

Hospital Priorities 2022

China Edition: Strategic Implications for Pharma Companies

June 2022

These materials are intended to supplement a discussion with L.E.K. Consulting.
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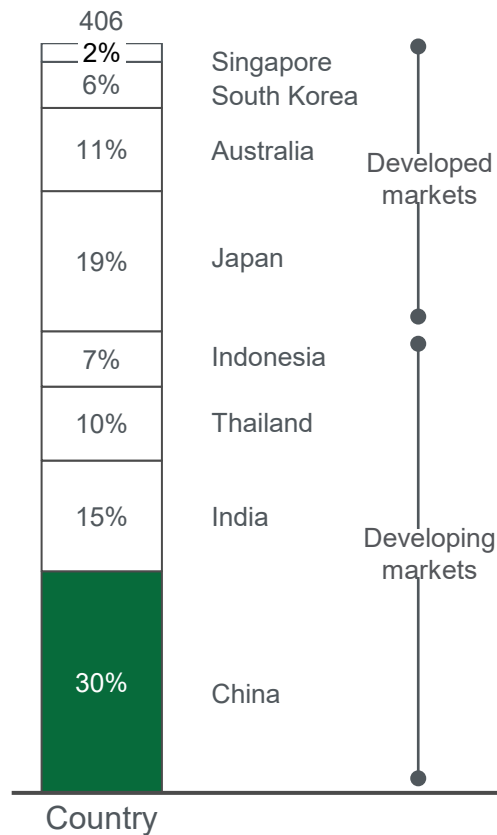


Agenda

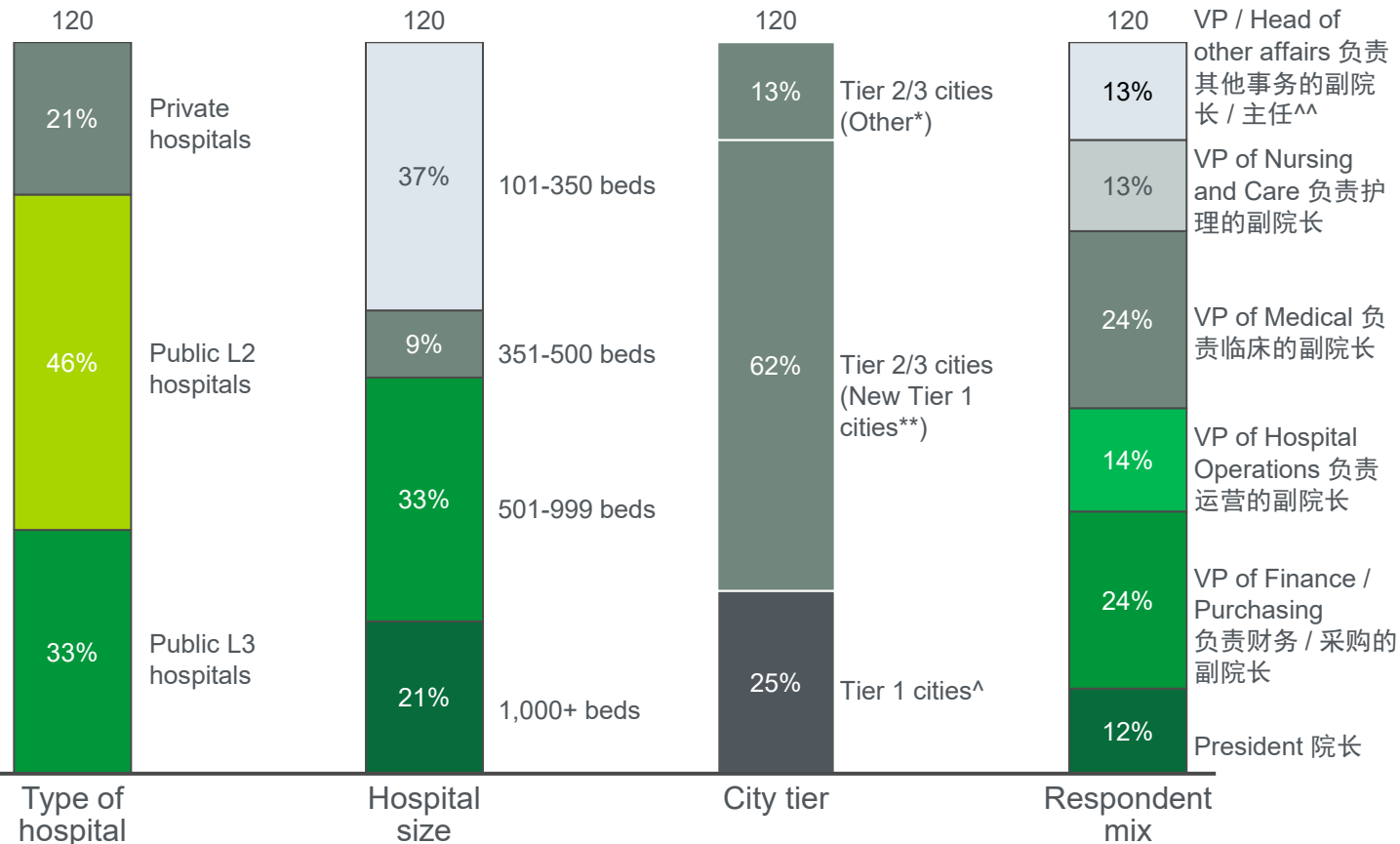
- **Summary**
- Customer priorities and preference
- Impact from NRDL and VBP
- Digitalization trends
- Hospital financial outlook

L.E.K. sponsors a unique analysis of hospital priorities in APAC; the 2022 study engaged 120 hospital executives in China across public and private providers

L.E.K. APAC Hospital Priorities Survey respondent mix
亚太地区调研受访者细分
 Percentage of respondents



China respondent mix
中国市场调研受访者细分
 Percentage of respondents

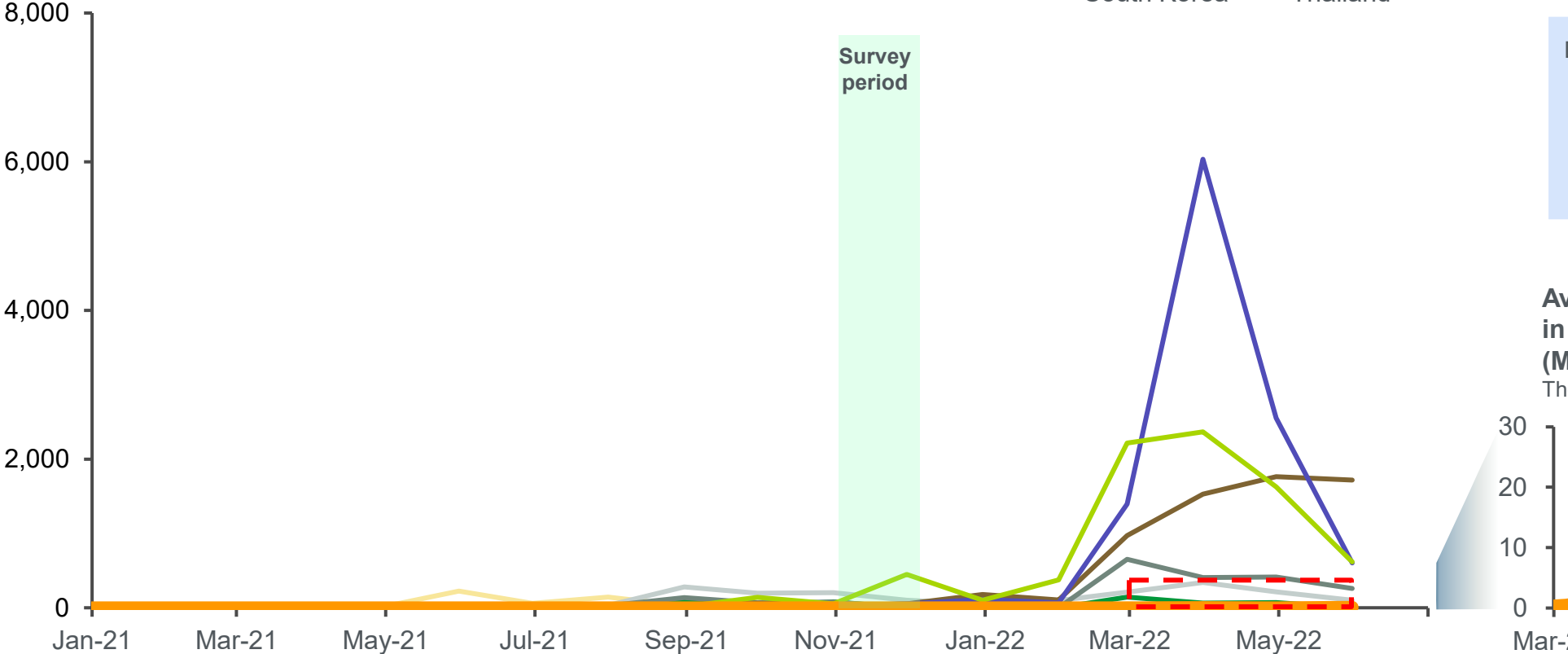


Note: *Dalian, Zhangzhou, Baoding, Hefei, Kunming; **Wuhan, Chengdu, Hangzhou, Nanjing, Changsha, Tianjin, Chongqing, Zhengzhou, Shenyang, Xi'an; ^Beijing, Shanghai, Guangzhou; ^^Head of Pharmacy / Head of Equipment 药剂科主任 / 设备科主任, and VP of Other Affairs 负责其他事务的副院长

Source: L.E.K. 2022 APAC Hospital Priorities Survey conducted in November-December 2021

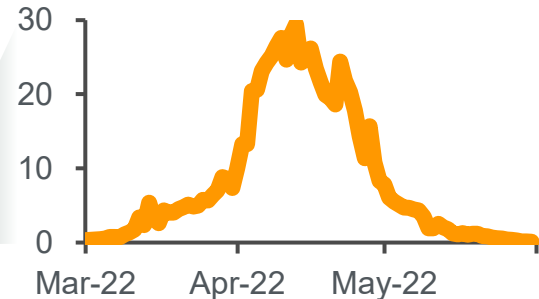
The survey fieldwork was conducted in November 2021, which was a temporary lull in COVID-19 for healthcare systems

Average daily COVID-19 cases per million people per month
 新冠肺炎疫情发展趋势（例 / 百万人） - 按国家
 (January 2021 – May 2022)



Despite the high number of cases, incidence at the national level is low. Key consequence are logistics disruptions due to lockdown rather than significant load on the healthcare system

Average daily COVID-19 cases in China
 (Mar 2022 – May 2022)
 Thousand cases



Note: Data representation as of May 31, 2022
 Source: Our World in Data; L.E.K. analysis

