Hua Medicine: A China Startup Led by Industry Veterans

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Previous | Next

“Right now, the time is perfect for a China pharma startup,” declared Li Chen, PhD, CEO and Co-founder of brand-new Hua Medicine in an exclusive interview with ChinaBio® Today. One arm of the Hua Medicine business plan is to in-license drugs from the US and Europe that it will develop and commercialize in China; another arm is to discover new medicines with its internal programs for patients worldwide.

Government support in China has helped to create what Chen calls an ideal “ecosystem” for pharma startups. Outsiders can’t comprehend the difference this support makes, he believes. To make this point, Chen uses his own experience. In 2004, he returned to China to set up an R&D lab for Roche in Shanghai. His US colleagues, who didn’t believe he could conduct pharmaceutical research in the PRC, thought he was crazy. “But they didn’t understand that there are many opportunities in China. As long as the government decides they want to do something and the people are there to do it, it will happen,” he declares.

That support has led to great changes in China pharma. “In the last ten years, things have changed dramatically, more than I would have imagined possible,” said Chen. Government support created the ferment that fostered the sea turtle phenomenon - China pharma execs with western training and pharma experience who returned to work in China. Returnees have been a big part of the change, and they have helped China achieve important milestones.

One of those China pharma milestones was the founding, in 2000, of the CRO WuXi PharmaTech (NYSE: WX), aimed at serving an international list of pharma clients. WuXi was started by Dr. Ge Li, who is also a Co-Founder of Hua Medicine. “Beginning with WuXi and similar innovative CROs, we can now do in China what people are doing in the US,” declared Chen. “Returnees have set up R&D centers for Roche, Pfizer and other MNCs. Part of the ecosystem is the government and part is the returnee phenomenon.”

With both elements in place, China has created an advantageous environment for pharma startups. Hence, Chen and Li collaborated on founding Hua Medicine.

Hua Medicine

At first blush, Hua Medicine may sound like many other China startups - there have been any number of new pharmas that announced an in-licensing business plan. In a disarming move, Chen admits the superficial similarity: “As a matter of fact, Hua is not that different from other companies,” he said. Most pharma CEOs wouldn’t make that statement. But Chen is comfortable with Hua’s business plan, so he can nonchalantly say something most executives would avoid.

Chen’s confidence is well-founded. He knows Hua can easily distinguish itself from the competition. For one thing, its founders are distinguished China pharma veterans. Chen worked for Roche for 18 years. In 2004, he was put in charge of establishing an R&D operation for Roche in Shanghai, and he served as Chief Science Officer of the operation until a year ago. As mentioned earlier, the other founder is Dr. Ge Li of CRO WuXi PharmaTech, a central figure in China’s biopharma scene. Dr. Li is a person who confers immense credibility on Hua Medicine. Both men are well-known members of China’s pharma sector, and they are respected by their peers.

Added to that experience, Hua Medicine is backed by $50 million in capital from the first rank of US and China venture capital companies: Arch Venture Partners, Venrock, Fidelity Biosciences, Fidelity Ventures Asia (China) and Shanghai Alliance Investment Ltd. WuXi PharmaTech’s investor arm also participated.

“The Board is a unique group of people with vision. These are investors who understand the life science sector and know how to build a company,” said Chen. He believes the collective experience of the investors help differentiate Hua Medicine from other in-licensing companies.

According to Chen, pharmas consider three basic criteria when choosing a China licensing partner:

• Knowledge of China’s regulatory network and the way business is done in China; in other words, a full understanding of the local environment.
• Understanding the disease, which Chen believes will distinguish Hua when it brings novel drugs to market.
• Financial backing that is sufficient and that brings well-connected investors to the company’s board.

Because of Hua’s ability in these three areas, the company has had access to many potential drug candidates, and it can be picky about which ones it chooses to in-license. “We have looked at one-hundred-plus programs in the last year, with our portfolio advisory board helping to do the reviews. We have picked five programs, and the board likes them as well,” said Chen.

For the past year, Chen has been laying the groundwork for Hua. But now he says it’s time to change gears. “After one year in the planning stage, we have come to the action stage,” he declared.

