



Trends of deals in China's healthcare service industry  
2019-2022 review and outlook

# Value rebounds: Digital and intelligent empowerment





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# Preface

## Description of the data presented in the report

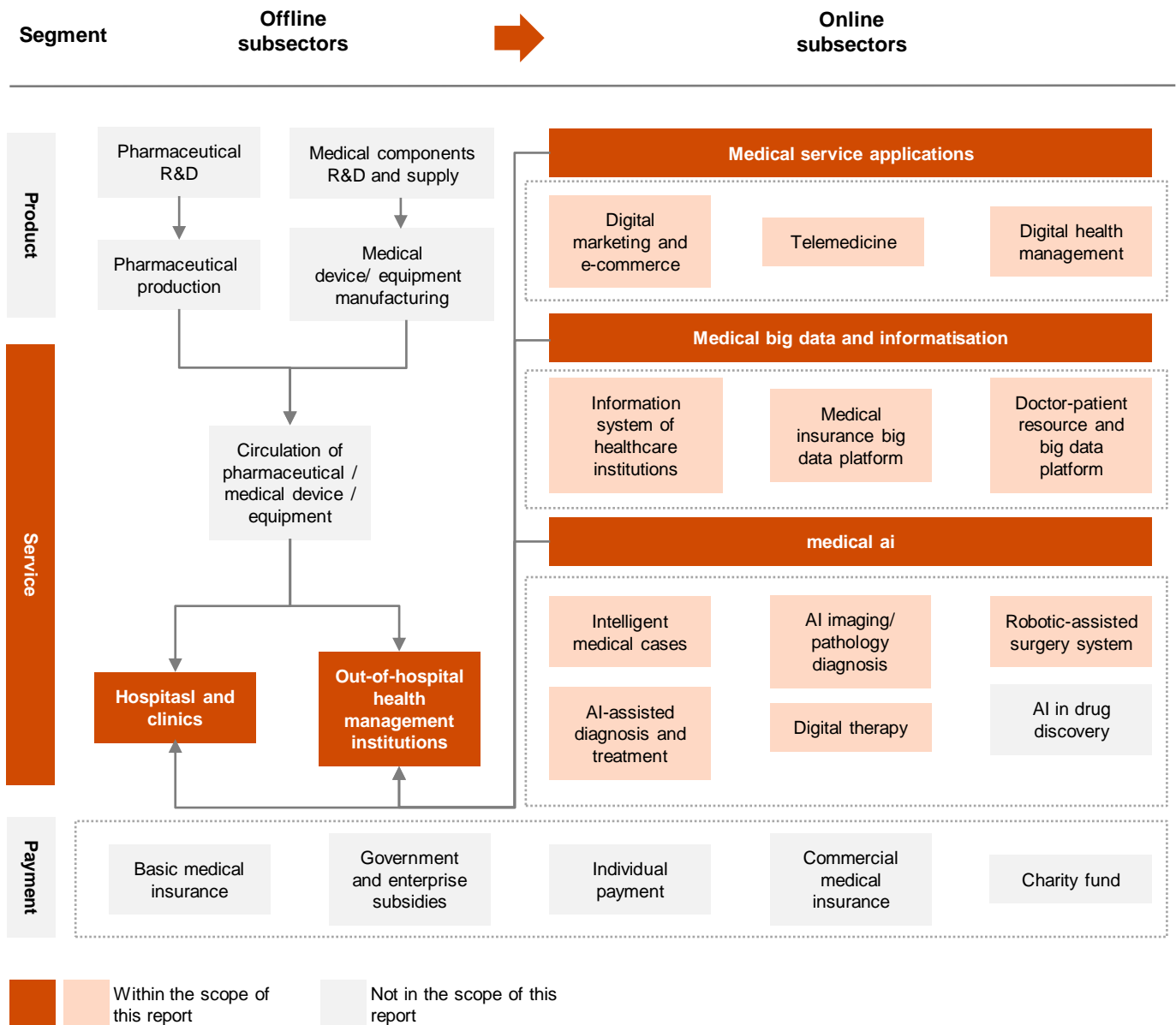
- The data in the report is based, unless noted, on information provided by PE Data, CVSource, Thomson Reuters and PwC analysis;
- PE Data, CVSource, Thomson Reuters only record announced deals. Some announced deals will not go on to complete;
- Some deals does not disclose information or deal size, which to some extent affects the comprehensiveness and trend of our analysis. Some public information is limited, particularly in certain hospital investments, due to the sensitivity of deal information;
- The deal volume figures presented in the report refers to the number of deals announced, whether or not a value is disclosed for the deal;
- The deal size figures presented in the report refer only to those deals where a value has been disclosed (referred to in this presentation "disclosed value") ;
- The average deal size mentioned in the report only is calculated based on deals with disclosed value, excluding the impact of mega-deals (above RMB6 billion)
- "China" in the report means mainland China, and "domestic" and "inbound" data means the deal data occurring in mainland China;
- "Overseas" and "outbound" data means the deal data occurring in Hong Kong, Macau, Taiwan and other overseas countries and regions;
- The measurement unit of the amount in the report chart is RMB, and the foreign currencies are uniformly converted into RMB, based on the exchange rate on the day of the event.

## Industry segment and definition

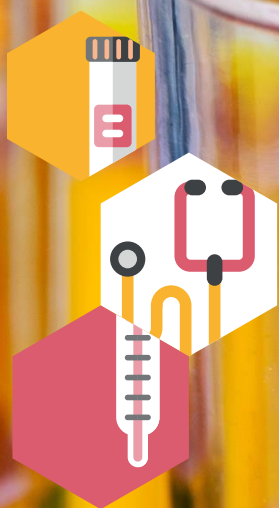
- **Hospitals & Clinics:** Medical institutions with the primary purpose of providing people with diagnosis services and treatment of diseases, and medical groups that own and operate one or more such institutions. Hospitals in this report mainly include general hospitals (general practice clinics) and specialised hospitals (dentistry, medical aesthetics, maternal and child, ophthalmology, cerebral, oncology, Chinese medicine, and other types of clinics);
- **Out-of-hospital Health Management:** Medical and health institutions other than hospitals and clinics, professional public health institutions and health management institutions, including third-party lab (medical imaging, genetic, pathological testing and other institutions), medical checkup centres, rehabilitation institutions, elderly care institutions, maternity care centres, medical aesthetics centres, psychological counseling and other service institutions;
- **Digital Health:** Medical and health service providers with data as the core production factor and rely on digital technology (the Internet, big data, artificial intelligence, blockchain, IoT, etc.) as the driving force. The segment mainly includes: 1) service providers in medical device e-commerce, digital marketing, online diagnosis and treatment (Internet hospitals, online consultation, etc.), 2) health data platform, 3) AI in healthcare (intelligent Electronic Health Records (EHR), clinical decision support system (CDSS), AI imaging, digital therapy, etc.), 4) personal health data management (health knowledge popularization platforms, remote health monitoring, etc.).

# Overview of China's healthcare industry

## Healthcare industry value chain



# China's healthcare service industry



Policies and market trends

overview of 2022

# Healthcare service in China: Policies and market trends

## Policy keywords in the healthcare industry in 2022<sup>1</sup>



After the pandemic went into full swing at the end of 2022, China classified Covid-19 as a Category B infectious disease (in the same category as HIV and bird flu) from Class A, in a major shift in its epidemic response policies. The abrupt and recurrent outbreaks of Covid-19 over the past three years have led to major changes in regulations, market needs, supply and demand and social structures.

### High-quality development continues while the value of healthcare is reflected via technology and service capabilities

The "14th Five-Year Plan" aims to promote high-quality development at policy level. In the last two years, medical regulators have issued a series of policy papers to reflect this aim<sup>2</sup>. Key themes of these policy papers include clinical specialty capacity building, reform of medical insurance, domestic substitution of medical device and equipment, digital health, tiered diagnosis and treatment, and centralised procurement. The policies are aimed at alleviating imbalances in the supply and demand for medical resources, optimising use of medical insurance and improving medical technology and services.

Some segments of the healthcare industry such as consumer-centric healthcare services (stomatology, ophthalmology) have started to embrace new opportunities, new technology and the greater use of IT in medical institutions.

### Post-pandemic changes in supply and demand

On the demand side, there is a greater need for public health emergency response, as people shift their focus from treatment to prevention and medical preferences shift from outpatient care to telemedicine. During the pandemic, chronic disease management was also given more attention, along with the practicality of medical diagnosis and treatment at the community level or online.

On the supply side, there are three key trends: more facilities for acute and critical disease care were built; the primary

medical service network was expanding; lacking of medical workers became more pronounced during the pandemic's peak.

On the payment side, health insurance plans such as Huimingbao<sup>3</sup> are now offered in multiple cities, which serve as supplements to China's national medical insurance programs. In addition, assisted reproduction starts to be covered by municipal-level basic insurance plans. The reform of individual employee medical insurance has been also launched in many places. With the multi-tiered development of medical insurance, more medical services based on people's basic needs are being covered by insurance. Given the demographic changes, elderly care and reproduction are becoming increasingly important.