Global Delta wave

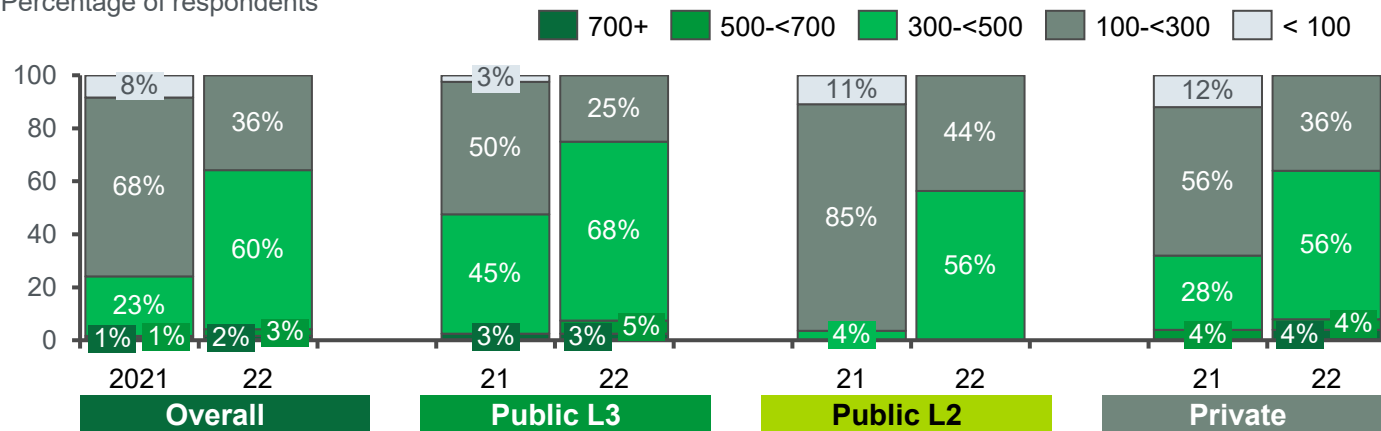
Global Omicron wave

Using elective surgery volume as an indicator, operations across hospitals demonstrate considerable rebound from 2021

Number of elective procedures per month performed/expected each year - China*

中国市场被访医院月均择期手术量

Percentage of respondents

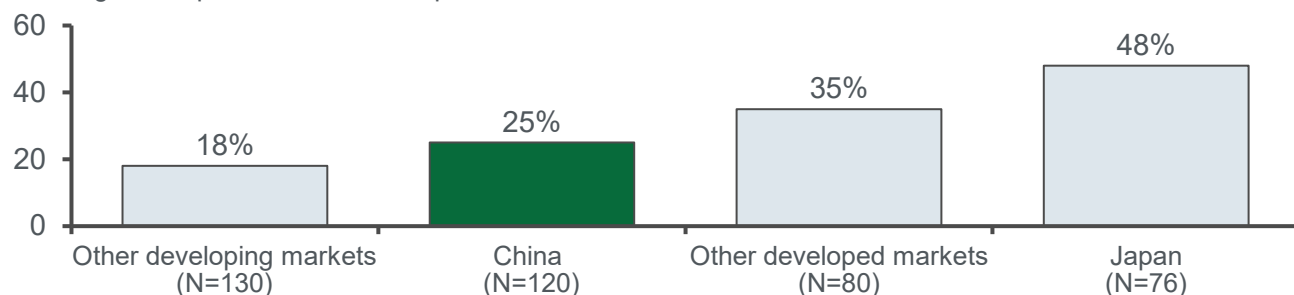


Elective procedure volume comparison by country

被访医院择期手术量对比 - 按国家

(2021)*

Percentage of respondents with 300+ procedures / month



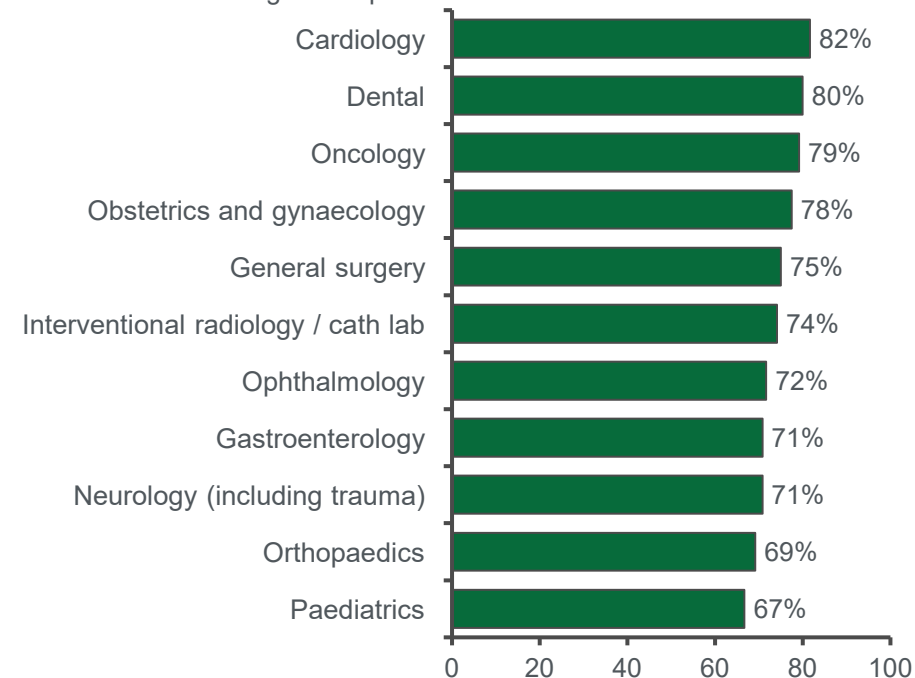
Note: *Question: How many elective surgeries did your hospital perform/do you expect your hospital to perform over the following time period (monthly figures)? 您所在的医院在以下的时间段里进行了/将要进行多少次择期手术(每月)? Other developed markets include South Korea, Australia and Singapore. Other developing markets include India, Indonesia and Thailand; **Question: Which departments are still below pre-COVID levels in terms of number of elective procedures performed? 以下哪些科室的择期手术量尚未恢复到COVID之前的水平?

Source: L.E.K. 2021, 2022 APAC Hospital Priorities Survey

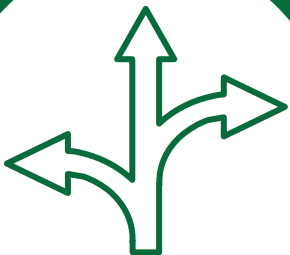
Departments recovered to pre-COVID-19 levels of operations in terms of number of elective procedures - China**

中国市场择期手术量对比新冠疫情前水平 - 按科室

Percentage of respondents



We explored four key areas in the China market, including customer priorities and preferences, NRDL and VBP impact, digitalization and customer engagement, as well as financial outlook



Customer priorities and preferences

Improving clinical outcome is top strategic priority for hospitals in China



NRDL and VBP impact

NRDL products still face listing / prescription barriers; VBP already accounts for considerable drug spending share in public hospitals



Digitalization and customer engagement

Digitalization progress in China market is on par with developed APAC countries; needs expressed for digital tools across value chain from hospitals



Financial outlook

Both public and private hospitals expects positive financial outlook going forward

Source: L.E.K. 2022 APAC Hospital Priorities Survey; L.E.K. research and analysis

Key findings of 2022 China hospital survey and implications for pharmaceutical companies

Key findings

- ~80% hospitals in China take **improving clinical outcome** as the top strategic priority, shifting away from investing in basic infrastructure
- Driven by the strategic priority, ~60% of hospitals suggest **innovative drugs** as the main need from pharmaceutical companies
- **NRDL**: ~40% public hospitals automatically listed NRDL products and ~50% posed no prescription cap
- **VBP**: considerable share of drug spending come from VBP products, posting 5 ppt increase from 2021; sales effort remain same in public hospitals as in 2021, while increased in private hospitals
- Nearly all hospitals in China are using or planning to adopt digital tools; **pace of digitalization is above APAC developed country average**
- >50% hospitals take **patient privacy and lack of digital talent** as key concerns while adopting digital solutions
- Both public and private hospitals demonstrate optimistic financial outlook for next 3 years
- ~1/3 hospitals require funding support to maintain business operation

Main implications

- How should pharma position their portfolio as supporting hospital needs?
- How do pharma balance the desire by hospitals to have innovative drugs vs their equally strong interest in lowering costs?
- **NRDL**: What can pharma companies do to rapidly expand listing and prescription process?
- **VBP**: How can we optimize sales and marketing resource facing rising impact from VBP?
- Is there any role for pharma to support digitalization in hospitals? How will pharma benefit?
- Where do the commercial outreach (e.g., omnichannel come in)?
- What kind of capability and organizational change are needed?
- How do the hospital financial outlook impact pharma businesses, if at all?

Agenda

- Summary
- **Customer priorities and preference**
- Impact from NRDL and VBP
- Digitalization trends
- Hospital financial outlook

Improving clinical outcome and standardization of clinical protocol are top strategic priorities for hospitals in China since 2021; investing in digital capability is rising quickly on the agenda

1 Customer priorities and preferences

Strategic priorities over the next 3 years*

被访医院战略发展重点（未来三年）

Percentage of respondents that chose “6” and “7” (“1” – not at all important, “7” – very important)

■ Pandemic response ■ Care enhancement
■ Operational enhancement ■ Top 2 rank

		China			APAC
Rank (2022)	Strategic priorities	2022 (N=120)	2021 (N=120)	2-year change (ppt)	2022 (n=406)
#1	Improving clinical outcomes	76%	53%	+23	69%
#2	Standardisation of clinical care protocol within and across hospitals	72%	53%	+19	59%
#3	Improving healthcare worker safety	70%	48%	+22	70%
#4	Investing in digital health capabilities (e.g. telehealth, AI-assisted image analysis)	66%	39%	+27	58%
#5	Investing in new IT systems	66%	55%	+11	58%
#6	Reducing acquisition costs of capital equipment	63%	49%	+14	63%
#7	Reducing costs of medical supplies	63%	52%	+11	61%
#8	Improving labour efficiency/workflow optimization	58%	50%	+8	63%
#9	Recovering from financial impact of COVID-19 (e.g. hospitals unable to open due to high infection rate)	58%	48%	+10	58%
#10	Working with other sites of alternative care (e.g. primary care center)	58%	51%	+7	51%



Key implications

- Improving clinical outcome and standardization of clinical protocol remain top priorities since 2021, aligned with APAC feedback
- Investing in digital capability is rising quickly on executive’s strategic agenda
- Worker safety became rising concern given COVID impact

Note: *Survey question: How important are the following strategic priorities for your hospital over the next 3 years? 在未来3年内、以下战略议题对于您所在医院的重要程度如何? (Please rate the importance of each strategic priority on a scale of 1 to 7, where “1” means not at all important and “7” means very important)

