Efung Capital
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Efung Capital: investing in growing companies

Technology-focused life science fund Efung Capital is riding the wave of China's increase in medical investment and demand for healthcare products and services.

The Chinese healthcare sector is booming. Economic progress and an aging population are combining to create strong demand for healthcare products and services, turning China into the second largest and fastest growing market. The growth has attracted entrepreneurs and scientists, many of whom are returning to China after working in the West.

These factors have created a virtuous feedback loop that is driving the Chinese market higher and higher. Attracted by a pharmaceutical market that grew by more than 100% from 2011 to 2016 and strong government support, Chinese professionals are coming back to the country and setting up innovative medical startups using experience gained in the West. These businesses are developing globally significant products, positioning themselves to enter both Chinese and Western markets.

The size of the market opportunities in front of these businesses has led to an influx of capital, some of which is deployed by other returnees who help portfolio companies grow locally and provide a link to Western healthcare companies. The tripling of Chinese healthcare investment from 2012 to 2016 has enabled local startups to advance quickly, which has further boosted the pharmaceutical market. At the same time, Chinese groups such as Efung Capital have emerged as major players in global venture capital markets.

Efung emerges on the global stage

Efung is contributing to these trends. Jinqiao Zhu officially founded Efung in 2007, but by then he was already well on the way to demonstrating his ability to pick winners. Zhu invested in Chinese medical equipment company Mindray in 2001. Seven years later, Zhu realized a 52-times return on that investment. The Mindray return showed that Zhu could make money by investing in the Chinese life science sector.

That led Efung to focus on life sciences in 2012 and raise its first fund dedicated to the sector in 2014. The following year, Efung stepped up its interest in overseas investments, which led to the raising of its first ex-China fund in 2017. Along the way, Efung partnered with and/or invested with Huawei, Shenzhen Capital Group, Maxim Group LLC, Loop Capital Markets, and other renowned Chinese and Western organizations.

Efung's rise covered a period in which Chinese innovators established themselves on the global stage and Western companies increasingly viewed the country as a source of breakthrough products and capital, rather than just a market for their own programs. Those events gave Efung a tailwind, but the Chinese market remains challenging.

"The fundamental problem in China's medical health industry is the imbalance between the growing demand for medical care and the absence of technical resources," Zhu said. "At the end of 2016, the total market value of Chinese A-share pharmaceutical enterprises was only equal to the combined market value of Pfizer and Roche, which was mainly due to the backwardness of industrial technology and innovation."

Fig. 1 | A snapshot of Efung's portfolio companies.

> **"We systematically analyze the team, product risk, competition, and market opportunity associated with each potential investment to maximize the chance of success**
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> Weimin Xiao, CSO

These factors encouraged Efung to focus on the potential of companies' core products, instead of their short-term sales and profits. In recent years, Zhu and his colleagues have applied this ethos to more than 1,500 innovative drug and device companies. Efung went on to track 100 of these companies and perform detailed due diligence on 20 of the businesses. In the end, Efung will invest in the 6–10 most promising projects of the 1,500 assessed initially.

"Our core value is that we can miss many but cannot make a wrong investment," Zhu said.

Building a team to pick winners

To ensure that it makes the right investments, Efung has recruited professionals with PhDs and experience in life science research, business, and investment gained working in China and the West.

"We systematically analyze the team, product risk, competition, and market opportunity associated with each potential investment to maximize the chance of success," said Weimin Xiao, CSO at Efung.

The fund's goal is to invest in companies that will grow quickly over the next five years and go public through an IPO within that period. That goal has led Efung to invest mainly in drug developers with assets in phase 2 or 3 and mature medical device manufacturers that have already grown to a certain scale.

Among its local investments, Efung lists Chipscreen Bioscience, a cancer biotech involved in a landmark Chinese drug approval and outlicensing deal; long-acting HIV drug pioneer Frontier Biotech; and Ascentage Pharma, which has multiple clinical stage new drugs. In the West, Efung has backed Jeffrey Kindler's pain biotech Centrexion Therapeutics, anti-infective firm Aridis Pharmaceuticals, and epigenetic specialist Resverlogix (**Fig. 1**).

These biotechs are poised to disrupt major indications, thereby addressing unmet needs and further validating Efung's investment strategy. With more and more Chinese companies developing novel products and Western startups increasingly looking east for capital and support, Efung and its team are well set to continue backing winners for years to come.

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