

## China: Uncovering opportunities within the medical beauty industry



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**China is poised to become the world's largest medical aesthetic service market in 2021. As a booming live streaming economy heightens the desire to look attractive, the growing acceptance of aesthetic treatments by younger consumers results in a longer consumer life cycle. This phenomenon potentially creates attractive investment opportunities in the industry's unique ecosystem of filler manufacturers, internet platforms, consumer finance apps and aesthetic service providers.**

China has become one of the fastest growing medical aesthetic service markets in the world, ranked second in terms of market size in 2017, and poised to become the world's largest market in 2021. According to Frost & Sullivan, the total revenues of China's medical aesthetic services industry reached USD17.7 billion in 2018, growing at a compounded average growth rate (CAGR) of 23.6% from 2014. Revenues are forecasted to reach USD52.4 billion by 2023.

Medical aesthetic services are elective medical procedures that specialise in improving cosmetic

appearances and can be divided into surgical and non-surgical treatments. Surgical medical aesthetic services are often referred to as plastic surgeries while non-surgical medical aesthetic services can include injection procedures (e.g. Botulinum toxin<sup>1</sup> (botox) and Hyaluronic Acid<sup>2</sup> (HA) injections), laser as well as other energy-based skin treatments (e.g. Thermage).

### **GROWING BEAUTY ENTHUSIASTS**

Compared to developed countries such as the US where anti-aging treatments are more popular, younger consumers make up most of the demand in China as the mainland's rising social media usage and booming live streaming economy have heightened the desire to look young and attractive. Exposure to medical aesthetic treatment at a younger age, when consumers are more prone to form entrenched habits, potentially creates a longer consumer life cycle and ongoing demand.

China's rising disposable income should also help lift penetration rates. Per capita disposable income in China increased from USD2,933 in 2014 to USD4,106 in 2018, a CAGR of 8.8%<sup>3</sup>.

Source: <sup>1</sup>Botulinum toxin (Botox) is a neurotoxic protein produced by the bacterium *Clostridium botulinum* and related species. It prevents the release of the neurotransmitter acetylcholine from axon endings at the neuromuscular junction, thus causing flaccid paralysis. It is used to reverse the effects of aging. <sup>2</sup>Hyaluronic Acid is a substance that is naturally present in the human body and believed to help reduce facial wrinkles. <sup>3</sup>Frost & Sullivan.

Growth is expected to continue at a CAGR of 7.7% from 2018 to 2023. Meanwhile, about 12 per 1000 people in China has undergone medical aesthetic treatments in 2017. This is low compared to numbers for South Korea (80.4), the US (50.1), Brazil (43.6) and Japan (27.0). China's significantly lower penetration rate highlights its tremendous growth potential, particularly in the lower tier cities.

### NON-SURGICAL PROCEDURES OFFER A LIFT

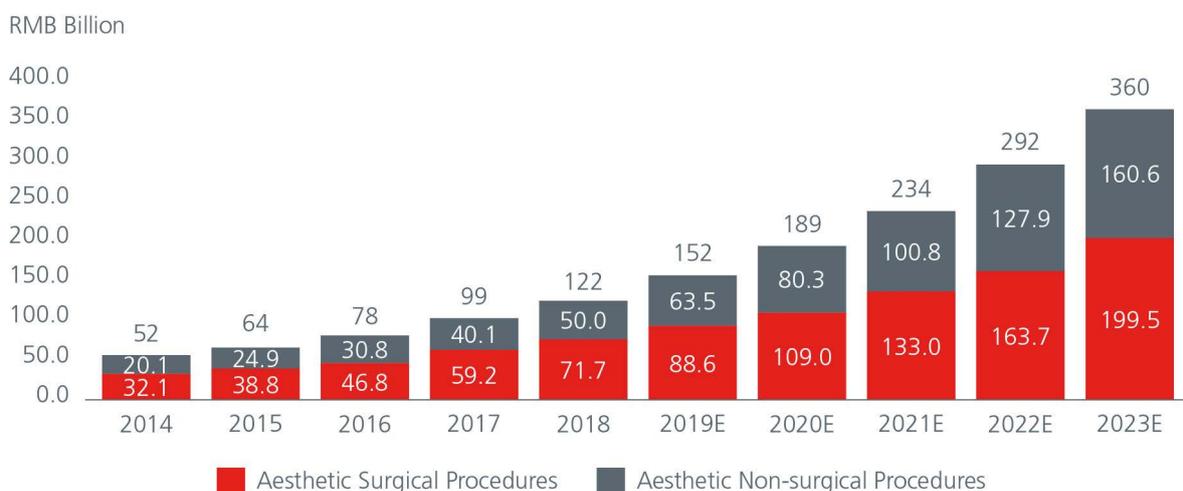
In China, while surgical aesthetic procedures currently account for a larger share of medical aesthetic services, the share of non-surgical aesthetic procedures is expected to grow at a faster rate as the range of treatments increases. See Fig. 1. The demand for non-surgical aesthetic procedures is also boosted by the perceived lower risks and shorter recovery times.

Botox and HA injections currently make up the bulk of the non-surgical procedures in China. In 1998, researchers from the Shandong Pharmaceutical Research Institute began domestic production

of HA derma fillers via the fermentation process. Today, China has a number of local HA derma filler manufacturers which are established and based in Shandong, some of which had sought funding by listing on the Chinese stock market in recent years. Currently, China's HA derma filler market is dominated by foreign brands such as LG (Korea), Allergan (US), Humedix (Korea) and Q-Med (Switzerland) while the top three domestic brands are Haohai, Imeik and Bloomage.