Source: L.E.K. 2021, 2022 APAC Hospital Priorities Surveys

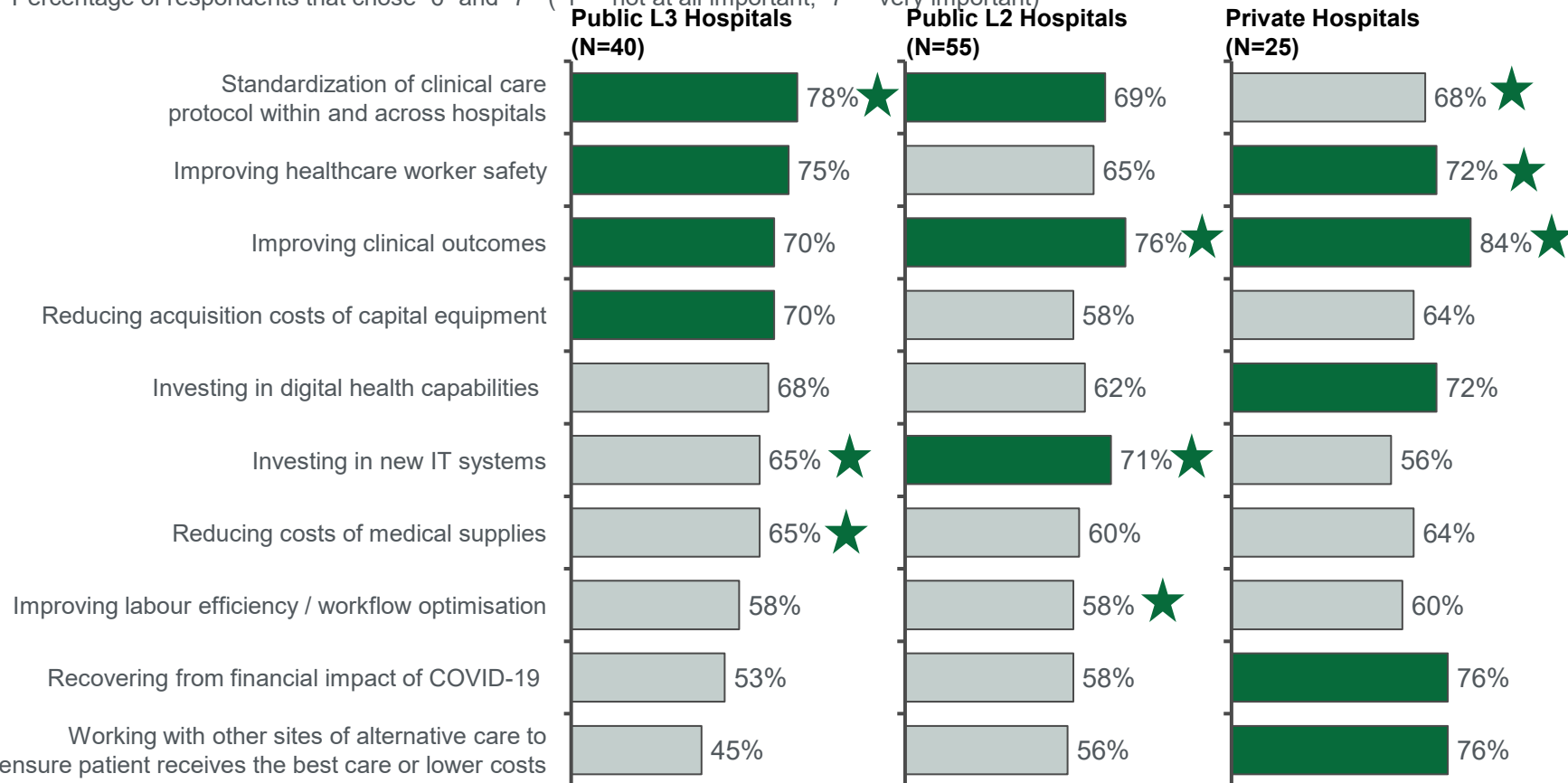
Beyond the top priorities, upgrading infrastructure comes with higher priority among L2 hospitals, while private hospitals are keen to enhance digital capabilities

1 Customer priorities and preferences

Strategic priorities over the next 3 years*

被访医院战略发展重点 – 按医院分级

Percentage of respondents that chose “6” and “7” (“1” – not at all important, “7” – very important)



Key implications

- Improving clinical outcome are top priority across all hospital types
- Investment on infrastructure such as IT systems comes with higher priority among L2 hospitals than in other respondent groups
- Private hospitals are keen to enhance digital capability, and to recover from financial impact of COVID-19



Note: *Survey question: How important are the following strategic priorities for your hospital over the next 3 years? 在未来3年内、以下战略议题对于您所在医院的重要程度如何? (Please rate the importance of each strategic priority on a scale of 1 to 7, where “1” means not at all important and “7” means very important)

Source: L.E.K. 2021, 2022 APAC Hospital Priorities Surveys

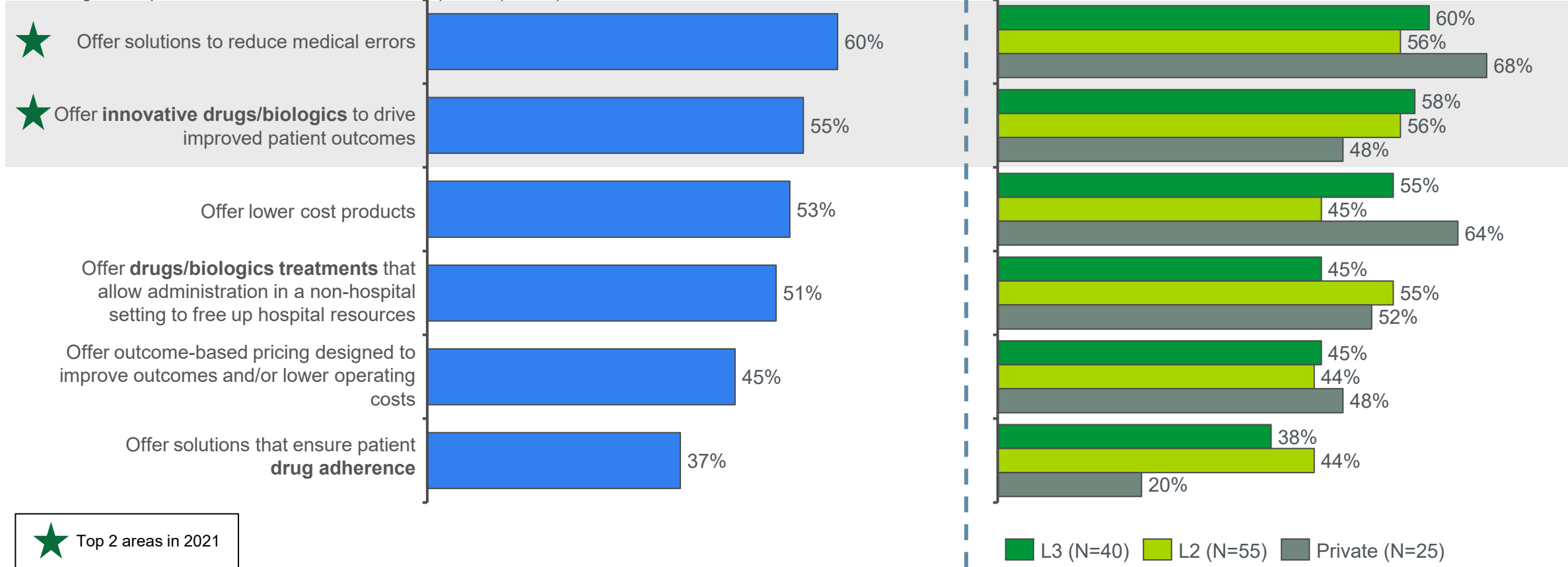
Innovative treatments to enhance patient outcomes and cost reduction are both relevant to hospitals' requests to pharmas

1 Customer priorities and preferences

Focus areas where hospitals would like Pharma companies to help*

被访医院希望药企支持的重点领域

Percentage of respondents that ranked the criteria in top three (N=120)



★ Top 2 areas in 2021

Note: *Question: Please rank the top 3 focus areas where you would like Pharma companies to help you in achieving your hospital goals. 请选择您希望药企优先帮助医院实现目标的3个重点领域?

Source: L.E.K. 2021, 2022 APAC Hospital Priorities Survey

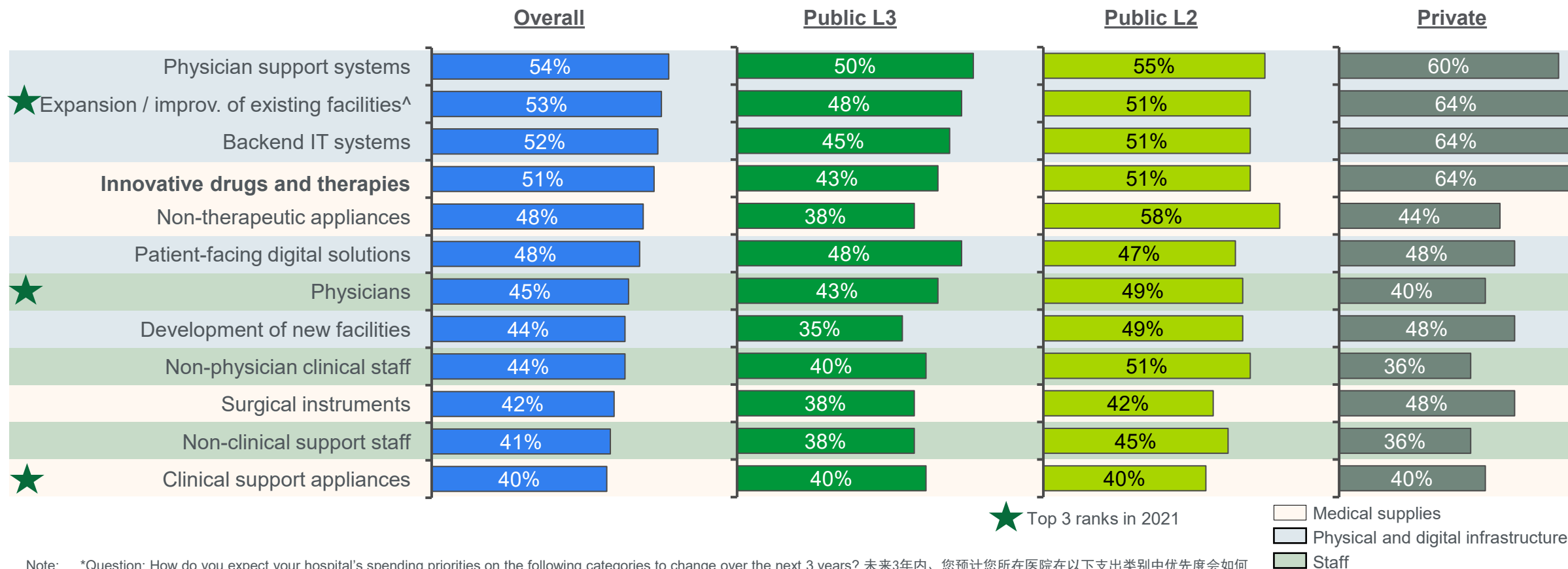
Infrastructure investment appears to be the top spending priority across hospitals; L3 hospitals show strong interest over digital solutions, while L2 hospitals focus more on medical supplies

1 Customer priorities and preferences

Spending priorities over the next three years*

被访医院财政支出重点方向 – 未来三年

Percentage of respondent with “6” and “7-very important” rating (N=120)**



Note: *Question: How do you expect your hospital's spending priorities on the following categories to change over the next 3 years? 未来3年内、您预计您所在医院在以下支出类别中优先级会如何变化; **Responses with “I do not know” have been excluded, Not shown is remain unchanged; ^“New and / or existing facilities” in 2021

Source: L.E.K. 2021, 2022 APAC Hospital Priorities Survey

Hospitals in China largely follow centralized purchasing mechanism; local-made drugs demonstrate high popularity driven by wide coverage, fair quality, and lower price than imported drug counterparts

1 Customer priorities and preferences

Most important criteria for adding a drug onto the formulary list*

被访医院药品列名首要考虑因素
(2021-2022)

Percentage of respondents

China APAC

Rank (2022)	Criteria	2022 (N=120)	2021 (N=120)	2-year change (PPT)	2022 (n=406)
#1	Drug is purchased by GPO / centralised procurement department	48%	43%	+5	41%
#2	Drug is locally manufactured	47%	41%	+6	34%
#3	Drug is included in national / international treatment guidelines	43%	41%	+2	51%
#4	Drug is in the reimbursement list	38%	33%	+5	38%
#5	Drug is from preferred supplier	35%	28%	+7	39%
#6	Drug is lower priced compared to alternatives	26%	39%	-13	33%
#7	Drug is the most advanced/ cutting-edge treatment available	25%	31%	-6	29%



Key implications

- There's strong preference for locally made products, esp. when compared with APAC
 - Local products have established wide disease area coverage and demonstrate fair enough quality
 - Lower price compared to imported product, helping public hospitals not to exceed expenditure cap, and private hospitals to generate better profitability
- Hospitals seem to be less price-sensitive from 2021 to 2022
 - Multiple policies help decrease drug spending, e.g., VBP, NRDL negotiation, etc.

