



GCC Pharmaceutical Industry

March 31, 2013



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“The pharma sector in Qatar is poised for growth over the next few years in line with the growth trend in GCC, which is the wider market segment. A major driver to this will be the projected growth in the economy. On the regulatory side, the recent legislation proposed by the Supreme Health Council towards deregulation of pharmaceutical imports to encourage free market competition is a step in the right direction. The industry is also looking forward to the proposed national health insurance program, as this is perceived to be a catalyst to growth of the pharma industry in Qatar.”

Sheikh Faisal Bin Qassim Al Thani

Chairman

Aamal Company (Ebn Sina Pharmacy)

“The GCC pharmaceutical sector has been growing steadily along with the general uptrend within the region. The pharmaceutical sector is highly regulated in nature and hence comes with its own limitations with regards to registration and entry into new markets. However, the recent trend of increased use of generics and the growth in medical insurance penetration will benefit the pharmaceutical industry and our outlook for the next few years is very positive.”

Sujay Ajit Hamlai

Managing Director

Oman Pharmaceutical Products Co.

“In our view the GCC pharmaceutical sector is growing at a double digit rate while the generics space is growing even faster; especially when compared to Europe. We believe that patent expiries and the absence of development of new molecules bode well for generics manufacturers. Further, trends such as a rise in chronic diseases, government policies relating to mandatory health insurance, medical tourism, etc. drive the growth in this sector. We also believe that the government of the UAE has an open policy which is attractive to companies wanting to set up here. However, we foresee government regulations getting tighter to be more compliant with international laws. In our viewpoint, generics will comprise a significant part of the pharmaceutical sector in the GCC and hence, alliances with local manufacturers become very important for any global company looking to enter this sector. Our outlook for the GCC pharmaceutical sector is positive and we see tremendous potential for domestic manufacturing in the GCC.”

Jamil Akhtar

CEO

Globalpharma Company



“The GCC pharmaceutical industry has seen tremendous growth over the last few years especially in the generics space. As one of the few pharmaceutical manufacturers in the Middle East, we have established ourselves as a name to be trusted. The recent patent expiries have benefitted generics manufacturers like us. Government regulations regarding pricing do affect manufacturers to a certain extent, however, with demand for drugs on the rise, we believe that the outlook for the pharmaceutical sector is extremely positive. Our product range cover a wide number of countries and we continue to explore opportunities to penetrate more markets.”

Raghu Sarma

Manager (Investments & Corporate Planning)

Gulf Pharmaceutical Industries (Julphar)

“Though the GCC pharmaceutical sector is still in an emerging phase, we believe that it is poised for a period of healthy growth. Healthcare is one of the priorities for the governments of the GCC countries and favorable policies are critical to the growth of the sector. The governments are highly supportive of the pharmaceutical sector and are providing the necessary incentives to encourage local drug manufacturing and reduce the dependence on imports. We see strong growth in the generics space and more alliances between multinational companies and domestic manufacturers. Increased domestic production, foreign investments, and consumption of generics are likely to support the market’s evolution.”

Rohit Walia

Executive Vice Chairman and CEO

Alpen Capital Group



1. Executive Summary

Pharmaceutical market in the Gulf Cooperation Council (GCC) has witnessed considerable progress over the years due to favorable demographic and economic factors, and strong government support for healthcare. Despite the progress, the pharmaceutical sector in the Gulf is still in an emerging phase, and drug manufacturing is at a relatively nascent stage due to a number of obstacles. A vast majority of pharmaceuticals consumed in the region are branded and imported. However, the governments have been trying to increase local drug manufacturing and reduce reliance on imports by encouraging joint ventures and licensing deals with multinational pharmaceutical companies. Use of generic drugs is also being promoted to lower the excessively high drug prices and healthcare burden on the public sector.

1.1. Scope of the Report

This report is an update of Alpen Capital's 2010 GCC Pharmaceutical Industry report. It focuses on the structure and current state of pharmaceutical industry to offer readers a broad perspective of the market in each Gulf country. The report assesses growth potential of the industry by examining a variety of driving forces, in conjunction with the noteworthy trends and key challenges. The study also provides a long-term industry outlook and proposes certain measures that could help attract higher foreign investments, bring regional drug prices closer to the world average, and aid the overall market growth. Lastly, the report profiles some of leading pharmaceutical companies in the region.