### The growing importance of elder care and reproductive health

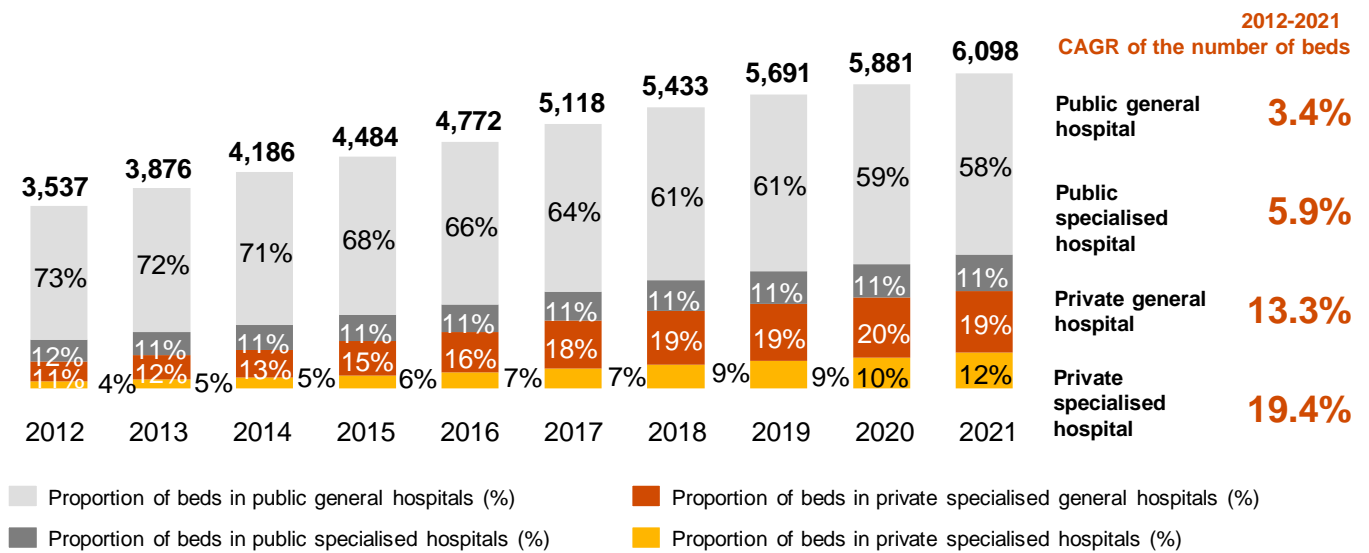
Demographic trends have led to an expansion of demand for medical services. China's population is now officially shrinking, which has brought the low fertility and ageing population problem back into the public eye. Based on the most recent demographic data from the National Bureau of Statistics, the natural population growth rate stood at -0.60% at the end of 2022. Further, according to data from the National Health Commission and the National Bureau of Statistics, about 210 million people in China were aged 65 or older, making up 14.9% of the entire population. By 2035, more than 400 million people will be aged 60 or older – more than 30% of the entire population. The birth rate dropped below 10% in 2020 and was a mere 6.77% in 2022. Given this, areas like health management, rehabilitation, senior-friendly facilities, and the prevention, treatment, and management of chronic diseases, as well as the diagnosis and treatment of basic diseases, will receive more attention. These all relate to the medical treatment and health management demands of the elderly. Measures to promote fertility will foster other medical services, including assisted reproduction.

Note: 1. Based on statistics of the primary contents of 198 policies in the healthcare industry released by the State Council and National Health Commission in 2022, excluding local policies, there are approximately 150 policy keywords with high frequency; 2. In 2021, the medical regulators issued "Action on Promoting High-quality Development of Public Hospitals (2021-2025)" and "the 14th Five-Year Implementation Plan for the Construction of High-quality and Efficient Medical and Healthcare Service System". In 2022, medical regulators issued a series of major programmatic policies aimed at achieving high-quality development in healthcare services, including the Guiding Principles of Medical Institution Setting and Planning (2021-2025), the 14th Five-Year Plan for National Health, the 14th Five-Year Plan for National Health informatisation; the Guiding Opinions on Promoting the High-quality Development of Family Doctor Services; the Guiding Opinions on Further Promoting the Development of Integrated Elderly Care and Medical Services; 3. "Huiminbao" is known as inclusive supplementary medical insurance for major diseases. As the main supplementary protection for the self-paid part of medical insurance reimbursement, it can fill the gap in the transition zone between medical insurance and commercial health insurance.

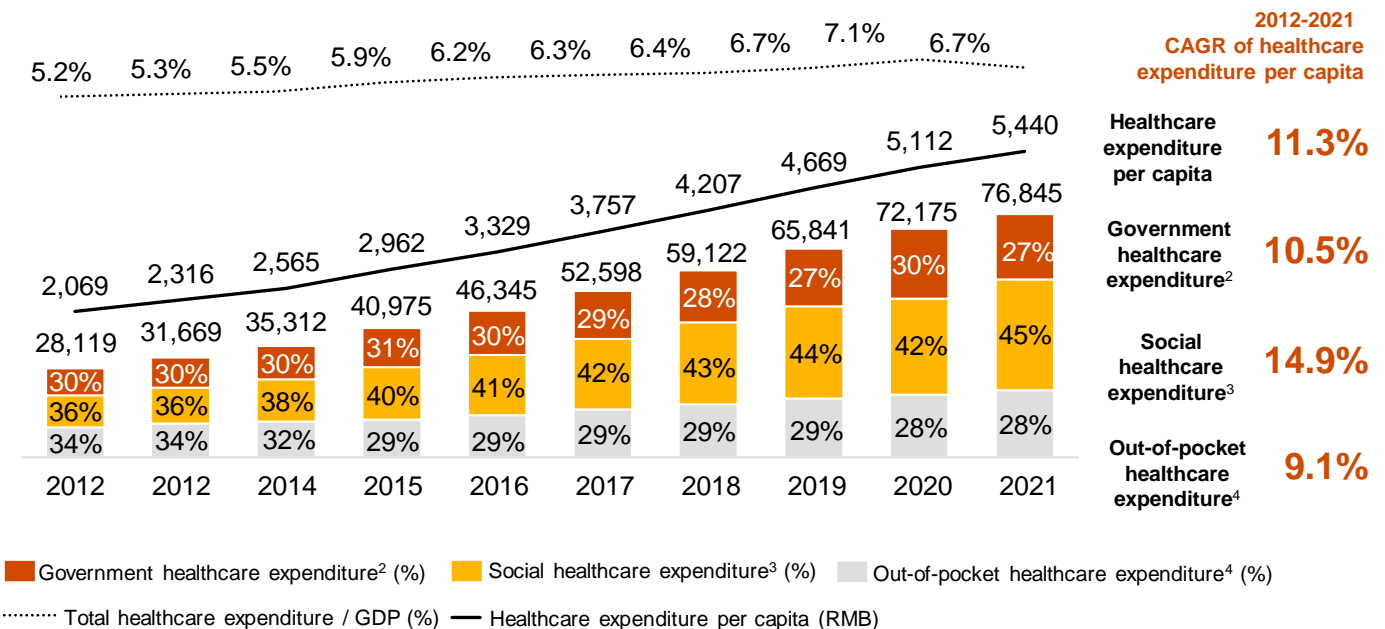
Sources: Public information and PwC analysis

# Healthcare Service in China: Interpretation of macro data and trends

Number of beds in general and specialized hospitals<sup>1</sup> in China from 2012 to 2021 (in thousand beds)



Healthcare expenditure per capita in China from 2012 to 2021 (in RMB 100 million)

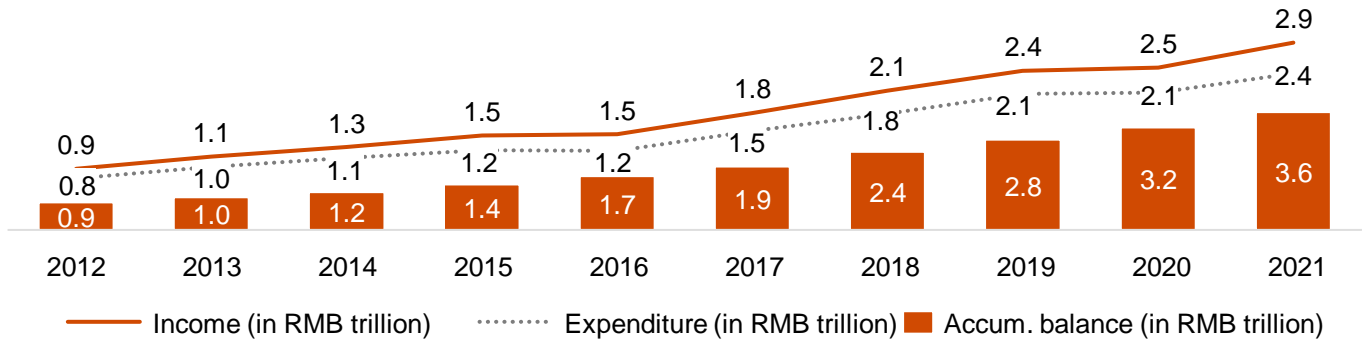


Note: 1. It only counts the number of beds in general and specialised hospitals, excluding other types of medical institutions (TCE hospitals, TCM-WM hospitals, nursing homes and minority hospitals); 2. Government healthcare expenditure refers to the financial allocation of governments at all levels for health services, including public health service budget and medical service budget; 3. Social healthcare expenditure refers to the investment of society in health services other than government expenditure, including social medical insurance expenditure, etc.; 4. Out-of-pocket healthcare expenditure refers to the cash payments made by residents when they receive various medical and health services, including the personal payment by residents under various medical insurance systems.

