

Crossing borders and building transformative companies

LYFE Capital, based in Shanghai with a US office in Palo Alto, California, is a healthcare investment firm that targets biopharma, medtech, healthcare service and digital health companies.

The Chinese healthcare market is a huge and growing opportunity for both domestic and global companies, with an undeniable growth trend. A 2017 McKinsey report published by BioCentury highlights this expansion, pointing specifically to surging private capital in the healthcare sector¹. Venture capital investment tripled in 2016 and was expected to double again in 2017, mirroring growth in the healthcare market. There are almost 800 innovative molecules currently in development, with approximately 10% in phase 3.

Founded in 2015, LYFE Capital is a healthcare investment firm dedicated to advancing Sino-Pacific healthcare interests. Its inaugural fund closed in 2015, and was primarily focused on China, while also looking towards Sino-Pacific collaborations. The second fund seeks to expand on LYFE Capital's Fund I strategy, in addition to investment in Western companies.

Founding partner James Zhao (Fig. 1) looks at it as "creating opportunities for companies in China as well as the rest of the world in order to build mutually successful and beneficial cross-border partnerships."

Mixing global and local

LYFE Capital's first fund was created to support biotechnology, pharmaceutical, medical device and diagnostics companies with an already established product base that required more capital to accelerate their growth in Greater China.

"Because healthcare is not confined to any single country, we look for companies that have a technology platform with global potential. Visionary leadership is also essential to be able to capture and make the most of opportunities," said Zhao. "We also want to see a well-differentiated pipeline, with products that have potential for licensing or global partnership."

The team at LYFE Capital aims to use its expertise to build up its portfolio companies by providing capital and supporting growth, both in Greater China and beyond.

"We are encouraging Chinese innovation in a worldwide market," said Zhao. "Chinese companies are looking for new markets, along with access to support, resources and new pipeline products via technology transfer, licensing and collaboration."

Not only does LYFE Capital want to help Chinese companies grow and seek markets both in China and beyond, it also wants to encourage companies outside the country's borders to bring new and innovative drugs into the growing Chinese domestic market.

To this end, LYFE Capital has closed nine cross-border deal transactions for its portfolio companies



Fig. 1 | James Zhao, founding partner at LYFE Capital.

and has made three investments in the US, all of which have a strong strategic fit with the Chinese market. Its expanding integrated team includes people in Shanghai, Palo Alto and San Diego.

"The US is the global central hub of innovation, and China offers access to the second-largest market worldwide, measured by either population or market size," said Zhao. "Chinese companies are looking for codevelopment opportunities for their products, while both US and European companies are looking for regulatory and market opportunities in China—it is a two-way street."

Building the fund

As of May 2017, the LYFE Capital Fund II was oversubscribed, exceeding the initial target to reach \$288.8 million plus RMB900 million, a total of around \$420 million. This brings the total capital under management to approximately \$720 million, with investors across the globe, ranging from the US and Europe to Australia and Asia.

"With our Fund I, we have seen astounding growth prospects and new synergies between China and the US. Our second fund will seek to capture and create opportunities to advance the two largest healthcare markets in the world," said Zhao.

Expertise from Greater China but with an international focus

The Chinese market can be a daunting one for companies outside the region, as there are cultural and legal differences that can have a profound impact on business. While there are other funds that claim to support cross-border development, Zhao is confident that LYFE Capital has the experience and resources that this complex process truly needs.

"There are numerous hurdles to success in this field," explains Zhao. "First and foremost, the fund has to be deployable globally, with local knowledge and a proven track record. We have offices in both China and the US, along with experience in both local and global markets. We understand the cultural issues related to business deals in China. Even though we are a relatively young fund, by acting as an integrated global team we bring value to companies across China, the US and Europe."

Until recently, China's regulatory authority, the China Food and Drug Administration (CFDA), was one of those hurdles; however, recently things are beginning to shift.

"The CFDA and US FDA have become a lot more closely aligned in recent years. Just 2 years ago there was still a lot of room for improvement at the CFDA, but since then there has been a lot of positive change. For example, data submitted to the US FDA will now be recognized by the CFDA. This will speed up Chinese approval for drugs that are already on the US market," said Zhao. "We are poised on the brink of a major Chinese regulatory authority transformation."

The changes to the CFDA will make the Chinese market more attractive for companies based outside China, as they will no longer have to conduct late-stage studies specifically for the Chinese population.

1. McKinsey & Company. *Building Bridges to Innovation*. (McKinsey & Company, 2017).

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