1.2. Key Growth Drivers

- Population in the Gulf is anticipated to expand from 37.5 million in 2007 to nearly 50 million in 2017. High levels of urbanization and a strong expatriate presence also support pharmaceutical sales growth in the region.
- Population aged 60 years and above is projected to increase from 1.9 million in 2012 to 17.8 million in 2050. The elderly population forms a big slice of the overall pharmaceutical spending in the GCC, and the expected growth in its size augurs well for the sector.
- Sedentary lifestyles and increasing life expectancy have led to spread of chronic ailments. Such diseases tend to persist throughout the life of patients, thus entailing higher medical expenditure than sporadic forms of illnesses.
- Growing income levels and resultantly a higher spending power of people have improved the quality of life and their overall ability to spend on medicines. General health awareness among the residents has also increased.
- The GCC governments are providing a number of incentives to boost domestic pharmaceutical production to reduce the reliance on imports.
- Compulsory medical insurance schemes for locals and expatriates have either been enacted or are in the process of being launched across the GCC. Increased insurance penetration will make healthcare more affordable and provide beneficial for the pharmaceutical industry.
- Regional drug makers are benefitting by making generic versions of drugs whose patents have expired. Newer opportunities are likely to emerge as patents on products with worldwide sales of US\$ 223 billion expire in the next six years.

1.3. Key Challenges

- Pharmaceutical manufacturers in the GCC face several hurdles such as capital intensive nature of operations, small domestic market size, difficulty in raising adequate funds, and shortage of knowledge and skilled manpower.



- Regional drug prices are significantly higher than the world average, which may prove detrimental for the overall progress and long-term growth of the industry in real terms. Further, prices vary significantly within the region.
- The Gulf countries are highly dependent on imports of manufacturing equipment, pharmaceutical ingredients, and medicines for end use. This makes the industry vulnerable to supply-related problems and fluctuations in foreign exchange rates.
- A significant portion of residents still prefer to seek treatment for serious ailments abroad, proving a huge drain on government finances and negatively impacting the domestic sector.
- Governments' stringent control and policies such as regulated profit margins pose a challenge to distributors.
- Pharmaceutical companies face severe shortage of local personnel, thus restricting industry development and increasing reliance on expatriate workforce.
- The problem of fake medicines is prevalent in the Gulf countries as it is in other parts of the world.

1.4. Trends

- Although branded pharmaceuticals will continue to dominate the market in the foreseeable future due to high brand preference of the consumers, generics are expected to narrow the volume gap.
- Government measures to boost local drug manufacturing and penetration of health insurance are forecast to increase the level of privatization in the GCC pharmaceutical sector.
- Government efforts to achieve unification of pharmaceutical prices, which have gained momentum over the recent months, are likely to prove effective in regulating inconsistencies in the future.
- The global financial crisis and regional debt problems induced European drug manufacturers to focus on the relatively emerging Gulf market. As a result, between 2008 and 2011, pharmaceutical imports from the European Union (EU) into the GCC expanded at a CAGR of 18.3%.
- A number of Gulf countries are seeking investments from Indian pharmaceutical companies to benefit from their experience in the generics segment. Signing of the impending free trade agreement between the GCC and India will further open up the market for Indian companies.
- The biotechnology parks and free zones established in the GCC play a major role in bringing the much-needed foreign investments and technology required to build local capabilities for manufacturing of patented pharmaceutical products.
- The region may witness a lower disproportion between inbound and outbound medical tourists going forward. A growing medical tourism sector will open up a new growth avenue for the pharmaceutical industry.
- The GCC countries agreed to adopt the Common Technical Document (CTD) framework in 2009 and have since progressively moved towards its implementation.

The GCC pharmaceutical market is projected to expand at a CAGR of 6%-8% between 2010 and 2020, with the pace of industry expansion in Qatar and Bahrain projected to outpace the regional growth. Increased domestic production, foreign investments, and consumption of generics are likely to support the market's evolution.