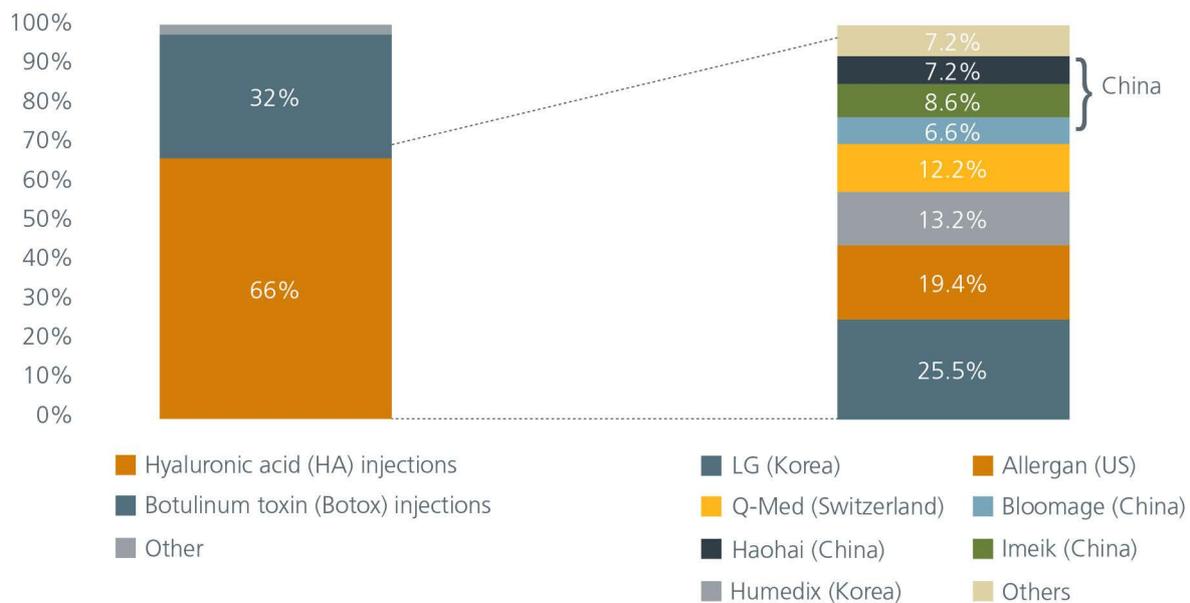
According to Frost & Sullivan, domestic brands of cosmetic injectables in China grew rapidly at a CAGR of +32% during 2014-2018, higher than the +19% CAGR of imported brands. Among the 15 manufacturers (eight domestic and seven imported) of injectable HA approved by China's National Medical Products Administration (NMPA), the top 3 domestic brands secured 42.4% market share in terms of sales volume in 2018, but only 23.4% share in terms of sales revenue. We believe that quality domestic players can gain further market share from imported brands by improving on their product range, quality and pricing.

**Fig. 1: Growth of China's medical aesthetic service market**



Source: Frost & Sullivan, 2019.

**Fig. 2: Breakdown of China's Hyaluronic Acid filler market (2020E)**



Source: Eastspring Investments. Imeik. Percentages are calculated based on sales revenue (RMB billion).

China's botox market is currently smaller than its HA market – contrary to what is typically seen in other countries. This is due to China's lengthy approval process where it can take up to eight years for botox products to be approved. Currently, the only two approved botox products in China – Hengli and Allergan, make up a RMB3 billion market. In October 2020, a botox product produced by Hugel, a biopharmaceutical company in South Korea, was approved for sale in China, making it South Korea's first botox product to be approved by China's NMPA. We believe that China's botox market has the potential to become a RMB10 billion market in the near future. Meanwhile with a number of imported and domestically produced products still at the approval stage, a leading domestic player has yet to emerge in this space.

### OPPORTUNITIES WITHIN THE BEAUTY ECOSYSTEM

With a greater focus on customer acquisition, publicity, better service quality, improved brand recognition and an enhanced safety record, an increasing number of Chinese consumers are viewing medical aesthetic procedures as a natural extension and upgrade of traditional non-medical wellness procedures.

There are various avenues for investors to gain exposure to China's growing medical aesthetics market. Local manufacturers of HA injectables that are able to deliver more effective treatments that meet the increasingly segmented market demand may present compelling opportunities. HA manufacturers have been able to produce

differentiated products that offer shaping, filling or lifting effects. Cross-linked HA for example, makes HA more durable and firmer in consistency. Although incumbents may have an early mover's advantage, late entrants can seize market share through product innovation. At the point of writing, Poly-L-lactic acid-based filling products<sup>4</sup> as well as emulsifier-based fat dissolving injections have been recently introduced in China. Hence investors will need to stay abreast of market developments given the rapidly evolving market dynamics. Besides having an exciting pipeline of products, consumer education is also important. As such, manufacturers that are willing to invest in an experienced sales force would be able to improve their engagement with the critical network of medical institutions and physician groups and hence have a competitive edge.

The asymmetry of information and large number of aesthetics service providers have created a role for internet platforms that offer customer reviews and specialised information. Consumer finance applications targeted at helping consumers pay for medical aesthetics treatments have also emerged. Over time, consolidation of China's aesthetics services providers may also create interesting downstream investment opportunities.

**This is the second of six articles in Eastspring's 2021 Asian Expert Series. In this new series which focuses on China, our investment teams offer insights into the opportunities and challenges facing China as it rolls out its 14th Five-Year Plan.**

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Source: <sup>4</sup>Poly-L-lactic acid is an absorbable- semi-permanent injectable implant that can be used to restore volume and stimulate collagen formation.

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