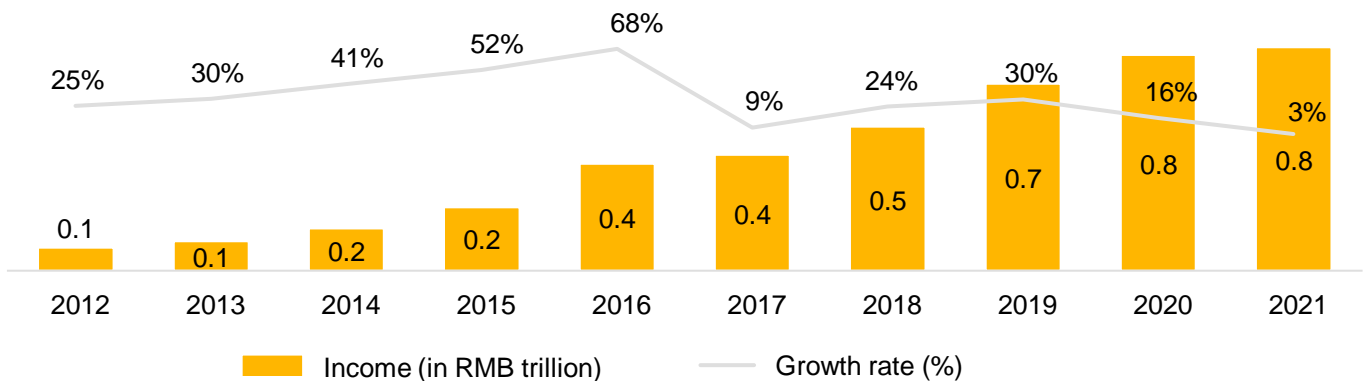
Sources: China Statistical Yearbook, China Health Statistical Yearbook, China Banking and Insurance Regulatory Commission, public information and PwC analysis

# Healthcare Service in China: Interpretation of macro data and trends

## Income and expenditure of basic medical insurance in China from 2012 to 2021



## Original premium income of China's commercial health insurance<sup>1</sup> from 2012 to 2021



### Initiatives to increase fertility will encourage other medical services in addition to assisted reproduction

Private hospitals have undergone significant growth over the last decade. Public hospitals account for about 70% of all hospital beds, while private hospitals have experienced double-digit growth. Private specialist hospitals, in particular, have seen the fastest growth, rising at a CAGR of nearly 20% from almost 140,000 in 2012 to more than 700,000. Pressure on public hospitals is largely alleviated with private hospital medical resources.

### Basic medical insurance funds serve as the backbone of the current healthcare delivery system

As a consequence of advancements in insurance cost control and payment, promotion of commercial insurance, and payment innovation, a multi-tiered medical security system has progressively emerged.

Social healthcare spending dominates medical and healthcare spending, which has risen from over 36% in 2019 to almost 45% in 2021. The majority of this money is spent on the primary medical insurance fund.

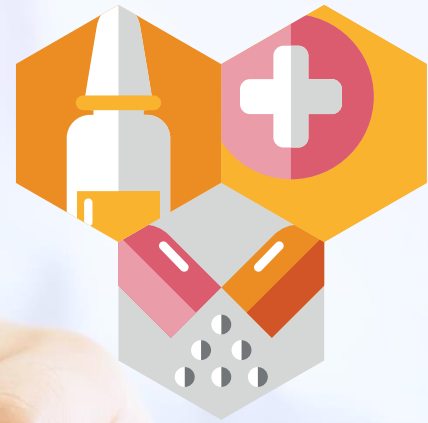
Individual and government healthcare spending fell slightly in 2021 compared to that in 2019, contributing 27% and 28% of the total healthcare spending, respectively. The pandemic resulted in a 3% rise in government healthcare spending in 2020, which then returned to pre-pandemic levels in 2021. While fewer individuals pay for healthcare directly, there still is a discrepancy between expenditure on severe disease and wonder drugs<sup>3</sup>.

Commercial health and medical insurance will fill this gap. The initial premium income for commercial health insurance increased during the last ten years from 13% to over one-third in 2021. The basic medical insurance, critical sickness insurance, and medical assistance components of the triple security system will all be fully covered by 2021. In 2022, inclusive commercial supplementary medical insurance plans (called "Huiminbao"), led by local government departments and underwritten by insurance companies, were implemented to supplement the basic medical insurance in more than 40 cities. The implementation of a multi-tiered medical security system will be critical to comprehensive medical reform.

Note:1. The original insurance is a type of insurance which establishes a relationship by signing an insurance contract directly between the insurer and the applicant. The original premium, also known as the first insurance premium, refers to the associated costs that the applicant must pay after signing the contract. In 2021, the original premiums of health insurance accounted for about one-third of China's basic medical insurance income. 3. Wonder drug is a drug usually newly discovered that elicits a dramatic positive response in a patient's condition.



# China's healthcare service industry



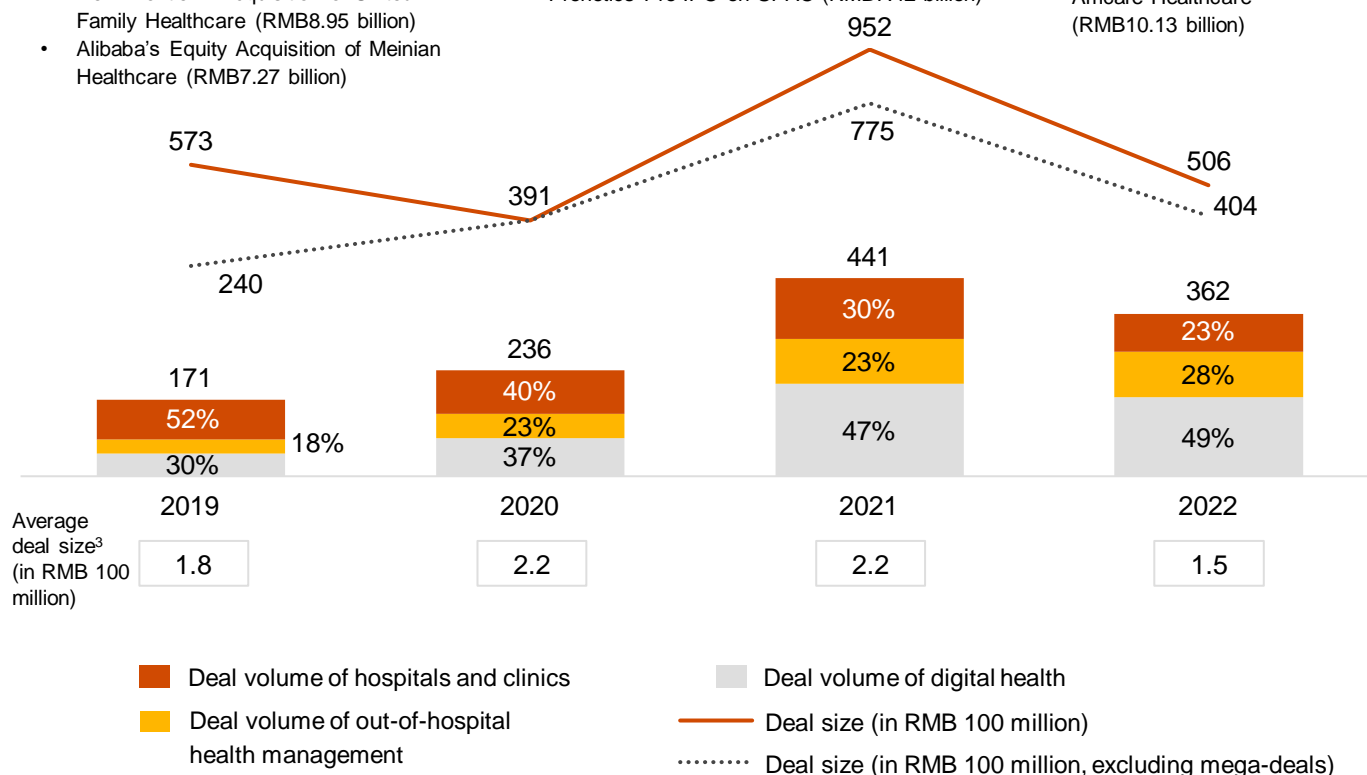
Deals trends

from 2019 to 2022

# Overview of deal trends in China's healthcare service industry

## Deal volume and disclosed deals size of China's healthcare industry from 2019 to 2022

- Privatisation of iKang Healthcare (RMB10.14 billion)
- Strategic Investment of JD Health (RMB6.87 billion)
- New Frontier's Acquisition of United Family Healthcare (RMB8.95 billion)
- Alibaba's Equity Acquisition of Meinian Healthcare (RMB7.27 billion)
- Ping An of China's Acquisition of PKU Healthcare (Undisclosed<sup>1</sup>)
- Privatisation of New Frontier Health (RMB10.23 billion)
- Prenetics Pre-IPO on SPAC (RMB7.42 billion)
- General Technology's Acquisition of Gem Flower Healthcare (Undisclosed<sup>2</sup>)
- ByteDance's Acquisition of Amcare Healthcare (RMB10.13 billion)