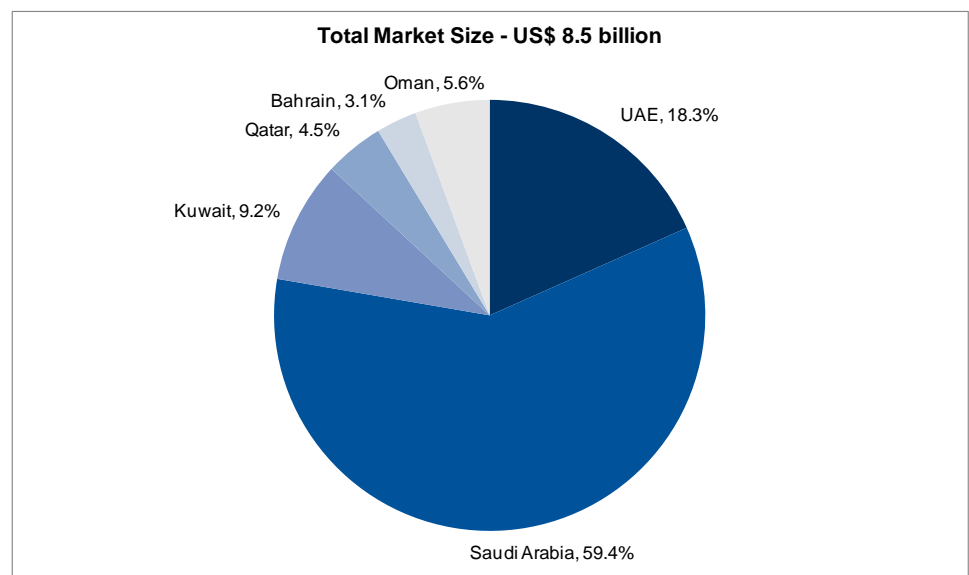
2. GCC Pharmaceutical Industry Overview

2.1 GCC Pharmaceutical Market Overview

Total pharmaceutical market size in the GCC was estimated at US\$ 8.5 billion in 2012

Pharmaceutical market in the GCC has witnessed considerable progress over the years on the back of favorable demographic and economic factors, alongside strong government support for healthcare. Total market size was estimated at US\$ 8.5 billion in 2012, compared to US\$ 7.7 billion in the previous year¹. It accounts for less than 1% of the global pharmaceutical sector, which was valued at US\$ 955.5 billion in 2011². Given a sizeable population base and relatively active domestic pharmaceutical manufacturing segment, Saudi Arabia was the largest market contributing 59.4% to the Gulf's overall pharmaceutical industry size in 2012 (see Exhibit 1).

Exhibit 1: Composition of Pharmaceutical Market in the GCC



Source: Business Monitor International, Alpen Capital

Average pharmaceutical sales as a percentage of GDP was 0.6% in the GCC, lower than that in many countries in the MENA and elsewhere

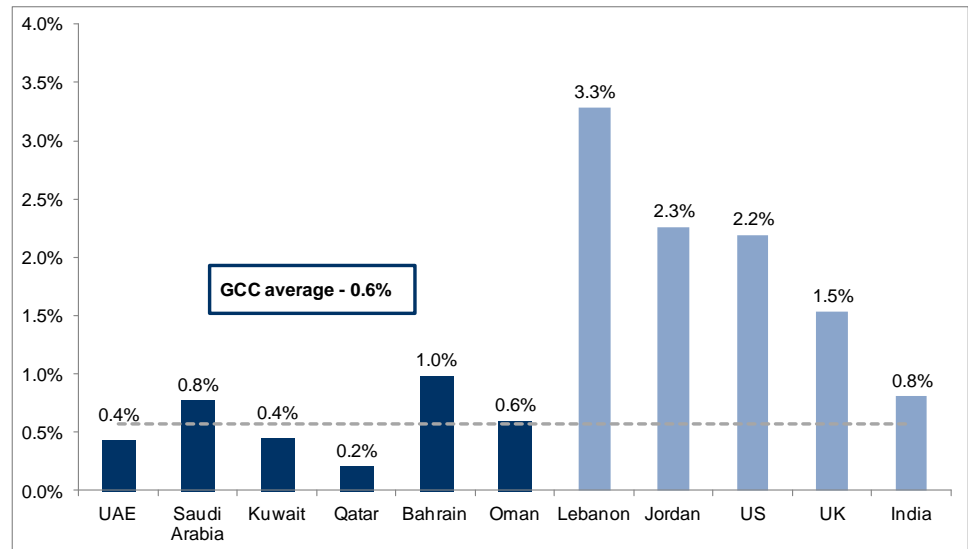
Pharmaceutical sales as a percentage of Gross Domestic Product (GDP) in the GCC is lower than that in many countries in the Middle East and North Africa (MENA), and elsewhere. Average pharmaceutical sales as a percentage of GDP in the GCC was 0.6% in 2012, compared to 3.3% in Lebanon, 2.2% in the US, and 0.8% in India (see Exhibit 2). This points towards untapped growth opportunities for companies as healthcare development and awareness in the region are gradually gaining traction.

