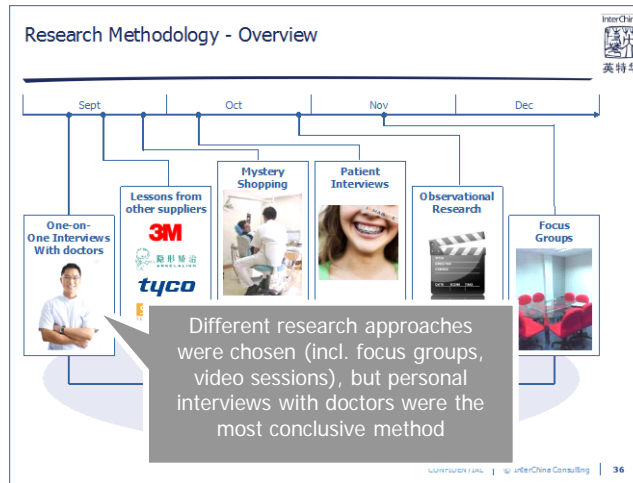
Client:
• US dental equipment brand

Problem:
• Unsure whether to expand beyond T1 markets in China.
• The expansion would have created larger issues in terms of sales efficiency and network capabilities.

Method
• 40 interviews with hospitals, doctors in the T1 markets, followed by 20 – 30 in T2 cities.
• Benchmarking with competitors, understanding reasons why spread out to lower-tier cities.
• Forecast of T1 business volume for next 3 – 5 years.

Solution by InterChina:
• Scenario discussion on future of T1 city market, with the conclusion that they would not sustain rapid (and targeted) growth in sales in next 3 years.
• Recommendation to spread out into T2 cities.
• Change of way-to-market model to create higher sales force efficiency and better customer reach.

How much more potential do T1 cities still have in next 5 years?



... 3 sample tier 2 cities have been prioritized by weighing income, Ortho. treatment price, KOLs, # of private clinics

City Attractiveness Ranking	City	Weighted Avg. Score	Income	Weight Income	Ortho. Treatment Price	Weighted Price	Concentration of KOLs	Weighted KOL	# of Private Clinics	Weighted # of Private Clinics
		100%	20%	20%	40%	10%	10%	30%		
Align Core Markets	Beijing	5	5	1	5	2	5	0.5	5	1.5
	Shanghai	4.8	5	1	5	2	5	0.5	5	1.5
	Guangzhou	4.3	5	1	4.5	1.5	5	0.5	4	1.2
	Hangzhou	4.2	5							
Selected T2 Cities for Phase II	Haining	3.7	3							
	Yanji	3.7	3							
	Langao	3.7	3							
Other T2 cities with higher disposal income	9 Shenzhen	3.6	5							
	10 Suzhou	3.2	5							
	11 Shenyang	3.1	2							
	12 Yunnan	3.1	5							
	13 Tian	3	4							
	14 Chengdu	3	2							
	15 Wuji	2.9	2							
	16 Ningbo	2.9	4							
	17 Dalian	2.8	2							
	18 Wuxi	2.7	2							
	19 Wenzhou	2.7	4							
	20 Nan	2.3	4							
	21 Fuzhou	2.1	3							
	22 Changsha	1.7	3							
	23 Hohhot	1.2	4							

Instead, T2 cities were necessary to grow further... but those were needed to be understood first. We selected the T2 cities in a balance between immediate sales potential and those representative for 30 T2 cities in China.

• These 22 cities witness higher per capita disposal income among the 38 T1 & T2 cities, i.e. ranging from RMB 17,500 to 30,000 p.a.
• Please refer separate spreadsheet for details.



Case study: Acquisition of a Chinese hospital care bed company

Client:
• European Medical Devices Firm

Problem:
• Client produced hospital beds in China already, but was not able to cater effectively towards the majority of the market.
• The Client already identified 4 leading Chinese competitors that could have been acquisition targets.

Method
• Confidential approach of 4 targets, resulting in 2 targets willing to enter negotiation phase.
• Focus on key target, via systematic negotiation process.

Solution by InterChina:
• Deal structure, government relations, valuation, negotiation, and transaction closure.
• Client successfully acquired Chinese company and opened up its market scope to more hospital segments.

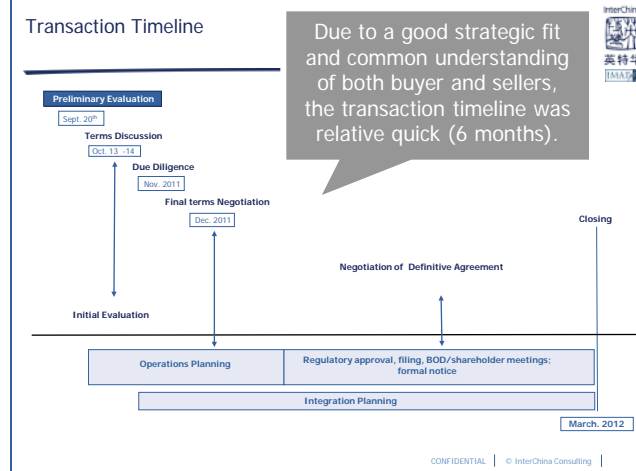
How to enter lower-end market segments via the acquisition of a local player?



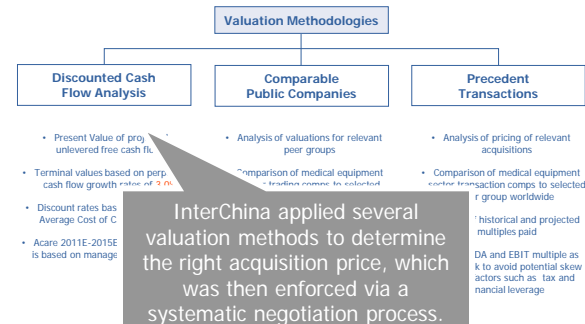
Target Comparison Company Fit

Criteria	Company A	Company B	Company C	Company D
Products	• Care Beds (E) • Periphery Eq (Nursing Cart)			
Revenue (RMB million)	XXX.XX		XXX.XX	XXX.XX
CAGR (08-10)	-0.024%	N/A	N/A	N/A
EBIT (RMB million)	8.92	-2.49	4.66	-1.79
Gross Margin	31.50%	10.96%	35.06%	22.93%
Net Margin	7.38%	-3.91%	12.60%	-4.25%
No. of employees	253	>300	-50	-100
Scale & Capacity	Medium	High	N/A but low	N/A
Production quality	High	Medium	N/A	N/A
Projected Revenue at Full Capacity	XXX million RMB	XXX million RMB	XXX million RMB	N/A
Sales Personnel	25 regional sales managers	N/A but medium small	N/A	N/A
Domestic Sales %	70%		80%	N/A
Sales Channel (Domestic)	• Long term exclusive distributors in Zhejiang and Jiangsu Province • Direct sales to hospitals • Various distributors in other provinces of China		• Monthly direct sales and few distributor • Mainly covers Northeastern China	• Mainly local distributors • Distributor also takes care of after-sales service
Overseas Sales	• OEM with XXXXXXXX • Export to Middle East, Africa, Australia and Americas		• Minority export • Some long term relationship with North American clients	• OEM relationship with a French company • Little export to Japan

4 potential acquisition targets were prioritized analyzed in more detail, by “kicking their tires” through personal discussions with management and owners.



Valuation Methodology



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