Note: *Question: Please choose the top 3 most important criteria for adding a drug onto the formulary list. 将药品加入医院列名最重要的三个标准是什么?

Source: L.E.K. 2021, 2022 APAC Hospital Priorities Survey

 Top 2 rank

VP of medical / nursing acts as key decision maker during procurement process, especially in L3 and private hospitals; procurement department is also a key stakeholder, particularly for smaller hospitals

1 Customer priorities and preferences

Proportion of each position that is involved in purchasing decisions for drugs / pharmaceuticals*

被访医院药品采购决策者

(2022)

Percentage of respondents selected

 Most influential position

Relationship preference	Overall (N=120)	Public L3 (N=40)	Public L2 (N=55)	Private (N=25)
VP of medical / VP of nursing and care	44%	63%	21%	59%
Procurement department	16%	11%	29%	0%
VP (other affairs)	16%	5%	18%	24%
Head of operations	13%	16%	14%	6%
Hospital management	11%	5%	14%	12%
Head of pharmacy	2%	0%	4%	0%

Note: *Question: Which of the following best describes your role at the hospital? 以下哪个选项最符合您在医院的角色? And for those who selected "Drugs / pharmaceuticals" for survey question: With which of the following categories are you involved in purchasing decisions for your facility? 您在医院中负责哪些类别的采购决定?

Source: L.E.K. 2022 APAC Hospital Priorities Survey

Agenda

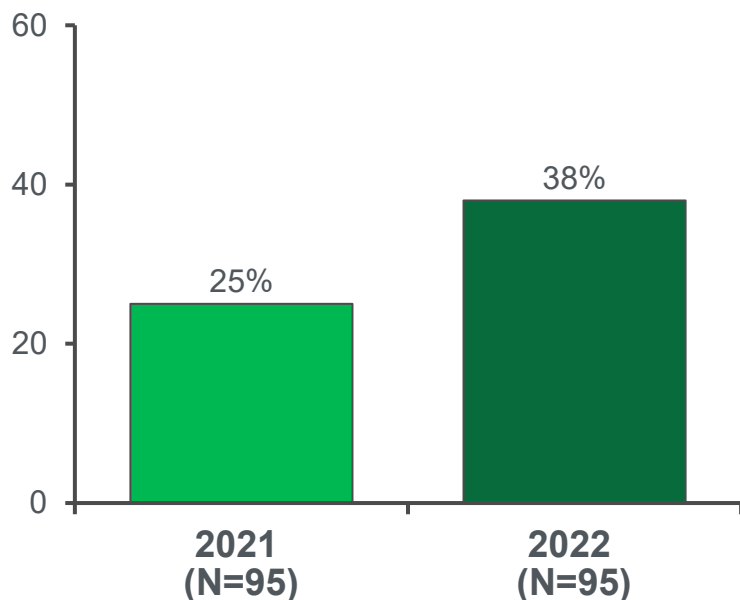
- Summary
- Customer priorities and preference
- **Impact from NRDL and VBP**
- Digitalization trends
- Hospital financial outlook

The hospital listing process for NRDL products has become smoother compared to 2021 with 40% automatic listing

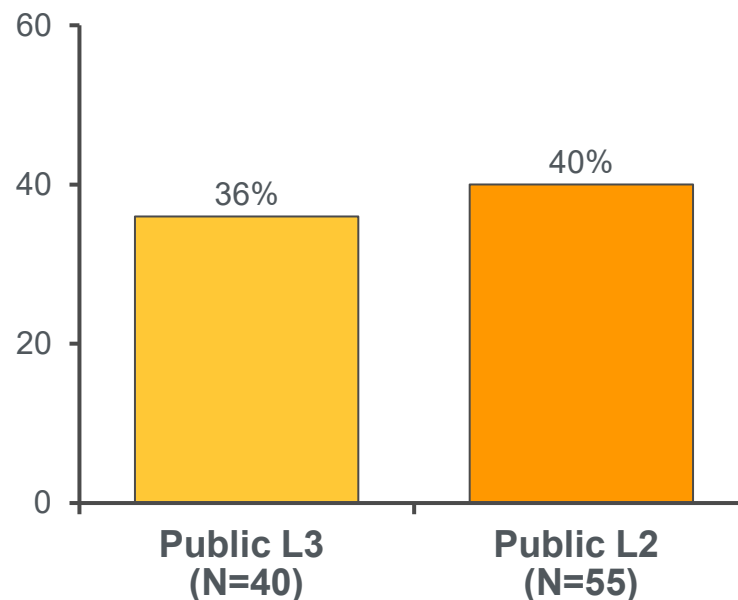
2 NRDL and VBP impact

~40% NRDL products are automatically listed

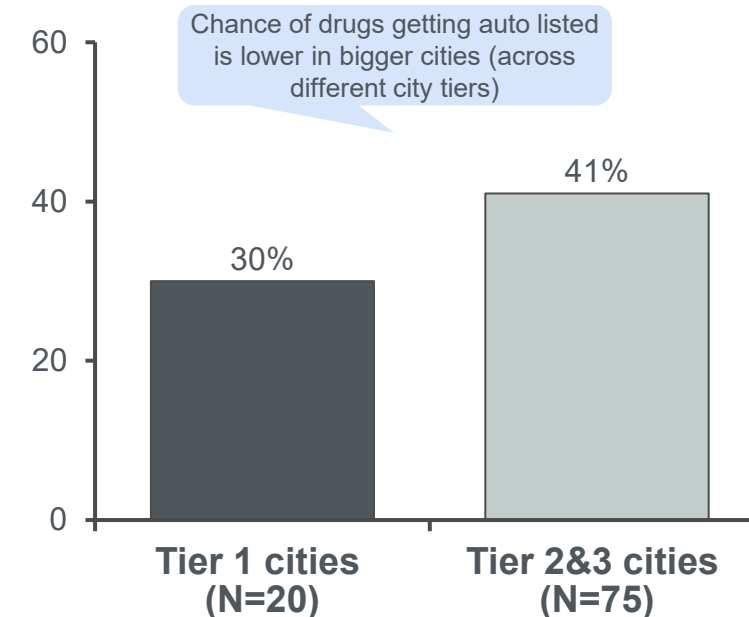
Percent of public hospitals automatically listing NRDL drugs (through negotiation)
自动列名医保谈判药品的公立医院占比
Percentage of hospitals



Harder to obtain automatic listing in L3 hospitals ...



... and in Tier 1 cities, due to competition and stricter process



Note: *Question: What are the considerations for drugs negotiated to get on the National Reimbursement Drug List (NRDL) to get onto the hospital formulary, if they are not on the formulary before negotiation? 通过谈判进入医保的药品是如何纳入到医院药品列名的 (医保谈判前已纳入列名的除外)? Responses with "Most negotiated drugs are automatically, immediately included onto the hospital formulary as soon as it is included in the NRDL" 大多数谈判药品只要被纳入医保就会立即自动进入医院列名;

Source: L.E.K. 2021, 2022 APAC Hospital Priorities Survey

Prescription limit for NRDL products has reduced meaningfully, with half of the products without (so half of the products face) some level of restrictions / cap

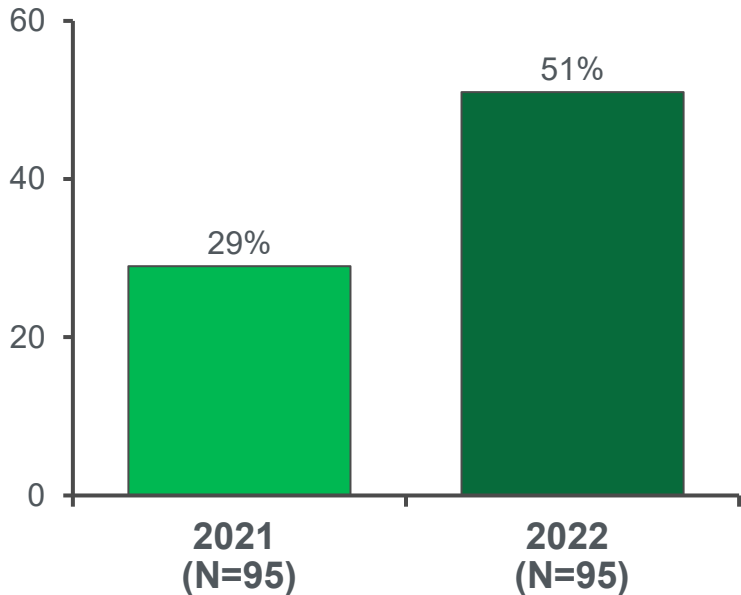
2 NRDL and VBP impact

~50% NRDL products face some level of prescription restriction

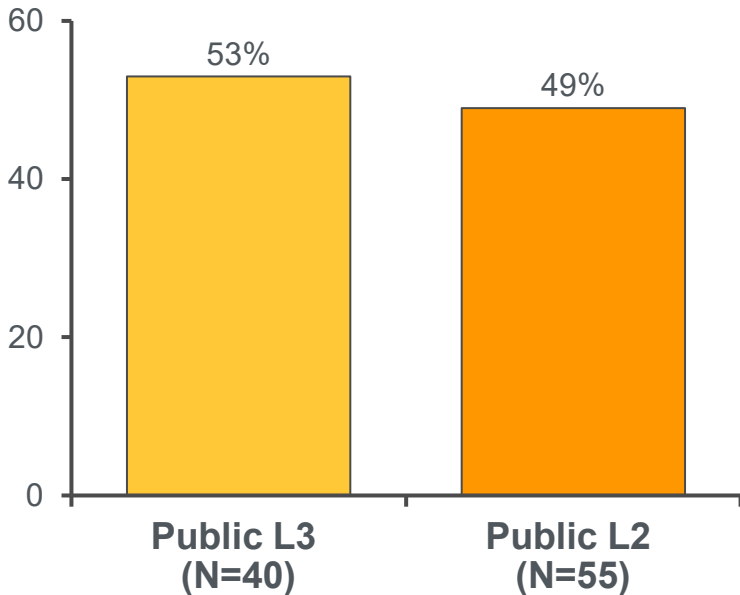
Percent of public hospitals posing no prescription limit on NRDL drugs (through negotiation)

医保谈判药品无处方限制的公立医院占比

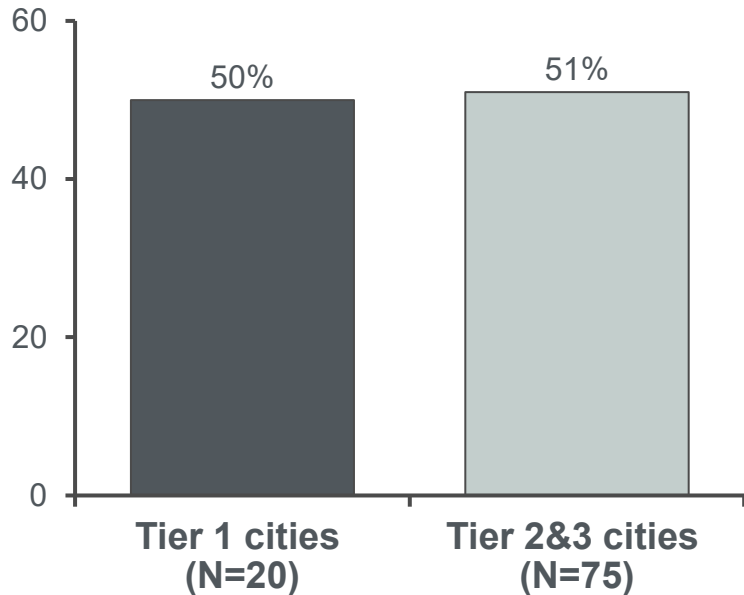
Percentage of hospitals



Prescription barrier is largely on par between L3 and L2 hospitals ...