¹ According to the latest country-wise market size provided in Business Monitor International's pharmaceuticals & healthcare reports

² Source: Business Monitor International; "IMS Health Market Prognosis", May 2012



Exhibit 2: Pharmaceutical Sales as a % of GDP in the GCC and Other Economies



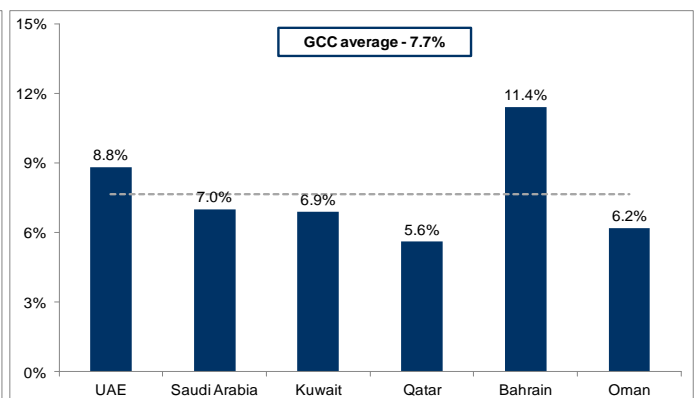
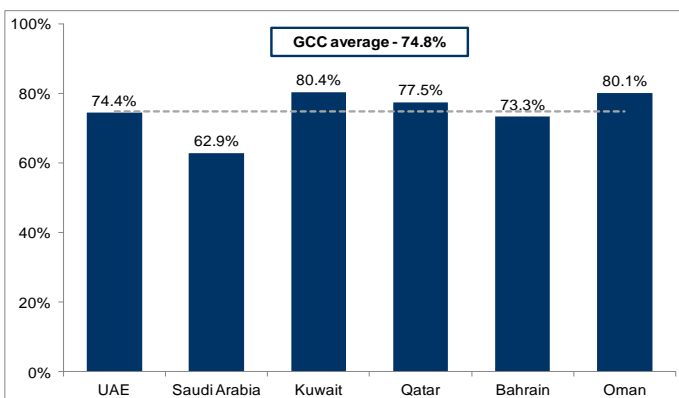
Source: International Monetary Fund (World Economic Outlook, October 2012), Business Monitor International

The regional governments allocate between 6%-12% of their annual budgets on healthcare spending

The GCC governments are the chief sources of healthcare funding in the region, with a consolidated contribution of approximately 70% (see Exhibit 3). High budget surplus due to a booming hydrocarbons sector and strong economic growth have provided the governments sufficient room to allocate considerable funds towards providing a high standard of healthcare for the citizens. The regional governments allocate between 6%-12% of their annual budgets on healthcare spending (see Exhibit 4). However, in order to gradually reduce the pressure on public funds, governments across the GCC are actively working towards increasing private sector involvement in the healthcare industry.