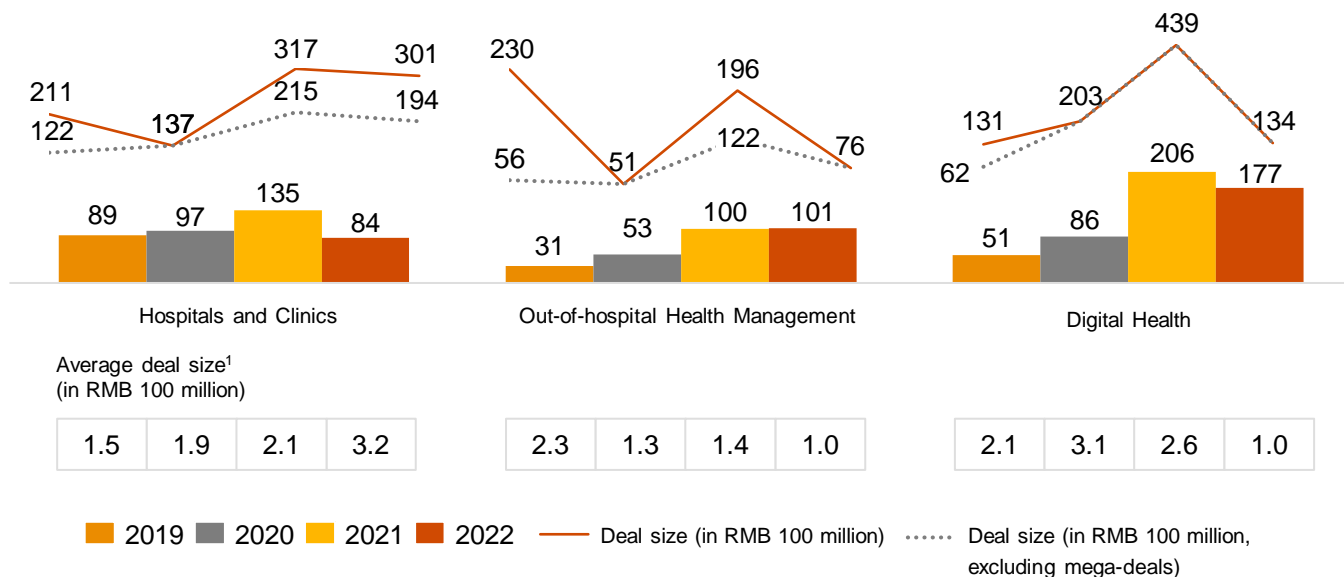


Note: 1. In order to advance the strategic layout of the healthcare sector, China Ping An Life Insurance received official approval from the China Banking and Insurance Regulatory Commission on January 30, 2022, to purchase 66.51% of New Founder Group with its own capital of RMB48.218 billion. The value of the healthcare segment was not disclosed separately because the restructuring consideration included equity, creditor's rights, and other assets involving the finance, IT, education, and other segments; therefore, the deal size was not included in the statistics.; 2. A contract on deepening reform and professional integration of Gem Flower Healthcare was formally signed on February 28, 2022, by China National Petroleum Corporation and General Technology Group. Following the agreement, General Technology Group acquired Gem Flower Healthcare, and after the settlement, General Technology possessed 330 hospitals with approximately 46,000 beds and 50,000 employees; 3. The average deal size is calculated excluding the impact of mega-deals (above RMB6 billion).

Sources: PE Data, Thomson Reuters, CVSource, public information and PwC analysis

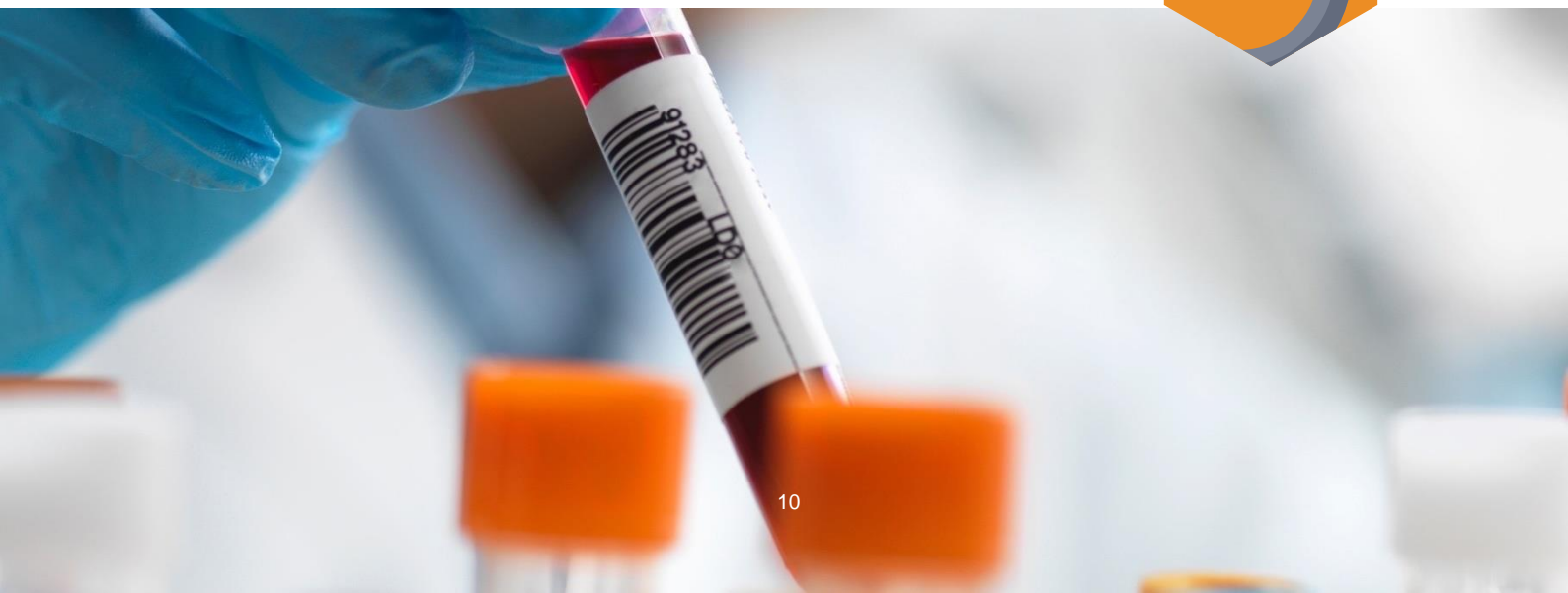
# Deal trends in China's healthcare service industry by segment

Deal volume and disclosed deal size by segment from 2019 to 2022



Note: 1. The average deal size is calculated excluding the impact of mega-deals (above RMB6 billion).

Sources: PE Data, Thomson Reuters, CVSource, public information and PwC analysis



# Overview of deal trends in China's healthcare service industry

## Deal trends for 2022: investment enthusiasm returns to levels seen in 2019

Total deal volume and deal size for healthcare service between 2019 and 2022 exceeded 1,200 and reached RMB250 billion. Deal volume decreased by less than 20% to 362 deals in 2022, while deal value decreased by less than half a billion RMB from 2021's total of nearly RMB50 billion.

Despite the changing deal trends over the previous four years, the volume of deals and the disclosed deal value (excluding mega-deals) were still higher in 2022 than in 2019. Deal activity hit a record high in 2022, with volume nearly doubling that of 2019.

## Attractiveness of targets: technological innovation, healthcare service ecosystem, consumer health

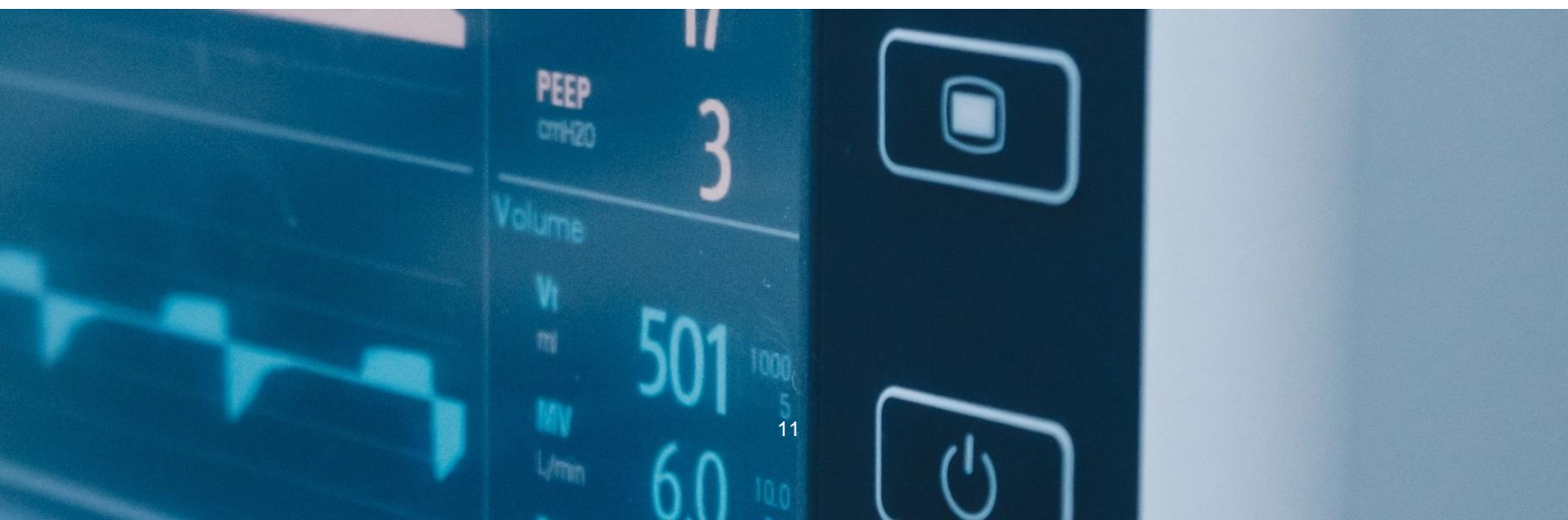
Based on the target companies for 2022, it is clear that service and technology are at the heart of medical value despite the resurgence of the epidemic and the unfavourable economic climate. This supports the fundamental justification for investing in the healthcare service industry. Capital prefers businesses with advanced technology and excellent customer service. Innovation serves as a catalyst in the process of enhancing market competitiveness.