... and similar progress between Tier 1 and Tier 2&3 cities



Note: Question: Once NRDL-negotiation drugs are on the hospital formulary, are there any barriers to prescribing the drug? 通过谈判进入医保的药品进入医院列名后、处方是否会被限制? Responses with "No. NRDL-negotiated drugs can be prescribed without any limits" 通过谈判进入医保的药品处方不会受到任何限制

Source: L.E.K. 2021, 2022 APAC Hospital Priorities Survey

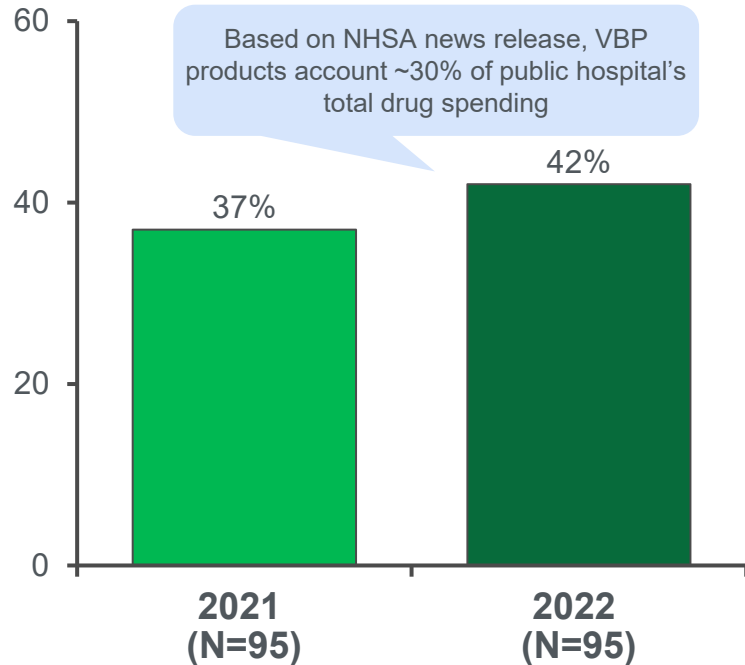
VBP products already account considerable share of drug spending in public hospitals, posting 5 ppt increase from last year; even more so in Tier 1 cities

2 NRDL and VBP impact

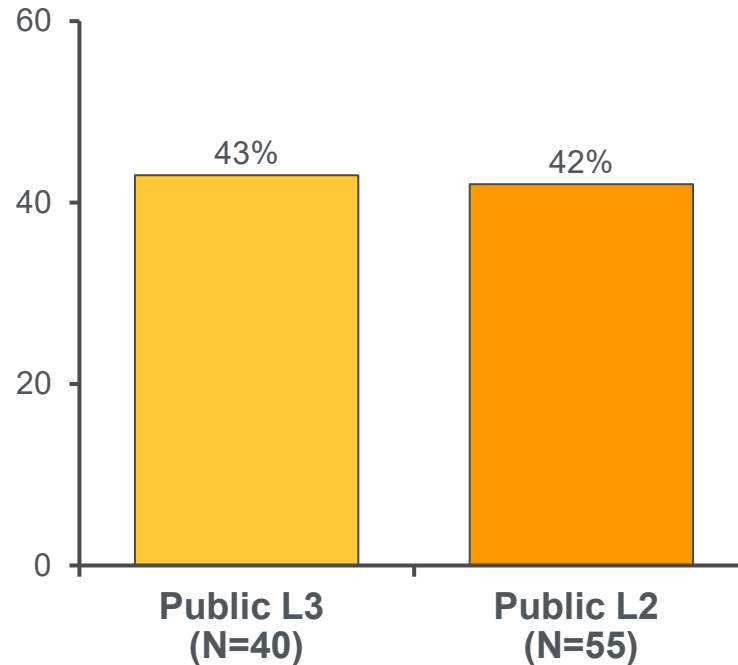
Steady increase from last year

Percent of drug spending through VBP in public hospitals* 带量采购占药品支出比例

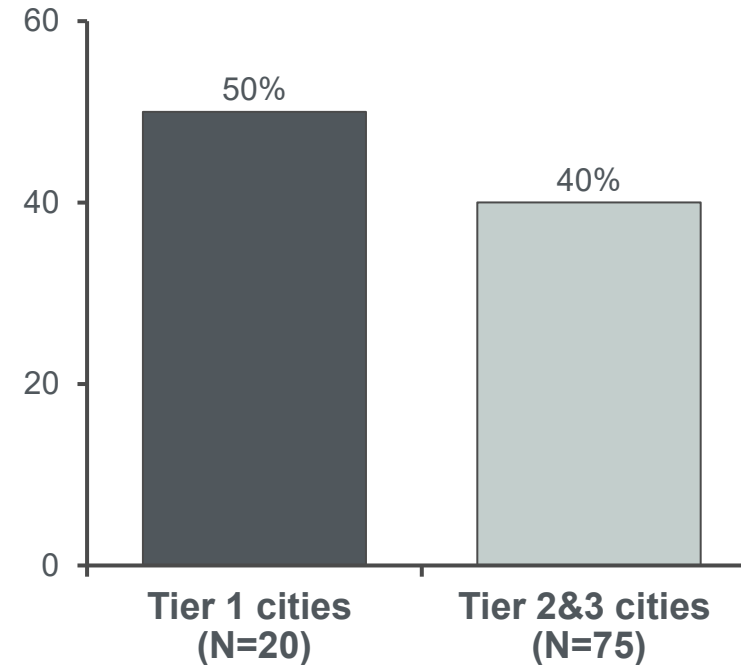
Percentage of respondents



Similar progress across hospitals



Higher penetration in Tier 1 cities



Note: *Question: What portion of your hospital's spending on medical products is done through volume-based centralized procurement currently? How does this vary by type of product? 您所在医院的医疗产品支出中有多少通过带量采购完成? 是否会因产品类型而异? Responses with "I do not know" have been excluded

Source: L.E.K. 2021, People Daily, 2022 APAC Hospital Priorities Survey

Sales efforts on VBP products remain largely the same in public hospitals, while more resources are shifted towards private hospitals

2 NRDL and VBP impact

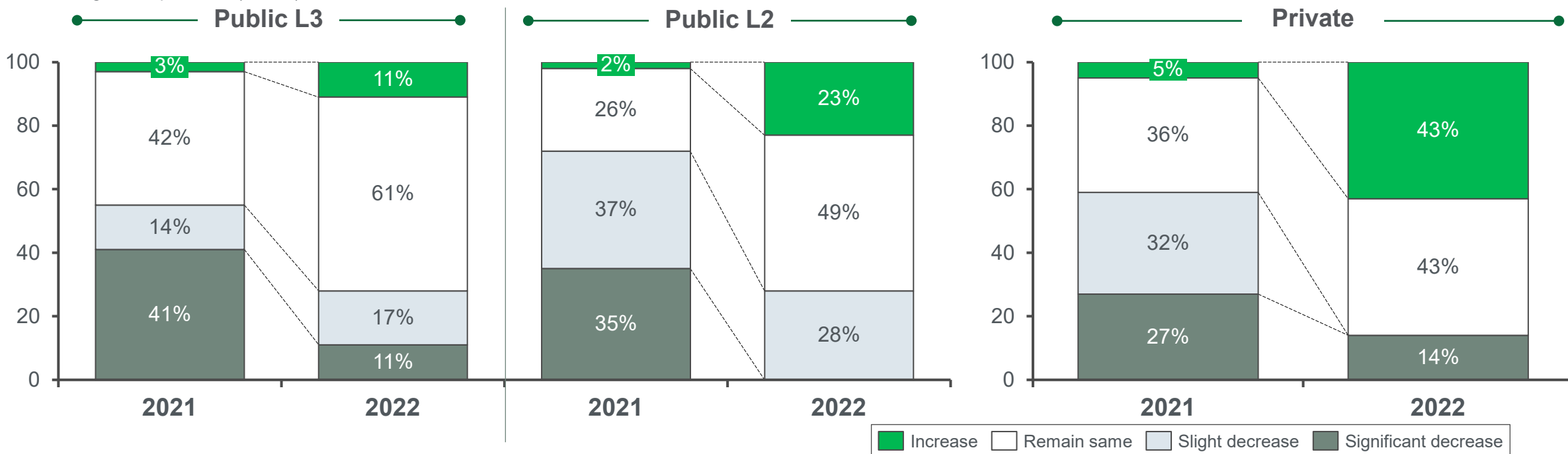
Sales efforts remain largely the same in public hospitals; slight increase likely results from lift of rep access restrictions

Sales efforts increase in private hospital, driven by shift of strategic focus

Changes in sales efforts for VBP drugs*

药企针对集中采购产品的销售投入变化

Percentage of respondents (N=120)



Note: *Question: For drugs that have been procured through VBP, has there been any changes in the number of visits / presence / outreach of sales representatives or promotion efforts for VBP drugs? 对于带量采购中
标的药品、厂家销售代表的拜访和推广力度与带量采购之前是否有任何变化? ; Responses with "I do not know" have been excluded, Not shown is remain about the same

Source: L.E.K. 2022 APAC Hospital Priorities Survey

Using drugs for chronic diseases as benchmarks, prescription of some NRDL and VBP products are shifting towards the retail channel; pharmas may adjust sales resource allocation accordingly

2 NRDL and VBP impact

Increase in prescription flow to retail pharmacies

零售药房渠道处方量增幅

Percentage of respondents

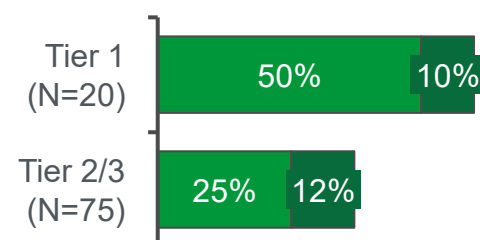
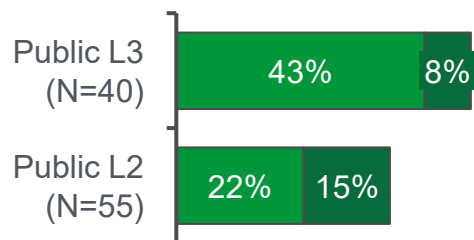


By hospital tier

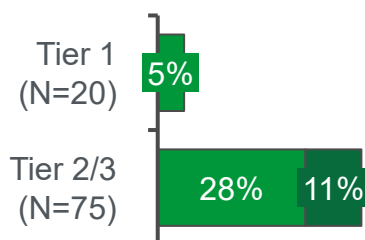
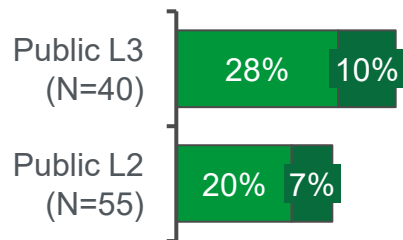


By city tier

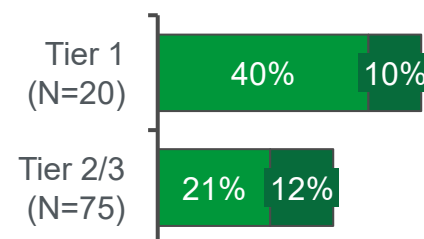
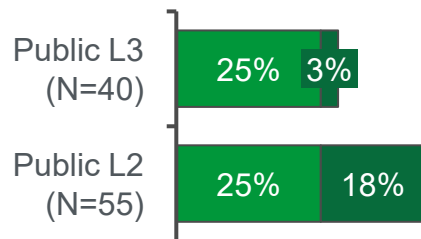
NRDL negotiated drugs (not VBP-ed yet)



VBP drugs that didn't win tender



Commonly used drugs for chronic diseases (diabetes, hypertension, COPD, etc.)