Exhibit 3: General Government Expenditure on Health as a % of Total Health Expenditure (2010)

Exhibit 4: General Government Expenditure on Health as a % of Total Government Expenditure (2010)



Source: World Health Organization

Drug manufacturing in the Gulf is at a relatively nascent stage

The pharmaceutical sector is still an emerging industry in the GCC, and drug manufacturing is at a relatively nascent stage due to limited focus on developing indigenous production capabilities, restricted allocation of funds towards research and development, and shortage of skilled manpower. Currently, the region has less than 40 companies engaged in drug making. With limited progress achieved so far in drug



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Around 80% of pharmaceuticals consumed in the region are imported

The GCC pharmaceutical market is dominated by patented drugs, with generics having only about a 5%-6% market share

A World Health Organization study found prices of pharmaceuticals in the region to be 13 times higher compared to the global standard

research and manufacturing, imported drugs dominate pharmaceutical sales in the Gulf. Around 80% of pharmaceuticals consumed in the region are imported. However, the GCC governments have been trying to increase local drug manufacturing and reduce reliance on imports by encouraging joint ventures and licensing deals with multinational pharmaceutical companies.

A vast majority of manufacturing plants in the GCC are located in Saudi Arabia. Major indigenous pharmaceutical producers in the region include the Saudi Arabia-based Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO) and the UAE-based Gulf Pharmaceutical Industries (Julphar). Leading multinational companies like GlaxoSmithKline and Abbott Laboratories have also set up manufacturing units in the region.

The GCC pharmaceutical market is dominated by patented drugs, with generics having only about a 5%-6% market share³. Since the domestic manufacturers primarily focus on generic drugs, they have managed to capture only a small portion of the overall market value. However, non-GCC markets like Iraq, Lebanon, Afghanistan, Egypt, Libya, and Yemen are major sales avenues for many of the local manufacturers who typically export a significant percentage of their annual production. Nevertheless, the region ranks low in the context of capabilities within the overall pharmaceutical industry value chain, and particularly with respect to research and discovery of innovative products.

Foreign drug manufacturers are required to sell their products in a GCC country only through local importing and distribution companies registered with the health ministry. Entry of foreign investors in the pharmaceutical wholesale and distribution segment is restricted. Hence, local distributors play a larger role in the market than the domestic manufacturers. Large distributors operate their own warehousing facilities and distribution networks for delivering products to pharmacies, hospitals & clinics, and government agencies. These companies own exclusive import and country-wide distribution rights for supplying products from a number of regional and foreign manufacturers. Some of the distributors are vertically integrated and have their own pharmacy operations for selling medicines directly to the end-users. Leading names in the private pharmaceutical distribution segment in the region include the UAE-based Pharmatrade, Banaja Holdings and Tamer Group in Saudi Arabia, Kuwait-based Al Mojil Drug Company, Al Baker Trading Establishment and Ebn Sina Medical in Qatar, and Bahrain Pharmacy & General Store.

The pharmaceutical sector in each GCC country is mainly regulated by its respective health ministry. In countries like Saudi Arabia, independent agencies such as the Saudi Food and Drug Authority have been established to partially take up a part of the regulatory role of the health ministry. Apart from regulating investments and drug registration, these ministries and other government agencies also administer prices of pharmaceutical products. However, despite government control, drug prices in the Gulf are among the highest in the world. A World Health Organization study found prices of pharmaceuticals in the region to be 13 times higher compared to the global standard⁴. Moreover, prices vary across the region with medicines being more expensive in the UAE and Qatar, compared to Saudi Arabia. All the GCC governments are gradually consolidating the regulations related to the pharmaceutical industry with the goal of having a centralized registration process, free movement of drugs, and standardization of prices across the region⁵.

³ Source: "Opportunities for Pharmaceutical Manufacturers in GCC/MENA", PRTM Management Consultants, April 11, 2011

⁴ Source: "Strategic Analysis of GCC Pharmaceutical Market Overview and Outlook", Frost & Sullivan, August 31, 2012

⁵ Source: "Saudi Arabia Pharmaceuticals & Healthcare Report Q3 2010", Business Monitor International