High-quality portfolio companies, as observed by PwC, exhibit the following traits:

- Digital health businesses stand out owing to their wealth of health records and, strong technical capabilities, and innovative ideologies. These enterprises also have capabilities in artificial intelligence, online and offline resource integration, ecosystem construction, and other technical innovations which are convincing competitive advantages.
- Ophthalmic, stomatology, maternity and childcare, assisted reproduction, cancer, rehabilitation, traditional Chinese medicine, and other fields of specialised healthcare have seen a surge in investment enthusiasm; the majority of the targets are consumer-oriented medical service providers.
- From a macro perspective, investment targets driven by policy and demographic changes are also favoured, including enterprises that cater for old-age care and rehabilitation.

## Key deal drivers

1. **Scale-up of service capabilities:** The top specialist hospital groups scale up by increasing capacity and changing the market structure. As deal value continues to increase, mature specialist hospitals and clinics are expanding into the grassroots market;
2. **Rising consumerism in health:** The listing of consumer medical chains has increased investor confidence. In 2022, the markets saw the listing of four ophthalmic and two stomatology chains, including Clarity Medical Group, Chaoju Eye Care, Bright Eye Hospital, Arrail Group and Meihao Medical Group. These institutions' business models have been market tested, and five out of the six are successful ventures. Investor confidence has also been boosted by the successful listing of consumer medical services.
3. **Pressure of performance under Covid-19:** With fewer outpatient visits, for-profit, privately owned general hospitals face increased pressure to perform. Bail-outs and exits of deals have become the primary drivers of transactions for some cross-border investors.
4. **Policy tailwind of digital health:** The continued refinement of policies open the possibilities of digital health technology and increase the market share of telemedicine services. At the peak of the pandemic, the convenience of online medical and pharmaceutical services was evident. In 2022, Regulations on the Supervision of Online Diagnosis and Treatment (Trial), Provisions for the Supervision and Administration of Online Drug and other regulations promulgated. AI-assisted diagnosis and treatment were removed from the National Catalogue of Restricted Technology. Clearer standards and policies make implementation more feasible, thus increasing the certainty of investment. Since the diagnosis and treatment, quality control, supervision, complaint, data sharing and other web-based practices must be carried out by physical medical institutions, there is greater homogenisation and integration of online and online diagnosis and treatment.





# China's healthcare service industry

Deals overview of 2022

# China's healthcare service industry in 2022: Deals at a glance

## Deal size

The declared deal amount in 2022 was RMB **50.6** billion – less than **47%** of 2021's total. This included the purchases of a dentistry clinic by Taikang; Amcare Healthcare by ByteDance, and B-soft by Phillips.



## Deal volume

The number of deals reached **362** in 2022 marginally decreased by **18%** from 2021.



## Average deal size

Average deal size peaked in 2021 and then declined to 2019 levels in 2022, totalling about RMB **150** million<sup>1</sup>.



## Mega-deals

There were **9** deals over RMB 1 billion this year, slightly fewer than the previous year and representing deal value of RMB **28** billion.

These included the purchases of a dentistry clinic by Taikang, Amcare Healthcare by ByteDance, and B-soft by Philips.

## Deals of China's healthcare service industry in 2022

## Type of deals

The primary areas of investment were the acquisition of controlling stakes in hospitals and clinics, as well as short-term and long-term equity financing in the digital health market.



## Subsector spotlight

Medical AI and specialist hospitals and clinics (ophthalmology, stomatology, maternity and child, rehabilitation, Chinese medicine, assisted reproduction, and oncology) were the two hottest sectors while third-party medical testing, big data, and informatisation received significant attention.



## Type of investors

Financial investors controlled almost **70%** of transaction volume, while strategic investors controlled more than **60%** of deal value, a huge increase from the previous year. Real estate and insurance investors have helped to build healthcare infrastructure.



## Regions

While deals in Jiangsu, Zhejiang, and Hunan Province were significantly more active than the previous year, the Yangtze River Delta region, the Greater Bay Area, and Beijing have always been busy for deals, with Beijing's yearly deal value exceeding RMB10 billion.



Note: 1. The impact of mega deals disclosed in 2022, such as ByteDance's acquisition of Amcare, with a deal size of roughly 10.13 billion yuan, have been left out of this analysis.

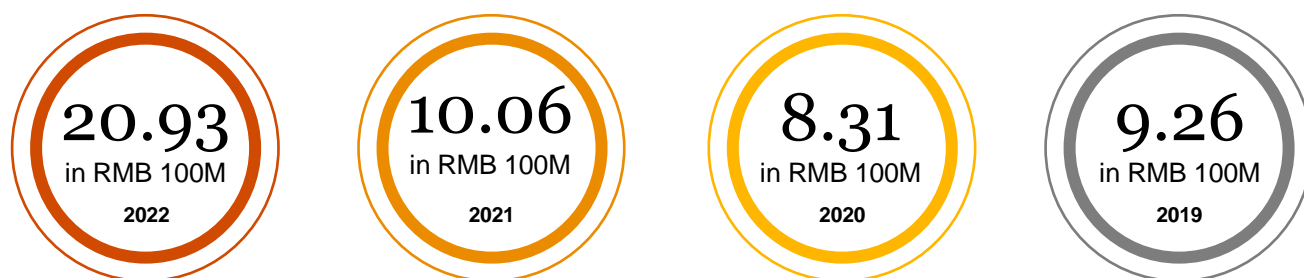
# Mega-deals in 2022

## Mega-deals in healthcare service industry in 2022, ranked by announced deal size

	Target company	Segment	Business description	Main investor	Investor's sector	Type of investment	Deal driver	Disclosed deal size (in RMB 100M)
1	Amcare Healthcare		Women and children specialised hospital	Xiaohu Health (ByteDance)	IT	Acquisition of controlling interest		101.3
2	Suzhou Hongtian Medical Investment <sup>1</sup>		5 stomatological hospitals	Taikang Life Insurance	Finance	Acquisition of controlling interest		38.2
3	Aier Eye Hospital Group		Ophthalmic hospital chain group	ICBC Credit Suisse, GF Fund, UBS, Penghua Fund etc.	Specialised hospital chain group	Private placement		35.4
4	Hong Kong Asia Medical Group		Cardiovascular hospital	CGVC, Primavera Capital, Taikang Life Insurance etc.	Real estate, health care, insurance	Round D		25.4
5	Novogene		Menetic testing services	Undisclosed	Undisclosed	Private placement		22.3
6	B-SOFT		Medical information technology solutions	Philips (China) Investment	Manufacturing industry/ medical	Equity transfer		12.3
7	Hengkang Medical		Integrated hospital group	New Journey	Integrated hospital group	Acquisition of controlling interest		17.9
8	Xuzhou New Health		Private-owned tertiary general hospital	Nanjing Cenbest	Real estate/ health care	Acquisition of controlling interest		17.3
9	WeDoctor		Intelligent digital health platform	State-backed Industrial Investment Fund in Shandong Province	Finance	Strategic investment		10.0
10	Guangdong Kangzhi Hospital <sup>2</sup>		2 assisted reproduction hospitals	Jinxin Fertility Group	Specialised hospital chain group	Acquisition of controlling interest		9.5

Capability expansion  
 Category expansion  
 Market development  
 Resource integration  
 Diversification strategy  
 Financial investment