Key implications

- The cap on drug spending share in hospital and the dual-channel policy are main reasons for the increase in prescription flow to retail pharmacies
 - The dual-channel policy, which was published in May 2021, encourages the reimbursement coverage of retail pharmacies
- For NRDL negotiated drugs and VBP losers, some specific drivers include
 - NRDL drugs are not listed automatically in hospitals, some are only available in the retail channels
 - VBP losers lose the committed hospital volume for VBP winners. Thus, they are hard to be prescribed in hospitals
- Pharmaceutical companies should adjust the direction of sales and marketing given the trend of prescription outflow

Note: *Question: How much prescription of each drug type are now shifted to retail pharmacies? 以下每种类型的药品有多少处方现在已经从医院转移到零售药店?
Source: L.E.K. 2022 APAC Hospital Priorities Survey

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- **Digitalization trends**
- Hospital financial outlook

Nearly all hospitals in China are using or planning to adopt digital tools; pace of digitalization is above APAC developed markets' average

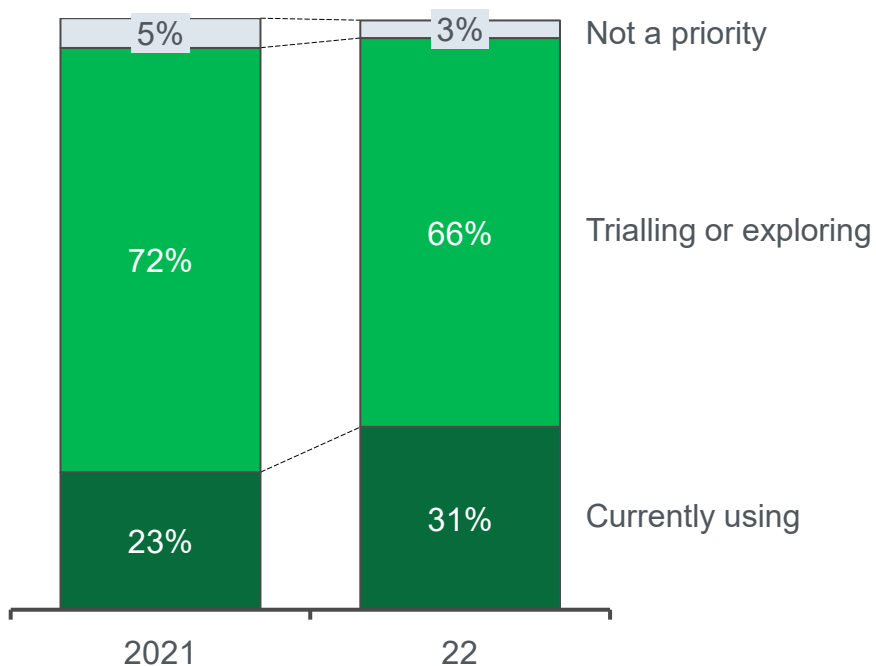
3 Digitalisation and customer engagement

1/3 hospitals in China have adopted some digital tools ...

Hospital adoption of digital tools*

被访医院数字化工具使用情况

% of respondents (N=120)



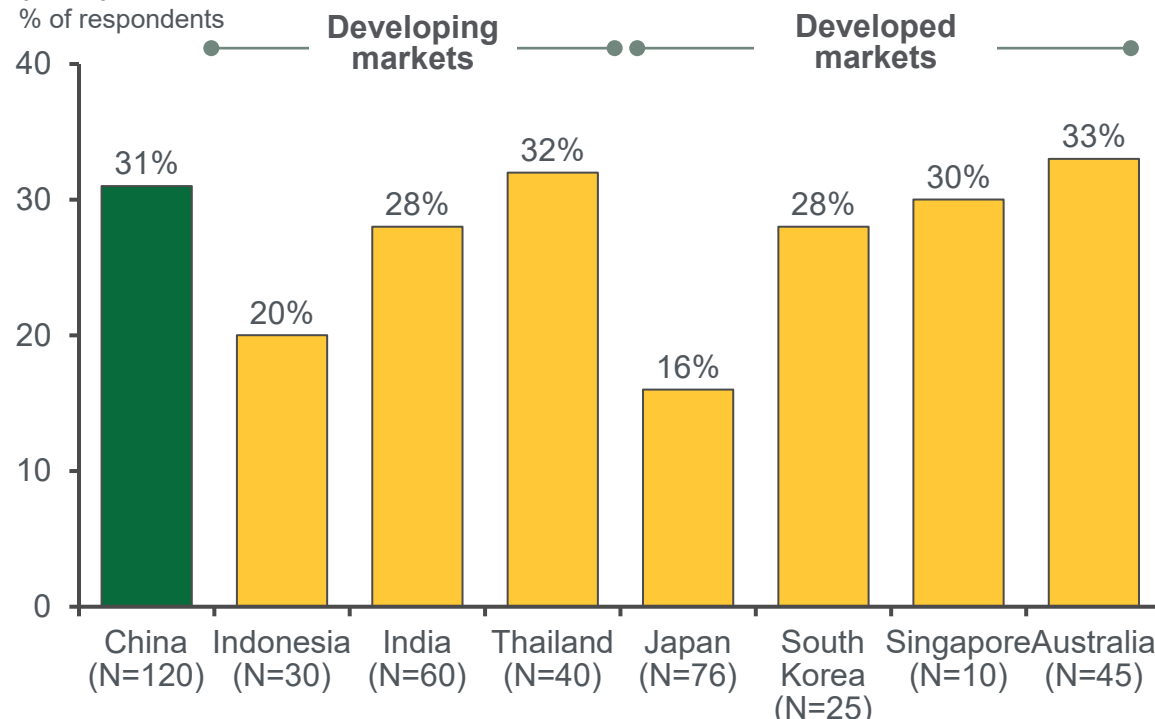
... progress of digitalization is advanced compared to other APAC markets

Share of hospitals using digital tools by country*

被访医院数字化工具使用情况 – 按国家

(2022)

% of respondents



Note: *Question: Digitalization of hospitals is gaining traction in many countries. What digital health solutions have you adopted / would like to adopt? 许多国家正在推动医院数字化进程。您所在的医院已经采取了/想要采取哪些数字医疗解决方案?

Source: L.E.K. 2021, 2022 APAC Hospital Priorities Survey

Restriction on sales rep access to hospital premises and physicians remains tight in China, thus the adoption of digital tools in hospitals can help support and link pharma's digital outreach initiatives

3 Digitalisation and customer engagement

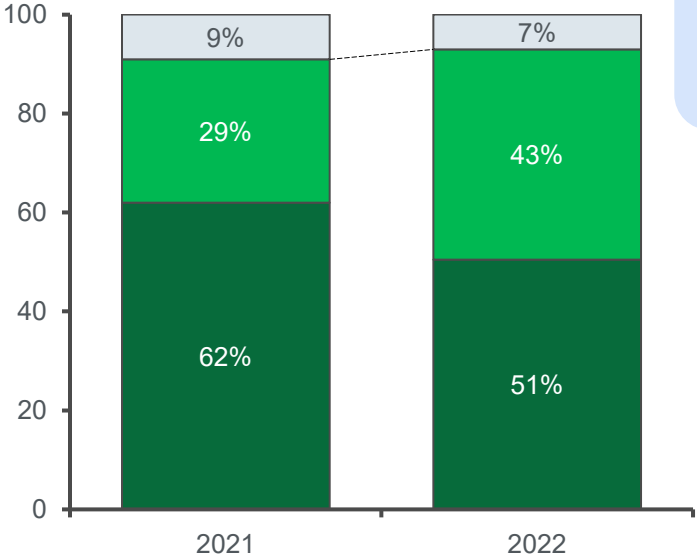
Restriction level remains tight in China since 2021 ...

... China ranks #3 across APAC markets in terms of sales access restriction level

Hospital restrictions on sales access*

销售代表进入医院的受限程度

% of respondents (N=120)

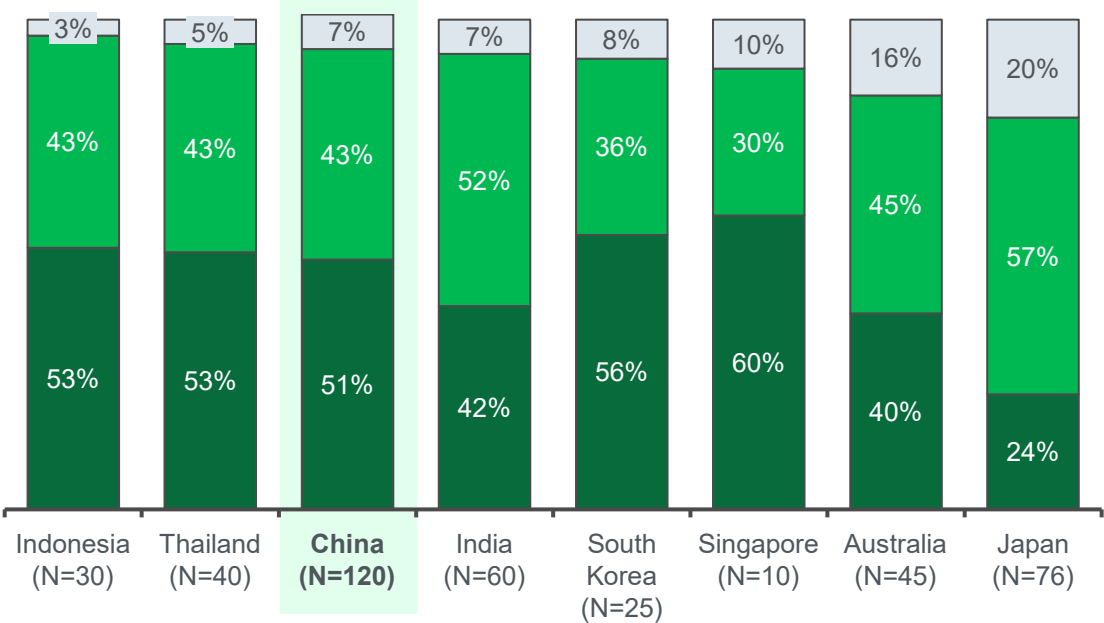


Tight restriction level is mainly caused by strict Covid control measures and promotion restrictions

