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Chinese Investors Have Money, Want Biotech and Don’t Fear Trump

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- Desire to invest in U.S. overcomes worries about trade war
- Sale of Valeant unit to Sanpower Group is latest deal

What Trump's Trade War with China Would Look Like

Despite tough talk by President-elect Donald Trump about a possible trade war, Chinese investors are hungry for U.S. biotech and they’ve got money to spend.

In the latest purchase following a record 2016 for Chinese health-care takeovers, Nanjing-based Sanpower Group Co., said Tuesday it would buy a cancer treatment business from Valeant Pharmaceuticals International Inc. for $820 million.

Sanpower’s interest is far from unique: Chinese venture capitalists and individual investors are looking as well. Last Sunday morning, in a hotel ballroom a short hop from the San Francisco airport, about 250 jet-lagged potential dealmakers and American biotech executives could be heard chatting in Mandarin and English. They were attending a get-together hosted by boutique investment firm CTIC Capital, hoping to forge alliances before the start of the industry’s biggest annual gathering, the J.P. Morgan Healthcare Conference, at the Westin St. Francis in San Francisco, which runs this week.

China has a "huge pile of money" and a lot of new venture capital firms, but a limited number of homegrown drug startups to invest in, said Kevin Chen, a partner at the China Fund of Menlo Park, California-based Sequoia Capital. The fund, which spends about a quarter of its $3 billion under management on health care, last year started founding U.S.-based startups with Chinese ties, helping bridge the gap for investors.

Buying Spree

U.S. investors are beginning to notice. The J.P. Morgan conference has an entire track dedicated to China-based health-care companies at the conference. And last year, Chinese firms announced or completed about $8 billion in cross-border acquisitions, according to data compiled by Bloomberg.

"The gate is open and it won't be closed again," said Lan Huang, chief executive officer of BeyondSpring Pharmaceuticals Inc., a maker of cancer drugs with headquarters in New York and offices in Dalian, China. Her company, which plans to go public, has been meeting with investors from both countries.

The conference comes at a pivotal moment for the two nations.
Trump's rhetoric toward China has some investors worrying about a chilling effect on business. He has promised tariffs on Chinese goods, and China has said it's prepared to step up its scrutiny of U.S. companies.

"If there's no clear sign that it's safe to invest in the U.S. and that innovation will import to China, that's going to hurt investors,'' said Jennifer Hu, a partner at China-based Qiming Ventures Partners. “They could go to Australia or Canada for that innovation instead.’’

Qiming, which spends about 40 percent of its $2.7 billion in funds on health care, is currently raising money for its first fund to be dedicated to U.S. health investments. Up to now, Qiming had focused its investments on Chinese companies.

Yet unless there’s “dramatic change" in U.S. policy, Sequoia’s Chen sees Chinese investors continuing to push money toward U.S. biotechs.

Out of Reach

Reasons include a shortage of Chinese companies whose financials pencil out. Many that have gone public are “unicorns” worth more than $1 billion -- valuations that may be out of reach, said Yanhong Lin, founder and managing partner of CTIC, which is based in Palo Alto, California, and has offices in Shanghai and Nanjing.

While Chinese regulators are becoming more amenable to approving homegrown drugs, the U.S. is still perceived as the place to go for growth.

“The U.S. still represents the highest technology,” said Huang, the BeyondSpring CEO. As Chinese investors “increasingly are trying to think globally, this meeting is their opportunity.”

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