## Average deal size<sup>3</sup> of top 10 deals in healthcare industry from 2019 to 2022

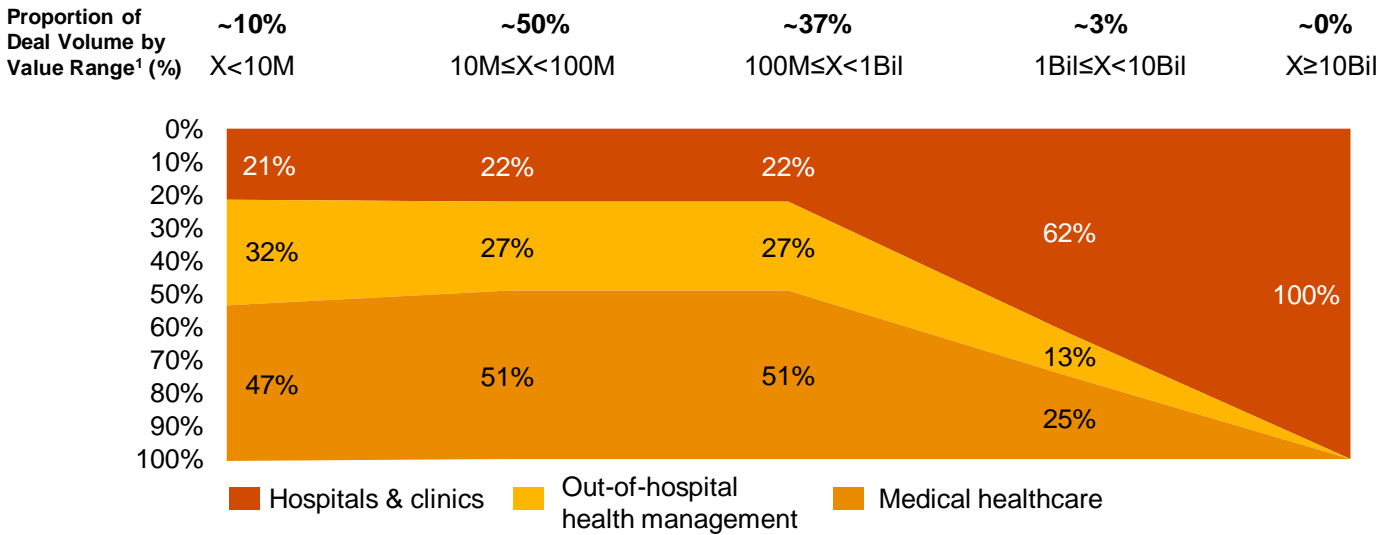


Note: 1. The institution holds five stomatological hospitals: Suzhou Stomatological Hospital, Taian Stomatological Hospital, Kunshan Tongji Stomatological Hospital, Bengbu Stomatological Hospital and Wuxi Stomatological Hospital; 2. The transaction refers to equity acquisition of Yunnan Jiuzhou Hospital and Kunming Jinxin Hewanjia Obstetrics and Gynecology Hospital, both of which can provide assisted reproductive services (ARS) with a license for in vitro fertilization (IVF); 3. The average deal size is calculated excluding the impact of mega-deals (deal size above RMB 6 billion).

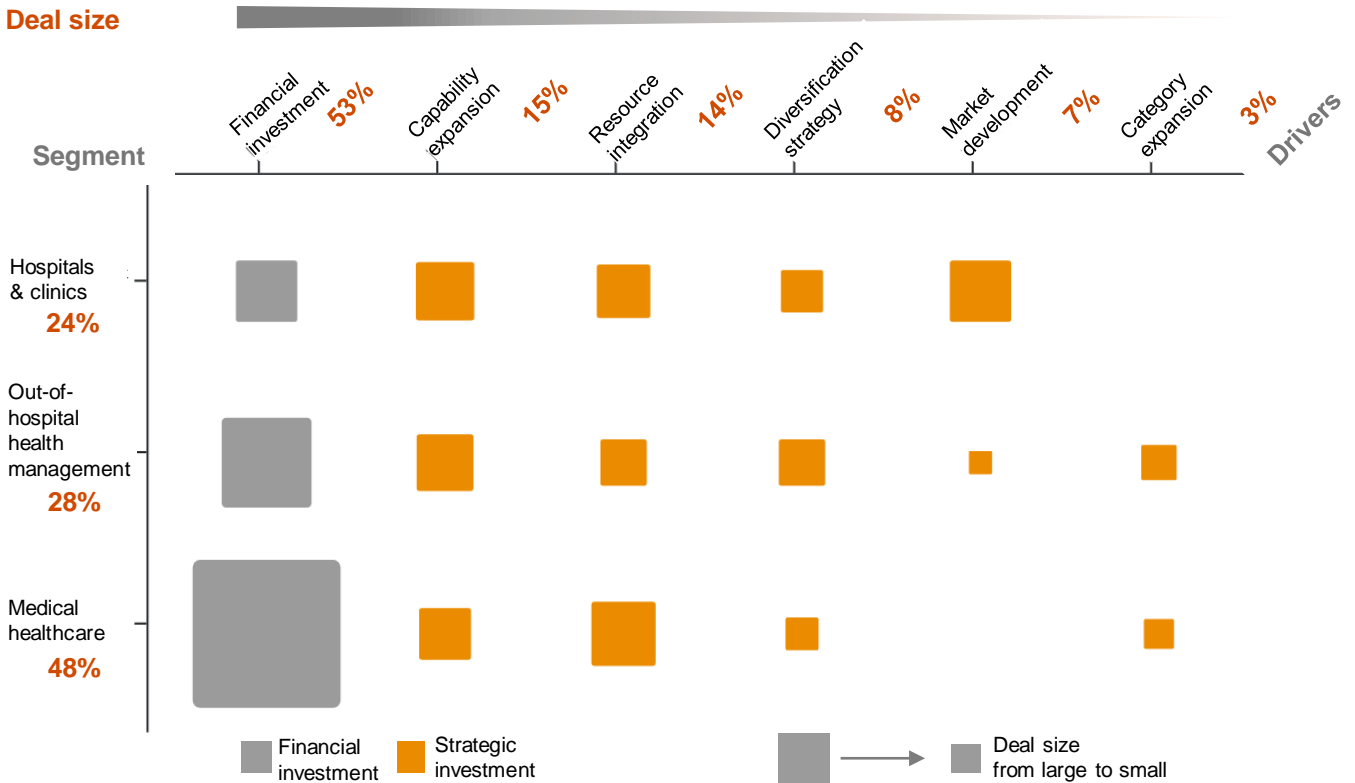
Sources: PE Data, Thomson Reuters, CVSource, public information and PwC analysis

# Deal size and deal drivers in 2022

## Proportion of deals volume in different deal size ranges in 2022



## Deal drivers by segment in healthcare service industry in 2022






Note: 1. The volume of deals with undisclosed deal size accounts for approximately 26% of the total.



# Introduction to deals drivers and credentials in china's healthcare service industry in 2022

## Representative strategic investment deals drivers and viewpoint in 2022<sup>1</sup>

Deal drivers	Credentials	PwC views
 <p><b>Capability expansion</b> Expand, scale, and chain-oriented transactions based on existing service capabilities</p>	<ul style="list-style-type: none"> <li>Jinxin Fertility acquired Jiuzhou and Kunming Hewanjia obstetric hospitals in a bid to expand its capabilities for assisted reproductive services.</li> <li>To establish its brand, Taikang purchased 5 stomatology-specific facilities, including Suzhou Stomatology Hospital.</li> </ul>	<p><b>Strategic investment</b></p> <ul style="list-style-type: none"> <li>The mergers and acquisitions of specialist hospitals and clinics were driven mainly by the demand for the medical chain's potential for expansion and market development.</li> <li>The resource integration of traditional physical treatment and digital treatment deserves attention. Both emerging Internet institutions and traditional institutions are looking to acquire online and offline service capabilities at the same time.</li> <li>The stable and mature out-of-hospital health management segment, such as elderly care, nursing, and medical check-up, mainly specialised in diversification strategy and capability expansion deals. Typical deals include the cross-border expansion of real estate and insurance capital interacting with existing businesses for new growth.</li> </ul>
 <p><b>Resource integration</b> Industry-oriented trading based on resource synergy empowerment and value-added economies of scale</p>	<ul style="list-style-type: none"> <li>Through the acquisition of Amcare, a luxury chain hospital for women and children, ByteDance has successfully expanded its offline medical infrastructure.</li> <li>Denfo Medical Group was purchased by The Frontier Group to aid the blending of online and offline businesses and resources.</li> </ul>	
 <p><b>Market development</b> Industry-oriented trading based on new market channels and application scenarios</p>	<ul style="list-style-type: none"> <li>To put an end to the dwindling market presence, Aier Eye Group purchased more than 20 Specialist ophthalmic hospitals, including Xi 'an Aier.</li> <li>Fortune Care has received funding from China Life Great Pension Fund to facilitate the growth of its online business and the accelerated growth of its national network.</li> </ul>	
 <p><b>Diversification strategy</b> Cross-border transactions oriented towards new business growth points and sustainability</p>	<ul style="list-style-type: none"> <li>Lancy expanded its scope of medical aesthetics with the acquisition of HANJIN.</li> <li>Aiden's medical artificial intelligence and informationisation investments from Haier Capital will help to strengthen the development of the medical industry ecosystem.</li> </ul>	
 <p><b>Category expansion</b> Industry-oriented trading based on new product pipelines and service classes expansion</p>	<ul style="list-style-type: none"> <li>To create medical big data services from text to image, Cowin Health bought DJ Health Union.</li> <li>To improve the product pipeline for pathogen detection, Shanghai Healthcare Capital invested in Hugo Biotech.</li> </ul>	

### Financial investment

- Third-party medical testing is mainly the financial investment of companies specialised in tumour detection and diagnosis.
- Emerging digital health subsectors, including medical AI, telemedicine, digital health management, digital therapy, and other fields, are mainly dominated by financial investors seeking financial returns brought by product commercialisation and scale.