Sales access restriction by country*

药企销售受限程度对比 - 按国家

% of respondents



Significant restrictions Some restrictions No restriction

Note: *Question: Please select which of the following best describes your hospital's approach to managing suppliers (e.g., pharma, medtech) sales / marketing representative access in your facilities. 以下哪一项最能描述贵医院对供应商（例如制药和医疗器械公司）的销售/市场营销代表进入医院的限制？

Source: L.E.K. 2021, 2022 APAC Hospital Priorities Survey

Given high acceptance among physicians, digital tools are expected to play a more important role, especially facing the recent COVID-19 upsurge

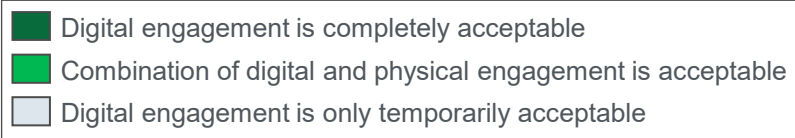
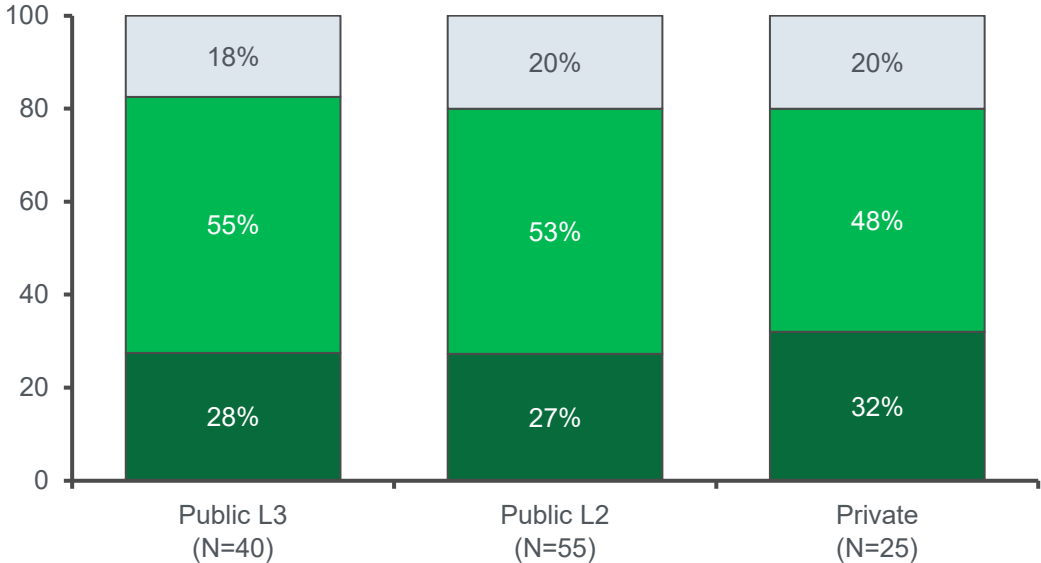
3 Digitalisation and customer engagement

Digital tools are well accepted across different hospital types

Acceptability of digital engagement with suppliers*

被访医院对数字化交互的接受度

% of respondents (N=120)



Note: *Question: How acceptable do you find digital engagement from suppliers vs. traditional physical interactions? 与传统的面对面交互相比，您在多大程度上可以接受供应商的数字化参与? ^include foreign imported patients

Source: China National Health Commission, Institute of Public and Environmental Affairs, L.E.K. 2022 APAC Hospital Priorities Survey

COVID-19 pandemic upsurges in 100+ cities^ across China market since March

COVID-19 daily new case

中国新冠疫情日病例数

(March 2022 – May 2022)

Thousands of new cases, include both symptomatic and asymptomatic

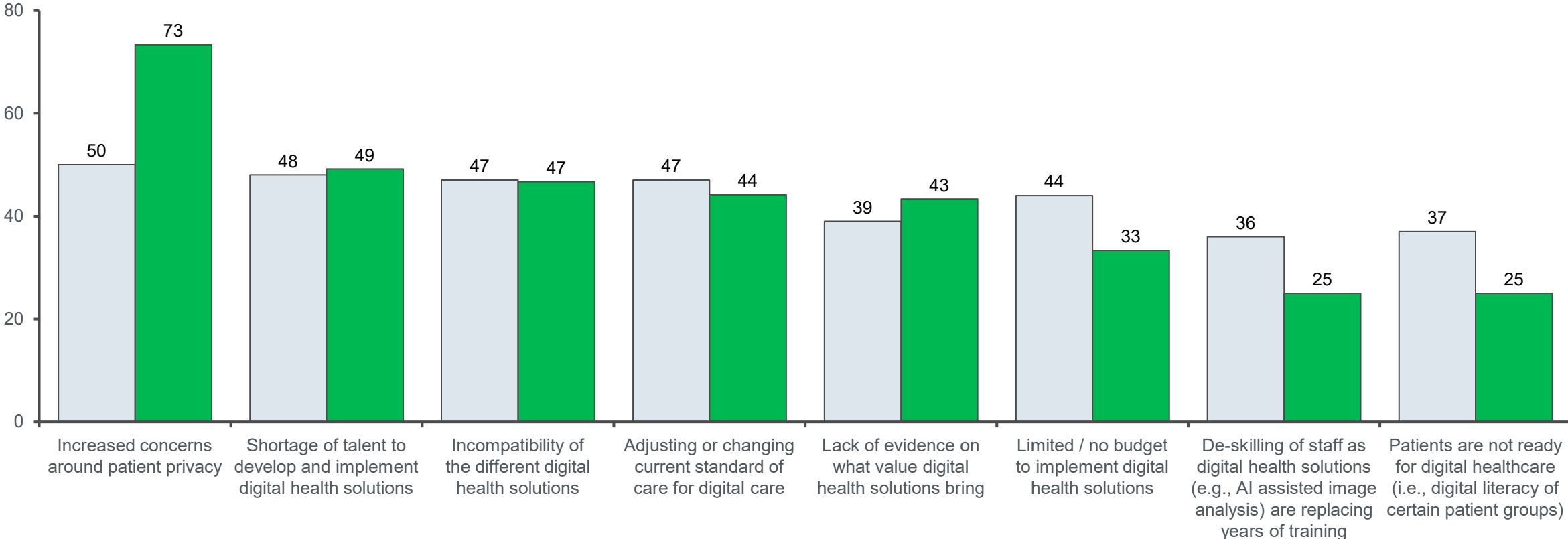


New data legislation has raised the visibility on patient privacy; shortages of digital talent and interoperability of systems are issues facing companies as adoption broadens

3 Digitalisation and customer engagement

Top concerns for digital health adoption*
 被访医院对数字化医疗解决方案的主要顾虑
 Percentage of respondents

2021 (N=120)
 2022 (N=120)



Note: *Survey question: What are your concerns for digital health adoption? 您对数字医疗解决方案的使用有何担忧?
 Source: L.E.K. 2021 and 2022 APAC Hospital Priorities Survey

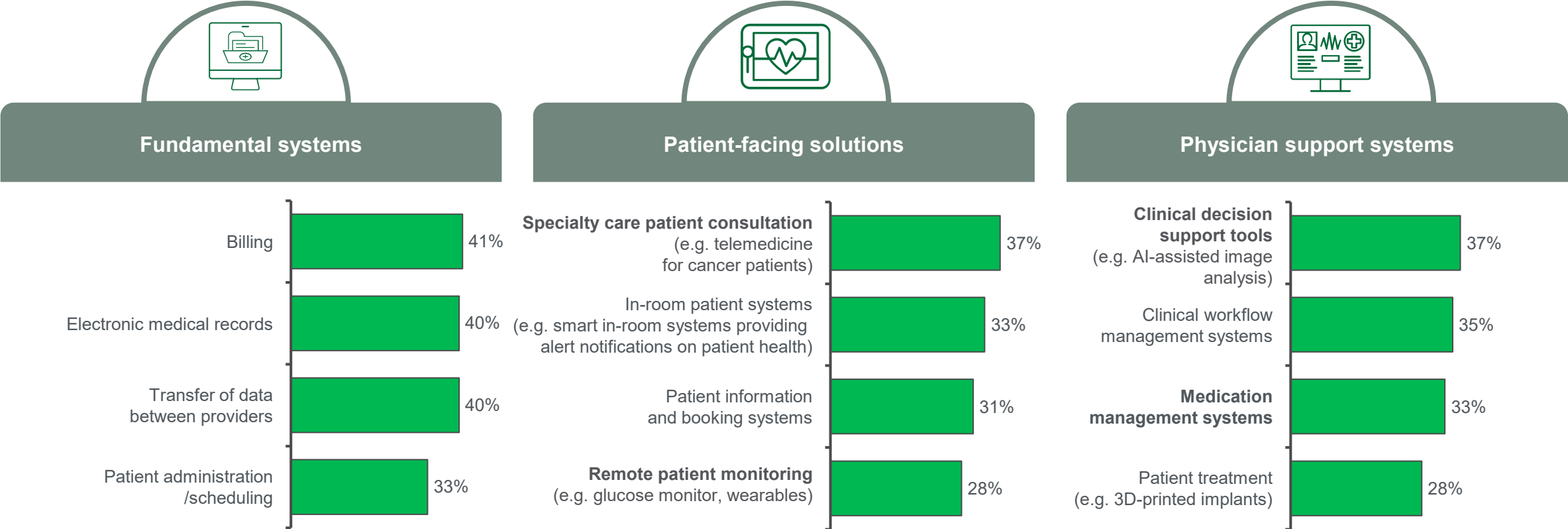
Hospitals in China are interested in digital tools and solutions, with opportunities for pharmas to participate and contribute, especially around patient-facing and physician support solutions

3 Digitalisation and customer engagement

Digital health solutions adopted in China

医疗数字化解决方案渗透率 – 按使用场景

Percentage of respondents “currently using” digital solutions (N=120)



Note: *Survey question: Digitalisation of hospitals is gaining traction in many countries. What digital health solutions have you adopted/would you like to adopt? 许多国家正在推动医院数字化进程。您所在的医院已经采取了/想要采取哪些数字医疗解决方案? Respondents who answered that the hospital is “currently using” each digital solution

Source: L.E.K. 2022 APAC Hospital Priorities Survey

Agenda

- Summary
- Customer priorities and preference
- Impact from NRDL and VBP
- Digitalization trends
- **Hospital financial outlook**

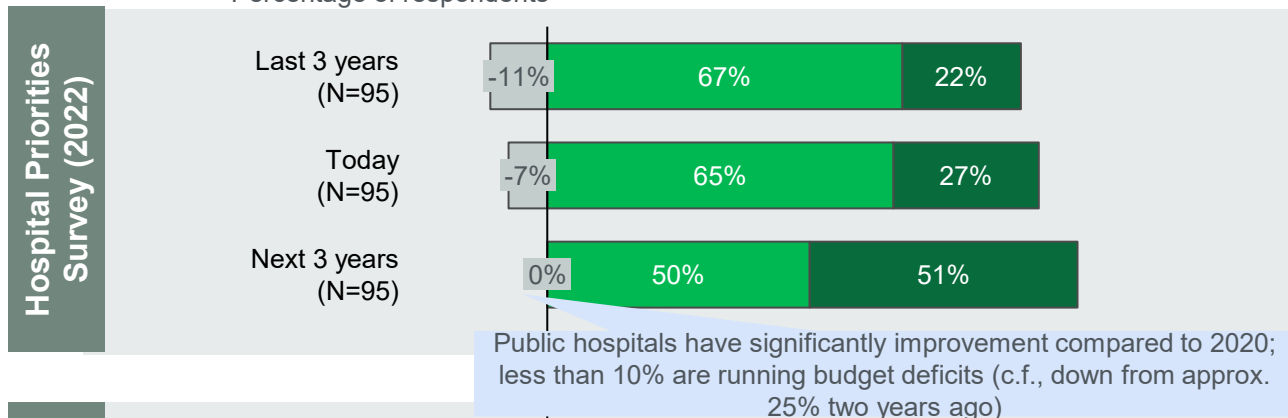
75%-90% of hospitals have achieved a balanced budget or positive EBITDA margin; public hospitals have significant improvement on economic conditions compared to 2020