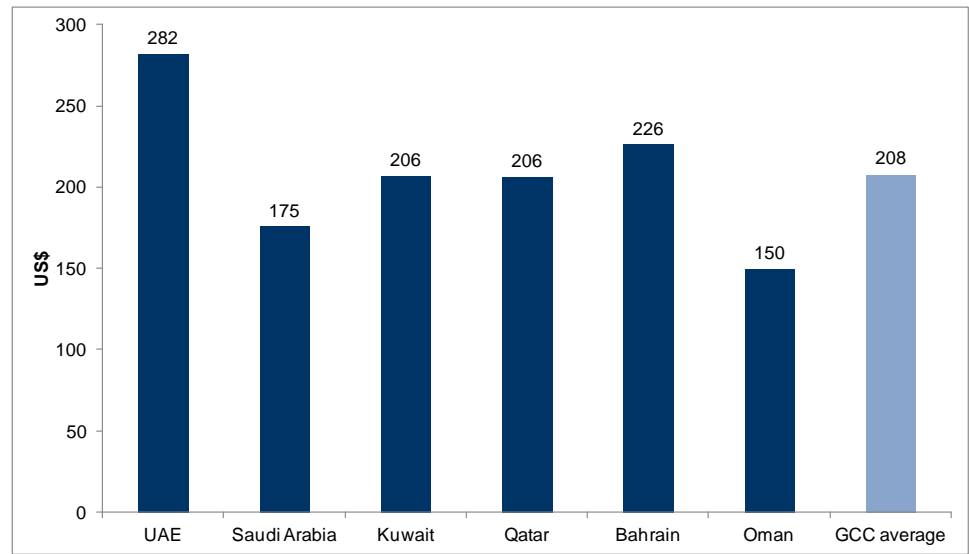


The UAE has the highest annual sales per capita on medicines in the GCC

2.2 The UAE Pharmaceutical Market

The UAE has the highest annual sales per capita on medicines in the GCC. In 2012, per capita sales on medicines in the emirate was estimated at US\$ 282, compared to the GCC average of US\$ 208⁶ (see Exhibit 5). However, in absolute terms, the UAE pharmaceutical industry is second-largest in the Gulf. Total value of the market was estimated at US\$ 1.6 billion in 2012, having grown close to 3% from US\$ 1.5 billion in 2011⁷.

Exhibit 5: Pharmaceutical Sales Per Capita in the GCC (2012)



Source: International Monetary Fund (World Economic Outlook, October 2012), Business Monitor International

Domestic production represents approximately 15% of the drugs sold locally in the UAE

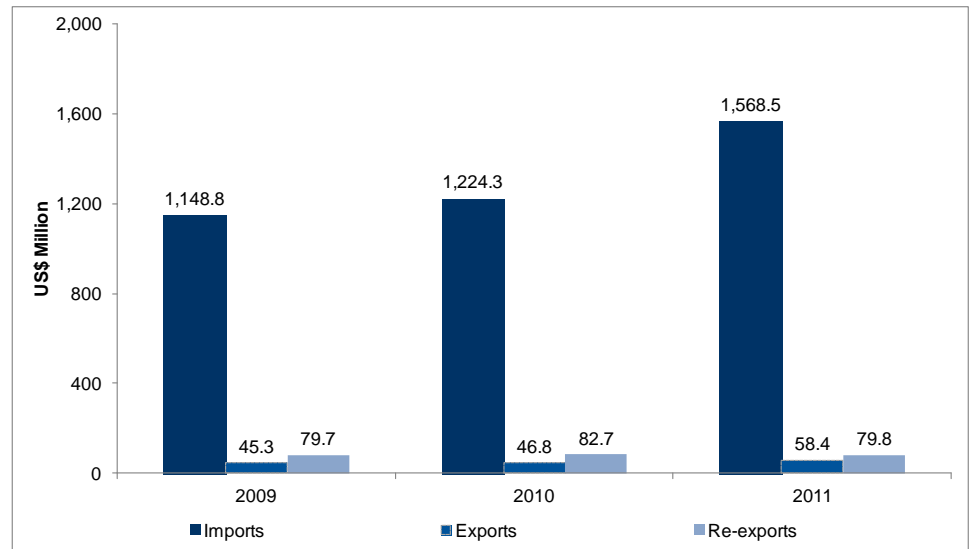
Like all its GCC counterparts, the UAE market remains highly dependent on imports with domestic production representing approximately 15% of the total drugs sold locally. Imports of pharmaceutical products in the country expanded at a CAGR of 16.8% between 2009 and 2011 to US\$ 1.6 billion, while the export growth was slightly slower at 13.5% during the same period (see Exhibit 6). Although a small part of the imports of the UAE is re-exported, the net imports figure in 2011 was only marginally below the actual sales on pharmaceuticals for the year, indicating the market's heavy dependence on imported medicines.