Note: 1. The classification of deal drivers is based on the analysis and summary of historical M&A deals of 50 listed companies in the world by PwC Global Deals Advisory; Strategic investors mainly take corporate strategic investors, investment institutions with industrial background or operational post-investment management ability as the main body to discuss deal drivers. For pure financial investors, deal drivers are classified as financial investment

# Potential deal drivers and investment themes in 2022

## Potential deal drivers and investment themes of China's healthcare service industry in 2022, by segments

		Potential drivers and investment themes <sup>1</sup>				
		1	2	3	4	5
Segment		Market development/ category expansion	Diversification strategy	Capability expansion	Resource integration	Financial investment
<b>Hospitals and clinics</b>						
	Specialised hospitals and clinics	●		●	●	
	General hospitals	●	●	●	●	●
<b>Out-of-hospital health management</b>						
	Third-party medical testing			●	●	
<b>Rehabilitation, elderly care &amp; nursing</b>	Elderly care		●	●		
	Rehabilitation	●			●	
	Nursing care	●		●		
	Medical check-up institution		●	●		
	Psychological counseling			●		●
	Medical aesthetics	●		●	●	●
<b>Digital health</b>						
Medical AI	AI image			●	●	●
	Assisted-diagnosis and treatment		●		●	●
	Digital therapeutics				●	●
Medical informatisation/ big data	Information system			●	●	●
	Big data		●		●	●
	Online diagnosis and treatment			●	●	●
	Personal health data management	●			●	●
	Medical e-commerce/ digital marketing		●	●		●

● Major deal driver for each segment<sup>2</sup>

Note: 1. Strategic investment and financial investment are separated in statistics as financial investment accounts for a significant portion of total capital and affects statistics' average level. 2. If the mentioned proportion reaches the average level of deal drivers in the total volume of the primary industry, it will be indicated in the table. Deal drivers are measured as the ratio of the overall deal drivers in each segment (hospitals and clinics, out-of-hospital health management, and digital health), with the ratio of deal drivers in the total number of segments reaching that ratio.

Sources: PE Data, Thomson Reuters, CVSource, public information and PwC analysis

## Potential deal drivers and investment themes in 2022

**While the medical value of hospitals and clinics is starting to rebound as investors focus on high service quality standards, deals for online digital and smart healthcare services continue to be active, with a focus on patient volume and retention rate**

Digital health continued to dominate in 2022 in the number of transactions, having accounted for nearly 50% of the number of deals throughout the year. These deals are driven by R&D and application of digital technology in the medical field. Diversified and segmented early-stage deals and space for future market growth continue to be attractive to investors. Disclosed deal size in hospitals and clinics remains high, while the polarity between hospital expansion and bail-out coexists. Mega-deals involving the acquisition of several medical institutions at once continue to take place, albeit at a slower pace.

**Artificial intelligence, telemedicine, and big data are drawing major capital interest in digital health care**

Despite a reduction in the total number of deals in 2022, the number of digital healthcare-related deals accounted for the biggest share in the healthcare services sector, making up nearly half of the yearly number of deals. Companies in the subsectors of artificial intelligence, telemedicine, and big data got significant investment, accounting for more than 60% of the overall deal value of the digital healthcare sector. Noteworthy transactions included Haier Capital's investment in AI medical big data startup, Aden Technology, and Philips' cross-industry acquisition of digital information company B-soft. The majority of listed digital health companies have these competencies and are more active in capital markets than other industries.

With the continued policy improvement, the regulation and rules of e-prescription, online drug sales, artificial intelligence, digital therapy, and medical informatisation are becoming more explicit, boosting the application of innovative technologies in medical scenarios and assisting financial investors on the side-lines to firm up their investment confidence. On the other hand, listed digital health companies have created a dominating effect, and newly formed online healthcare platforms have to find ways to occupy the online healthcare market and maintain user stickiness in order to survive. In the short term, their profitability will likely be limited until they find and implement a commercialisation approach.

**The proportion of strategic investors in hospitals and clinics continues to grow**

In terms of investment type, there were more financial investment deals than strategic investment in 2022. Financial investment primarily represented by deals of digital healthcare companies. The proportion of strategic investments in hospitals and clinics has been growing, surpassing 80% for the first time. Market development, capacity expansion, and resource integration are the primary motivations among strategic investors.

Investment institutions are gradually realising that investing in hospitals is a "slow business" with a long deal integration cycle that necessitates business empowerment, thereby driving strategic deals. Compared to financial investors, strategic investors are better equipped and have more experience and confidence in making hospital and clinic investments.

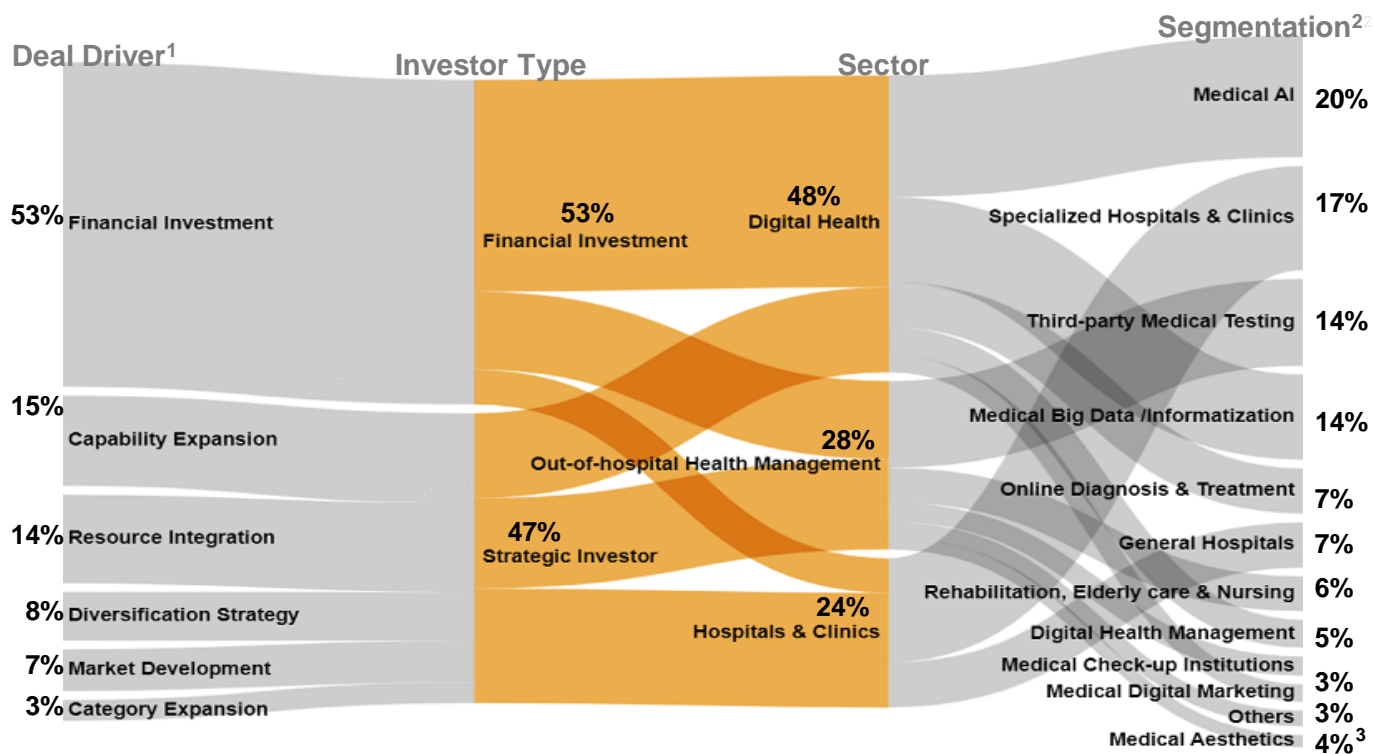
**The average deal value of specialised hospital and clinic deals has dramatically increased**

Hospital and clinic-based healthcare services are less cyclical than out-of-hospital health management and digital health, as seen by the lower volatility of the deals trend. Deal value of top deals increases, which raises the average deal size in hospital and clinics sector. The less volatile deals trend and increasing deal value can be explained by the fact that, for the same substantial amount of capital, large specialty chain groups and integrated healthcare companies prefer to choose acquisition over the more time-consuming self-build strategy to expansion, such as Aier Eye Hospital's "in-vitro incubation-cultivation-acquisition" model of acquisition or Samsung Healthcare Group's direct acquisition of five rehabilitation hospitals. Thus, interest controlling deals in terms of strategic resource consolidation and capacity-expanding boosted the average single deal value of hospital and clinic targets.



# Hotspots in China's Healthcare Service Industry in 2022

## Deal drivers and hot tracks of financial and strategic investors in 2022



Note: 1. The classification of deal drivers is based on PwC Global Deals Advisory's study and description of previous M&A deals involving 50 global listed businesses. Strategic investors primarily discuss transaction drivers with corporate strategic investors, investment institutions with an industrial experience, or operational post-investment management capacity. Deal drivers are regarded as financial investments by pure financial investors; 2. Because specialized hospitals are scattered among the sub-segments, they are regarded as one track to compare with other sub-segments; medical AI includes AI medical imaging, AI detection and diagnosis and robotic systems, and assisted diagnosis systems (CDSS); the others primarily include confinement centers, psychological counseling, and other fields, accounting for 2%; 3. Due to the relatively small deal volume, the other and medical aesthetics institutions are jointly disclosed, accounting for 4%.

# China's healthcare service industry



Outlook for trends and

deals assessment

## 02/ Regional medical centre construction

**Tianjin:** The Ministry and the city plan to co-build eight professional regional medical centres, with the aim of becoming a national medical centre for hematopathy and for traditional Chinese medicine (TCM).

**Sichuan** plans to set up national and regional medical centres, national TCM heritage and innovation centres, provincial and regional medical centres as well as clinical medical research facilities.

**Jiangxi** has been promoting the construction of regional medical centres, pilot programs of inclusive urban medical partnerships and construction of inclusive medical partnerships at county level.

## 04/ Health insurance payment reform

**Guangdong** is taking a series of actions to enhance the medical assistance and critical illness insurance systems, as well as optimise and broaden the direct payment coverage for medical costs spent in various locations.