4 Financial outlook

Public hospital budget outlook - China*

公立医院财政状况 – 按预算

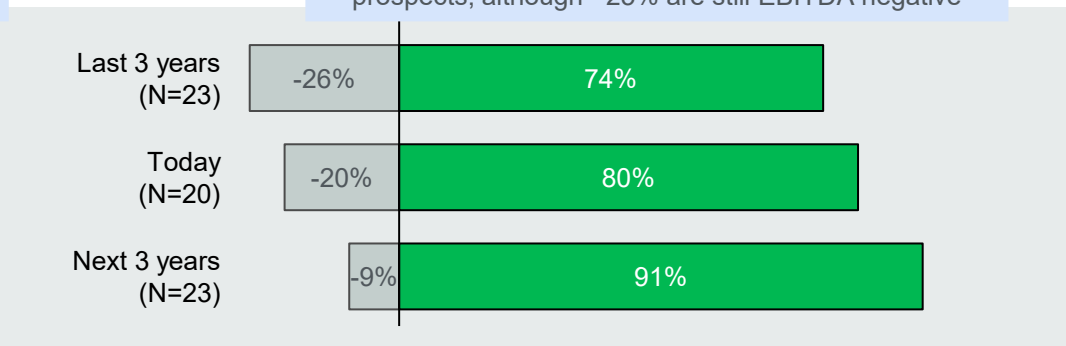
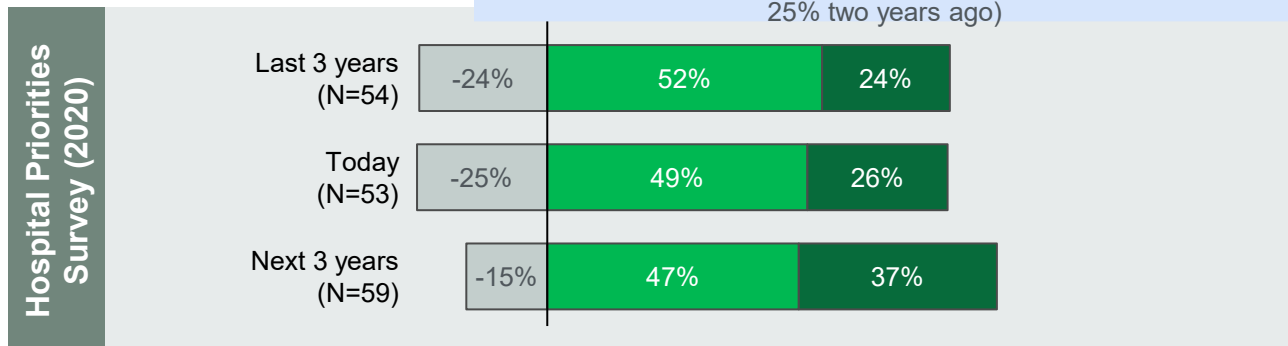
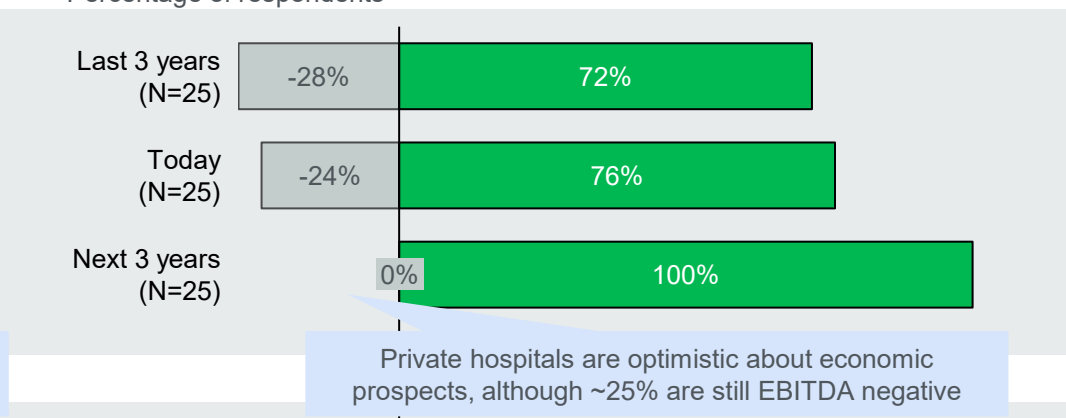
Percentage of respondents



Private hospital profitability/EBITDA - China**

民营医院财政状况 – 按利润率

Percentage of respondents



■ Budget deficit ■ Balanced budget ■ Budget surplus

■ Negative profitability/EBITDA ■ Positive profitability/EBITDA

Note: *Survey question: What is the level of budget surplus/deficit incurred by your hospital today? Responses with "I do not know/prefer not to disclose" have been excluded

** Survey question: What is the EBITDA margin/profitability level of your hospital? Responses with "I do not know/prefer not to disclose" have been excluded

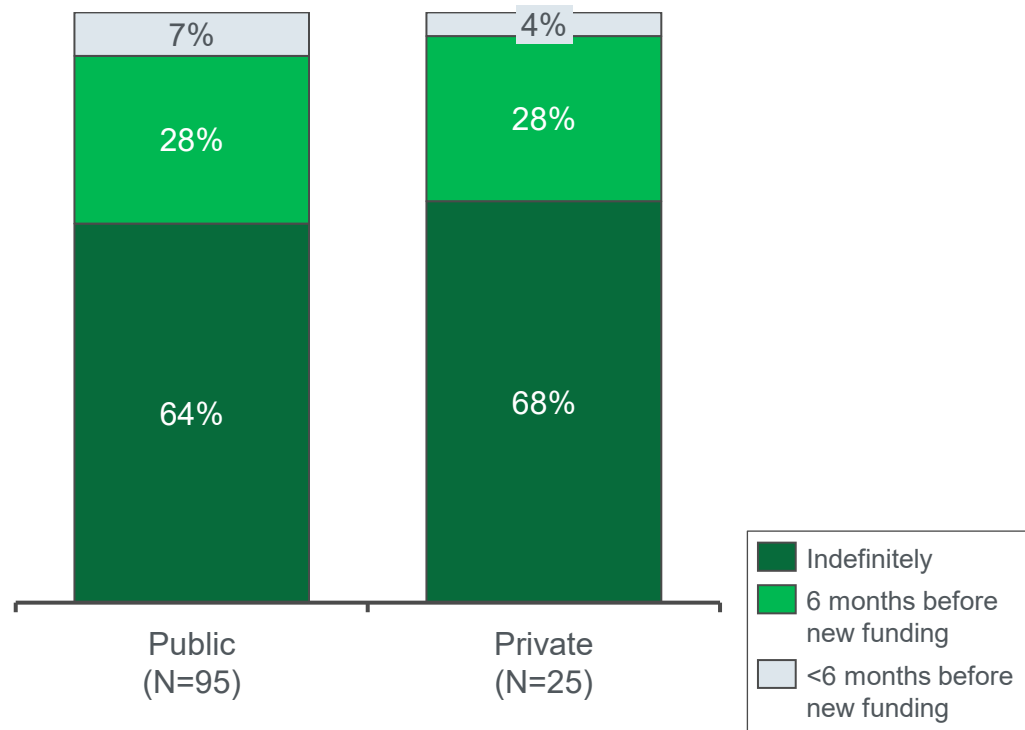
Source: L.E.K. 2020 and 2022 APAC Hospital Priorities Surveys

~65% hospitals run a sustainable business model, while the remainder require additional funding going forward; key influencing factors on sustainability include COVID, cost reduction, and economic growth

4 Financial outlook

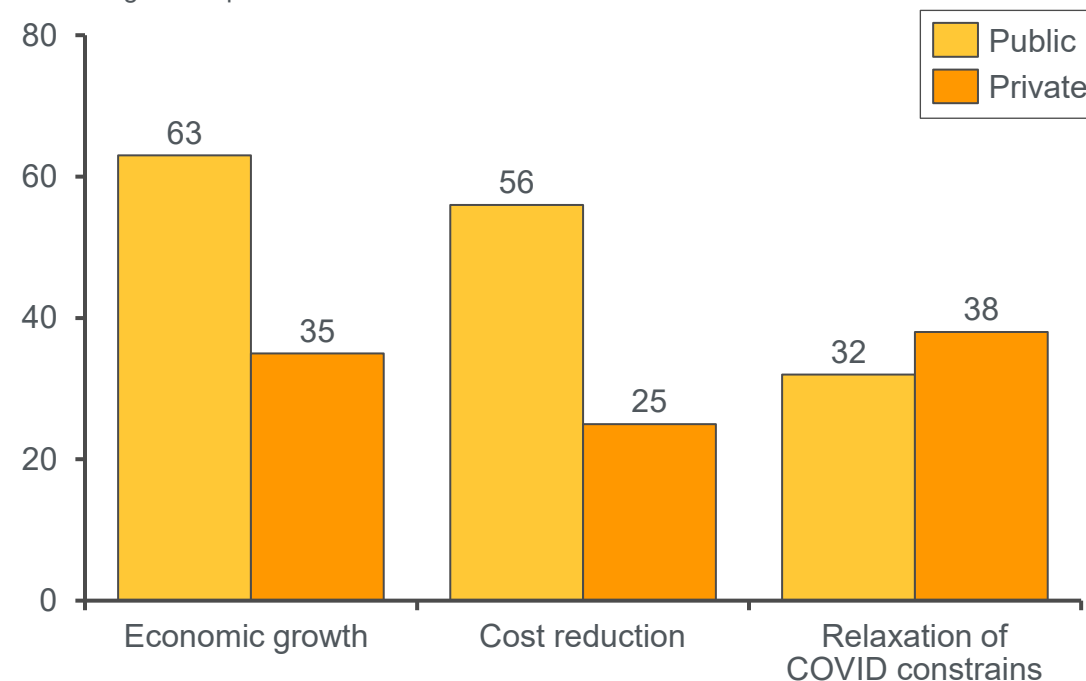
~65% hospitals run sustainable business model

Business sustainability outlook (2022)*
 被访医院财务状况预期 – 是否需额外资金支持
 Percentage of respondents



COVID situation, cost reduction and economic growth act as key factors

Top 3 changes that will positively impact business sustainability (2022)**
 被访医院认为会对财务状况产生积极影响的三大因素
 Percentage of respondents



Note: *Question: 'At current rates of profitability, how long is the business sustainable for? 以目前的利润率、医院运营能够维持多久? **Question: 'What changes would have a positive impact on business sustainability?' (Question only for respondents who indicated a need for funding to sustain business moving forward). 什么样的变化能够对医院的可持续性产生积极的影响?

Source: L.E.K. 2021, 2022 APAC Hospital Priorities Survey

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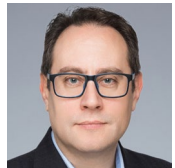
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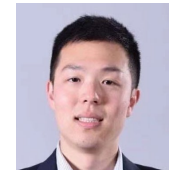
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