Hua expects to announce the first program in Q4 of this year and a second one in Q1 of 2012, which will focus on neurodegenerative disorders and other major disease areas with unmet medical needs in China. Today, Hua Medicine has officially unveiled itself as a company with a press release, though active participants in China’s pharmaceutical industry have known about Hua for months.

Hua’s Business Model

Hua Medicine wants to bring "breakthrough" innovative drugs from the West to China. It is looking for 2-3 candidates that have already been approved in the West or are ready to enter the clinic, and another 2-3 earlier-stage molecules that must undergo pre-clinical development.

At this stage, Hua Medicine, with only eight employees, looks a lot like a virtual company. That is impression is reinforced by the presence of WuXi's Dr. Li on the board, making it clear the company has an intimate relationship with China CROs. Both facts are the hallmarks of a virtual model, but Chen says the label doesn't fit.

"I wouldn't call Hua a virtual company," he said, "although much of our work will be done with networked companies on a fee-for-service basis. I expect Hua will have a 60-80 member team while we are in the development phase. This team will work with CROs in what I call a Collaborative Innovation Model."

That was the model that Roche used while Chen was head of China R&D at the multinational pharma. "It combines the standard, knowledge, and experiences from pharma with the technology expertise and operational efficiency from CROs and academic collaborators, in an integrated project team-like setting. And in time, our partners will bring in new knowledge, skills and technology to the game which pharma may not have access to." Because it worked for him at Roche, Chen wants to use the same model again at Hua.

Furthermore, Hua plans to commercialize its drugs, rather than using an outside firm to do the work, which is not a usual component of virtual companies. "My belief is that the goal of drug discovery is to bring drugs to patients," he said. "Without that goal you can do a lot of things that seem to help, but they don't really benefit the patient. What we want to do is develop and distribute drugs to the patient."

Once the company begins to commercialize its products, Chen estimates the staff at Hua will grow to 300-400, though that won't happen until around four years from now, because it takes that long to obtain SFDA approval for a drug even if its already approved elsewhere. Here's Hua's timeline for a drug already approved outside of China:

• The first thing Hua must do is apply for Clinical Trial Approval (which is the same as the IND in the US). That takes 10-16 months, a period that is longer than the US equivalent;
• Next comes a 30-patient Phase I/PK study and a Phase III trial with at least 200 patients in each arm. These two require another 2 years (no Phase II trials are required for already approved drugs);
• Then Hua can apply for an Imported Drug License from the SFDA, which may deliberate for as long as a year or more.

All in all, this process adds up to four years. Thus, if Hua announces an in-licensing later this year, it will be 2015-16 before the company can launch the drugs in China.

Government Support

Most China pharma startups receive a lot of help from various levels of government and the life science parks. To get going, Hua Medicine raised $3 million in private seed money.

"I guess we're getting governmental support," Chen admits, somewhat reluctantly, "though we don't have any direct grants yet. But we are sitting in our Zhangjiang Hi-Tech Park office, and they gave us rental subsidies and helped us set it up."

Money is important, of course, but Chen makes the point that the general encouragement from officials may be just as critical. "We are applying for programs and talking to officials about applying for government grants. People want a company like Hua to be successful. Officials come to us and say 'Here are the opportunities; why don't you apply for them?' "

It becomes a matter of what Chen calls "the network." Because officials want a company like Hua Medicine to succeed, the company has ready access to the people who work in regulation or tax or some other governmental agency. The encouragement, the facilitating of solutions, is just as important as the money, he believes.

The China Opportunity

Because of the opportunity in China, Hua Medicine is a different kind of company than a US pharma startup, says Chen. In the US, scientists/entrepreneurs start with some science or a molecule and use it to attract capital. Instead of a drug candidate, Hua has its "visionary" investors. "They believe in China and the opportunity for pharma here. "So we start with the "vision money" and the top people, then look to find the best assets that we will use to build the greatest company," said Chen.

For Hua Medicine, it is the best of times: the environment in China is perfect for a startup. Add to that a first-class leadership team and premier institutional investors, and it creates a bright future for Hua Medicine.

Disclosure: none.

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Back to top Previous | Next