Biotech

Rapid trials prompt deals rush for Chinese ‘super me-too’ drugs

Western drugmakers look to Chinese trials for early data on treatments’ potential success

Hannah Kuchler in London and **Wang Xueqiao** in Shanghai 4 HOURS AGO

Western drugmakers are striking more deals in China to access “bio-better” treatments for diseases from obesity to cancer, taking advantage of the early data on offer from the country’s faster and more lightly regulated trials.

Large pharmaceutical groups including GSK, Merck and AstraZeneca have each signed $1bn-plus agreements in the past two years to buy the rights to develop and sell Chinese drugs outside the country.

Meanwhile, investors including Forbion, Bain Life Sciences and General Atlantic have ploughed hundreds of millions of dollars into new biotechs that will develop Chinese assets for western markets, hoping to be bought by major drugmakers.

A third of all the compounds that large pharmaceutical companies bought the rights to last year came from China, a dramatic jump from just 12 per cent two years ago, according to investment bank Stifel.

“Shanghai has become the centre for search and evaluation for all global pharma,” said one life sciences investor.

The rapid rise has been fuelled partly by early data from a soaring number of trials, which some analysts say do not have the same ethical oversight or tight regulations as they would have in the West.

Investment in China presents a possible challenge to US and European biotechs, which often seek to sell to big pharma groups. Chinese biotechs may be willing to sell rights to their drugs at lower valuations because funding has dried up in their home market.

Their drugs are often called “biobetters” because they are designed to tackle known biological targets rather than starting with a new discovery about how a disease works. These “super me-too” drugs are then engineered to work better than currently available ones.

GSK has licensed an antibody drug conjugate, a type of targeted chemotherapy, from Hansoh Pharma in a deal worth up to $1.5bn © VCG via Getty Images

Brad Loncar, a US-based investor and founder of interview site BiotechTV, said western companies were licensing Chinese drugs because rapidly conducted trials allowed data to be assessed at an early stage to see if an asset was worth buying.

“China has a huge competitive advantage over the US,” he said. “You can start a trial in months and find out if something works, whereas here it can sometimes take years.”

He warned that the biotech industry could be disrupted by China, as the semiconductor sector was. “If you start outsourcing innovation and science as a nation, you risk declining in those areas over the long-term,” he said.

In the decade-long process of discovering and developing a drug, any early indication it might work is valuable to companies looking to invest. Chinese companies often have banks of scientists who work long hours to speed through initial studies in labs and then in animals.

“China’s rise is based on a new standard for R&D productivity in terms of time and cost, which is an interesting source of innovation for us investors to tap into,” said Wouter Joustra, a partner at Netherlands-based Forbion, which has led large funding rounds in companies such as Aiolos, an asthma drugmaker that was sold to GSK for up to $1.4bn.

Trials in China usually recruit patients faster than in the west because of the country’s large pool of people who have not yet taken drugs for their condition and who are keen to participate in trials partly because they get the drugs for free.

“In China, there are so many regional hospitals, you can go and find the patient population and get the signal much quicker,” said one healthcare banker.

Trials in China usually recruit patients faster than in the west because there is a large pool of people who have not yet taken drugs for their condition © Wang Zhao/AFP via Getty Images

Buyers then usually do their own trials in the US or Europe. GSK in late 2023 licensed an antibody drug conjugate, a type of targeted chemotherapy, from Hansoh Pharma in a deal worth up to $1.5bn.

David Redfern, president of corporate development at GSK, said China was a “good source of innovation, if accessed early” and that early trial data could be useful to understand how a potential drug could work.

GSK wanted to do its deals at an early stage so it could then do trials outside of China that are required for approvals elsewhere, he added.

“We run all the studies outside of China but in the case of Hansoh, they had several hundred patients on that medicine. That is very helpful due diligence as you can see response rates and so forth.”

The most prominent deals, including GSK’s with Hansoh, are usually based on conventional trials overseen by China’s national regulator.

But much of the rise in the number of trials comes from hospital-based studies known as "investigator-initiated trials", or IITs. Such trials, which are less tightly regulated, have soared in number from about 2,500 in 2018 to more than 8,000 last year, according to data from research firm Airfinity.

Chinese hospitals are keen to do more trials because their other source of income has fallen © Li Zhihua/China News Service/VCG via Getty Images

Zhao Bing, an analyst at Huajing Securities, said IITs — especially in cell and gene therapies, antibody drug conjugates and treatments created by companies that use AI for drug discovery — had helped fuel the M&A boom.

He said Chinese hospitals were keen to do more trials because their other income, from medical services, was falling after recent reforms to control the cost of healthcare.

"The advantage of IIT is that it is more convenient to get ethics approval in hospitals," he said.

In theory, IIT should only use drugs that are already approved but in practice it was conducted on cell therapy products before approval, said Aaron Gu, a partner at Chinese law firm Han Kun who specialises in life sciences. Stricter rules came into effect in October but he said "it might take some time to fully implement and strengthen" the regime.

"Hospitals and research institutions in China are highly responsive to clinical research, and in some places it is relatively faster to obtain clinical data on human subjects due to more regulatory flexibility and less expensive to recruit subjects compared to conducting similar clinical research in United States," he said.

But this flexibility has raised questions about how Chinese patients are treated, as ethics standards vary between different hospitals.

Yonghui Ma, a professor at the Centre for Bioethics at Xiamen University in the south-eastern province of Fujian, said national guidelines and regulations were in line with international standards but that implementation was still “very very uneven” in IITs.

Chinese companies often have banks of scientists who work long hours to speed through initial studies in labs and then in animals © CFOTO/Future Publishing via Getty Images

She added that IITs did not always meet the highest ethical standards — for example, the procedure for obtaining informed consent was not as sophisticated as in trials overseen by the national regulator, and patients may not always know all their other treatment options.

Last year pharma deals fell to their lowest level in almost a decade. Large M&A may have been kiboshed by fears of the US Federal Trade Commission blocking deals on antitrust grounds. But western biotechs are also worried that buyers could ignore them in favour of cheaper licensing deals in China.

David Li, chief executive of San Francisco-based Meliora Therapeutics, said he had realised after visiting China that many companies would experiment with developing a wide range of drugs to see what works, partly because costs in the country were so low.

He added that Chinese companies were also secretive about what they were working on, so western rivals could feel taken by surprise. “It feels like the iceberg effect,” he said. “Everything you see above the water is only 10, 20, 30 per cent of what actually exists.”

He believes western companies must now focus on where they can compete: creating drugs for completely new biological targets.

Loncar warned that early-stage science risks being outsourced to China and called on western regulators to wake up to the threat.

“Either the US and Europe will need to significantly lower the rules to allow companies to develop and test just as quickly, or the US will probably end up banning US companies from partnering with Chinese companies,” he said.

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