

HKEX in Biotech

The next chapter:

Hong Kong's growing healthcare financing ecosystem

A warm welcome to the latest issue of HKEX in Biotech. This issue contains stories of the growing healthcare financing ecosystem in Hong Kong, and looks at sector trends, in a preview of our upcoming HKEX Biotech Summit 2021.

A thriving Biotech IPO ecosystem

Since the introduction of HKEX's listing reforms in 2018, Hong Kong has become Asia's largest, and the world's second largest, biotech fundraising hub. HKEX is now home to an increasingly diversified suite of biotech companies seeking international exposure, proximity to China, and deep liquid markets, and the market is growing and maturing a wide variety of ways.

For example, exciting new sub-sectors are emerging, particularly in the digital healthcare sector. This includes internet healthcare, big data, software, and hardware. There are many promising new AI applications being developed that will improve the efficiency of drug development while reducing risks and costs.

Over **50** healthcare and biotech companies had submitted IPO applications as of 30 June 2021, including **19** pre-revenue biotech companies pursuing a Chapter 18A listing and one international issuer.

The global pandemic has also accelerated the growth of sub-sectors including mRNA-technology drug companies, as well as those producing vaccines and diagnostics products. Other sub-sectors that are growing include medical devices, medical services (hospital/clinic), and CRO/CDMO/CMO¹. However, it is the multifaceted expansion of the Hong Kong biotech ecosystem – from products to research spending, and global reach – that tells the true story of this sector's maturation.

IPO Funds Raised

67

New healthcare listings

HK\$ **209 bn**

33

Pre-revenue biotech listings (under Chapter 18A)

HK\$ **87 bn**

As of 30 June 2021.

¹ CRO: contract research organisation; CDMO: contract development and manufacturing organisation; CMO: contract manufacturing organisation

Product diversity

The biotech market has grown in terms of the number and diversity of investment products. Indices are also an important addition as they pave the way for new ETFs.

The Hang Seng Hong Kong-Listed Biotech Index (HSHKBIO) which now includes 54 constituents with 21 Chapter 18A stocks, reflects the overall performance of the biotech companies that are listed in Hong Kong. Since its launch in December 2019, the HSHKBIO has generated a return of 55%, or an annualised return of 40%, which is a clear validation of the maturing sector.

In March 2021, the China AMC Hang Seng Hong Kong Biotech Index ETF became the first exchange traded fund (ETF) to track the HSHKBIO. The ETF has attracted considerable interest, and its assets under management (AUM) has grown 66% since inception. It ranks #1 in terms of AUM, fund inflow and fund performance among all new ETF issuances in Hong Kong so far this year.

As the product offering increases, so do the number and diversity of investors. Investors, from private and public equity funds to sovereign wealth and hedge funds,

have joined the Hong Kong biotech market, along with large cornerstone investors and specialist funds, who bring healthcare expertise to the market. The inclusion of Chapter 18A companies into Stock Connect last year has also brought Mainland order flow and broadened the investor base of these companies. Sell-side analyst coverage is also expanding, helping investors distinguish strong companies from the weak.



Milestones for Chapter 18A companies

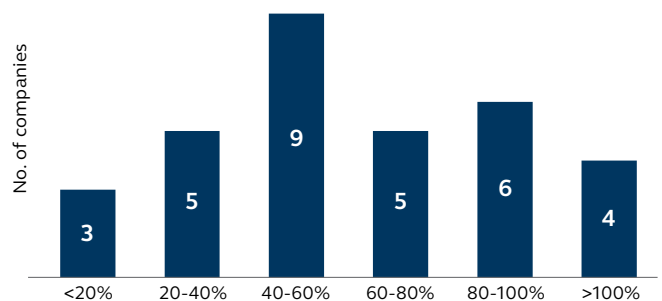


R&D growth

Capital markets have a critical role to play in the growth of biotech and in delivering the positive impact it can have on society. The biotech industry invests heavily in R&D innovations: The average R&D CAGR² of all listed 18A companies is 64% as of Dec 2020.

The steadily growing R&D expenditure of these companies has focused mainly on expediting the investment and development of various clinical programmes for leading innovative products globally, as well as expanding collaboration and licensing programmes to further enhance all-rounded R&D capabilities. Many issuers are accelerating their core strategy of global innovation and collaboration by leveraging the capital market.

R&D CAGR of Chapter 18A companies



² Source: Bloomberg, as of Dec 2020. CAGR is calculated from 2 years before listing to 2020 by reported R&D expenses from annual reports



Global partnerships

A number of Chapter 18A companies are forming global drug development partnerships, and this has accelerated significantly post-pandemic. As companies partner across borders to develop new drugs and products, they are also facing new opportunities and challenges which are sure to shape the sector.

The Hong Kong biotech ecosystem is also beginning to expand its international presence and reach. Three years ago the Chinese market was driven by the license-in model, with companies paying a license fee to produce internationally-developed products in China. Today, an increasing number of Chinese companies are licensing their products outside of China, in places like the US and Europe. At the same time, the transaction value of such licenses is rising, with prices now exceeding US \$1 billion for top products³.

Hong Kong is now home to more than 250 biotech businesses and the government has designated biotech as one of the city's key areas of innovation and technology, supporting the future growth of the sector. At HKEX we are excited about the continued growth of our biotech

listing community, and we are committed to supporting the health of the whole ecosystem for the benefit of all.

To catch up on all the latest developments in regional biotech, join us at HKEX Biotech Summit 2021. We will be joined by market practitioners, issuers and biotech specialists in sharing their insights from across the industry.

**Save the date:
HKEX Biotech Summit**

2 September 2021

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HKEXVoice podcast focused on Biotech

Healthcare and biotech have been the themes of the recent HKEXVoice podcast, and it is still available online in case you missed it. Please click [here](#) to play the podcast.



“ The healthcare sector will become even more important as we believe that the Chinese healthcare system, the healthcare market, and the outreach of the healthcare companies, will continue to grow, and HKEX will be a phenomenal exchange and listing venue for a lot of these companies. ”

Nisa Leung
Managing Partner, Qiming Venture Partners
Independent Non-executive Director, HKEX Group

Meet the HKEX Global Issuer Services team

Our team of professionals are dedicated to delivering on HKEX's vision to be the global markets leader in the Asian time zone: Connecting China. Connecting the World. Please contact us at biosummit@hkex.com.hk to see how we can help you access expertise and business support, and enable you to expand your reach amongst global investors.

³ Company announcements of HKEX listed issuers

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