**Shandong:** A total of 17.5 million and 25 million residents are covered under the long-term care insurance and urban-customised commercial health insurance, respectively, with a claims ratio of 75% for the latter.

**Xinjiang** works to improve the quality and effectiveness of family doctor contractual services and basic public healthcare services, and broaden the pilot program's "visit first, pay later" mechanism.

## 01 / Elderly care and insurance

**Inner Mongolia:** 2,350 town-level elderly care service centres and village-level stations have been newly built across the region. The service functions of 200 rural mutual-aid elderly care institutions have been undergoing expansion and upgrade..

**Zhejiang** equipped 1,000 village-level home-based elderly care centres with intelligent service terminals and added 8,000 beds in cognitive disorder care zones and 6,000 licensed nursing assistants.

## 03/ The growth and depletion of top-notch medical resources

**Guizhou:** The "Guizhou Medical Talent Program" aims to train 300 staff, build 50 county medical sub-centres, maintain rotating training for village doctors and conduct training for local doctors.

**Yunnan:** The province implemented a "managed by province and used by county" mechanism for high-quality medical resources, selecting 101 county hospitals as the first batch of the national "Thousand County Project" and building a dense county medical community across 118 counties and urban regions.

## 05/ Tiered diagnosis and treatment system

**Beijing:** The municipality works to strengthen the development of rural medical teams and the public healthcare system, as well as expand the role of family doctors. It has been investing in community healthcare services and general practitioner training.

**Qinghai** is looking to develop medical partnership at county level for the purpose of enhancing quality and efficiency, and continue to carry out the Qingnan and Around-Qinghai Lake Action of Medical Support.

Note: 1. Based on the original 2023 government work reports issued by 31 provinces, municipalities and autonomous regions, we extracted and sorted out the contents related to medical services from the key tasks, identified and extracted the key themes with the highest frequency, each of which was counted once if it appeared more than once, so as to calculate the proportion of each key theme mentioned in the aforementioned 31 government work reports. Parts of the government work reports were cited here for example.

Source: 2023 government work reports issued by 31 provinces, municipalities and autonomous regions, public information and PwC analysis



With the advancement of high-quality development and the expansion of the healthcare business, technological innovation and service competency have emerged as the primary factors driving investment in medical value. Both In-hospital and out-of-hospital institutions are leveraging diverse digital technologies to achieve cost reduction, efficiency enhancement, and quality improvement, as value-based payment continues to drive innovation and healthcare payment reform. Investors are accelerating the integration of healthcare resources through investments in the digital health ecosystem while developing technological and business-model innovation.

# Deals assessment and outlook by segment

## Investment feasibility assessment by segment

Segment	Investment feasibility assessment			
	1. Incremental space for industry development	2. Profitability and sustainability <sup>1</sup>	3. Investment vitality	4. Investment timing
Hospitals and clinics	●	●	●	●
Out-of-hospital health management	●	●	●	●
Digital health	●	●	●	●

● Positive     ● Prudent     ● Conservative

### Hospital and Clinics : Deals of specialised hospitals and clinics will remain active

#### Key words of deals outlook

- consumer health
- rural regions
- brand power

Deals involving specialised medicine institutions will remain active. The IPO of consumer health clinic chains led by ophthalmology and stomatology will continue to strengthen investor confidence.

Coexisting with the rise of specialist hospitals and clinics is the bailout of comprehensive medical groups. Bailout transactions have a low deal value and investors may gain from favourable investment timing. Specialist institutions, meanwhile, continue to prioritise scaling of business. Strategic investors assist targets with the market penetration into rural regions through acquisitions, thereby progressively raising brand awareness and customer service expertise.

Strategic investors prefer acquisitions over self-built firms as they save time and financial resources, and do away with the need for the specific professional abilities and qualifications. Strategic investments are aimed largely at developing the market, expanding capacity and integrating resources.

### Out-of-hospital Health Management: Deploy capital in advance in rehabilitation, elderly care and medical check-up market.

#### Key words of deals outlook

- early investment
- resource integration
- strong market channel

Since the outbreak of the pandemic, the need of rehabilitation and medical check-ups for health management has increased. On the other hand, demographic shifts towards aging and low fertility have transformed capital's focus to elderly care and assisted reproduction.

The expansion of the senior healthcare sector may benefit from aged care and rehabilitation legislation. Medical firms and foreign investors are seeking strategies to expand their businesses and integrate resources to increase consumer acquisition channels.

Furthermore, deal volume in third-party medical testing centres has decreased compared to that last year, amid investors' concerns about the long-term viability of the nucleic acid testing business in a post-pandemic era.

Source: Public information and PwC analysis



## Digital Health: Facilitate digital and intelligent innovation in healthcare industry

### Key words of deals outlook

- technological advantages
- healthcare ecology
- application and profitability

The implementation of digital technology in the healthcare industry, as well as the integration of resources in the medical ecosystem, show remarkable potential, but profitability and sustainability must be ensured. The precision of diagnosis and treatment, the convenience of health management, service efficiency, and cost control have all improved as a result of digital technology.

AI technology is affecting the entire medical care process and attracting financial investors, with applications ranging from illness prevention, examination and diagnosis, inquiry and surgery, to post-rehabilitation. However, it takes time to explore and examine the feasibility of business models.

In an aim to acquire end users at low costs and retain them, traditional online health consultations and pharmaceutical e-commerce platforms are continuously integrating resources and patient data to achieve synergy and incremental value of medical services. These platforms are undergoing business transformation from providing health consultation to selling medical products.

## PwC assist clients in creating value with insights into deals trends

Deeply involved in healthcare industry, PwC provides integrated, specialist and customised deal and advisory services to leading healthcare institutions and investors, addressing important issues while achieving value creation for clients.

- Based on our integrated transaction advisory service capacity, we provide complete decision-making support for medical institutions and investors at many levels, including pre-investment, investment, and post-investment processes, operational control, and digitalisation.
- We provide one-stop services suited to client demands at various phases of the deal by extensively probing the value chain of healthcare services and the whole investment process. We are devoted to assisting healthcare facilities in achieving their next level of transformation.
- Based on our extensive experience of deals, we are able to identify important issues in business, finance and taxation, human resources, and informatisation to help investors control risks at each stage, and explore growth opportunities and potential value enhancement of the targets.
- With a professional and forward-thinking perspective, we fully explore investment opportunities in each segment of the medical services industry, conduct market scale and competition pattern analysis, set up a transaction plan for investors that fits their own development strategic intent, and escort enterprises to develop new businesses and enter new markets.
- With leading practices of information technology and big data analysis capabilities, we build informatisation blueprints for medical institutions, create standardised business processes and quality control systems, assist healthcare institutions in realising digital transformation, lead institutions' growth through innovation, and achieve cost reduction and efficiency enhancement.





## Data methodology and disclaimers

Statistics from earlier news releases may not match the data in this report and press release. There are three main explanations for this: first the PE Data, CVSource and Thomson Reuters regularly update their historical data when deals are finalised or completed. PwC excludes some transactions that are essentially not a transfer of control but more like an internal corporate restructuring.

### Deals included

- 
- |   |  |
|---|--|
| • Investments in listed and unlisted companies (minimum 5% ownership)                         | • Spin-off of assets (including spin-off of wholly-owned subsidiaries through listing) |
| • Change of control resulting from acquisitions of listed and unlisted companies              | • Reverse takeover and special purpose acquisition company (SPAC) M&A deals            |
| • Leveraged buyouts, management buyouts, management share sales                               | • Corporate restructuring, reorganisation, bankruptcy dispositions and auctions        |
| • Business or asset divestitures resulting in a change of control at the parent company level | • Directed share issuance and repurchase for non-actual controllers                    |
| • Joint venture company buyout as a whole   | • Capital increase by non-controlling shareholders/new shareholders                    |
| • Business merger   | • Transfer of shares by agreement  |
| • Joint venture arrangement   | • Tracking Stock in the course of corporate equity restructuring                       |
| • Re-injection of capital   | • IPO <sup>1</sup>   |
| • Solicitation of acquisitions  | • De-listing and privatisation deals of listed companies                               |
- 

### Deals excluded

- 
- |  |  |
|--|--|
| • Non-medical service industry deals   | • Investment in new construction projects (including investment in hospital greenfield projects) |
| • Rumoured but unannounced deals   | • Deals with unfair value  |
| • Options to acquire additional equity interests offered in connection with the acquisition of 100% equity interests | • Related party transactions under the same control  |
| • Purchase of trademark usage rights   | • Share repurchase by controlling shareholders   |
| • Transfer of assets   | • Capital increase by controlling shareholders   |
| • Open market repurchase or cancellation of shares of listed companies beyond the company privatisation              | • Capital raising in fund market   |
| • Balance sheet restructuring or internal restructuring  | • Mutual fund share purchase   |
- 

Note: 1. IPO trading are not included in the overall deal size and volume, and are presented and discussed separately in the listing section

# Contact us



## Leon Qian

Healthcare Service Industry Lead Partner, PwC China

Deals Strategy Lead Partner, PwC China

+86 (10) 6533 2940

leon.qian@cn.pwc.com



## Jun Jin

Deals Strategy Partner, PwC China

+86 (21) 2323 3263

jun.jin@cn.pwc.com



## Jennifer Li

Deals Strategy Partner, PwC China

+86 (10) 6533 2680

jennifer.ys.li@cn.pwc.com

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