⁶ Source: International Monetary Fund, Business Monitor International

⁷ Source: "United Arab Emirates Pharmaceuticals & Healthcare Report", Business Monitor International, February 8, 2013



Exhibit 6: Foreign Trade of Pharmaceutical Products in the UAE



Source: National Bureau of Statistics, UAE

Note: Figures reported in local currency have been converted into US\$ using annual average exchange rates available on Bloomberg

Consumption of generic drugs is around 15%-20% of overall pharmaceutical sales in the UAE

Due to the high income levels of the resident population in general, consumers exhibit a strong preference for branded pharmaceutical products. Inclination towards branded products is so strong in the market that these drugs continue to experience significant demand even after patent expiry and availability of generic substitutes. This can be mainly attributed to influence of multinational manufacturers on the physicians (many of whom are expatriates and hence more familiar with branded drugs) and a common belief that expensive and imported branded products are superior to locally-manufactured generics. Consumption of generic drugs is around 15%-20% of overall pharmaceutical sales in the UAE.

Prescription drugs account for ~80% of sales in the UAE market and these are largely imported

Around 90 international pharmaceutical companies have a presence in the UAE⁸. However, manufacturing is undertaken by around eight companies⁹, of which Julphar, Neopharma, Globalpharma, and Medpharma are the major domestic players. These drug makers, primarily engaged in the manufacturing of generics, export a large proportion of their production to the MENA and South East Asian countries.

Pharmaceutical dispensing in the UAE is strictly regulated and purchase of prescription drugs requires a valid prescription. This has led to doctors having a large say in the pharmaceutical retail segment, and their familiarity with leading brands have benefitted the multinational branded drug manufacturers. Presently, prescription drugs account for a majority (~80%) of sales in the market and these are largely imported. Due to a high reliance on imported branded drugs and people's preference towards them, pharmaceutical prices in the UAE are among the highest in the Middle East region. Despite the government's attempts to reduce market prices through an average 20% price cut on 565 drugs announced in June 2011 and a price reduction on another 115 drugs announced in November 2011, prices remained high in 2012.

⁸ Source: "UAE's pharma sector to make significant investments in innovative drugs", The Gulf Today, December 11, 2012

⁹ Source: "GCC Pharmaceutical Industry", QNB Capital, April 11, 2011



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In February 2013, the UAE government approved a new system which would reduce prices of 6,619 types of medicines by 1% to 40%

Saudi Arabia is the largest pharmaceutical market in the GCC, valued at US\$ 5.1 billion in 2012

There are around 15-20 drug manufacturers in Saudi Arabia including indigenous companies and subsidiaries of multinational giants

Foreign companies have abstained from setting up plants in the kingdom despite several incentives

On February 2, 2013, the UAE government approved a new system that would help in reducing the price gap of medicines in the UAE with that in other GCC countries, and ensuring availability of alternative medication for chronic and other diseases. Adoption of the new system would reduce prices of 6,619 types of medicines by 1% to 40%. The objective is to create an integrated mechanism for unifying prices of drugs imported into the private sector by adjusting profit margins between pharmacies and agents, and working on restricting price rises due to foreign currency fluctuations. The system is expected to have a sizeable impact on all the distributors and pharmacies in the industry value chain in the UAE.

In order to reduce its dependence on imported drugs, lower general price levels, and stimulate the domestic manufacturing segment, the government is encouraging consumption of generic drugs by implementing several measures. These include curtailing advertising and banning direct marketing of drugs, and the Health Authority of Abu Dhabi's stipulation that doctors must prescribe drugs only by their molecular name. Additionally, setting up of domestic manufacturing plants is also being incentivized.

2.3 The Saudi Arabian Pharmaceutical Market

Saudi Arabia is the largest pharmaceutical market in the GCC, with a size of US\$ 5.1 billion in 2012¹⁰, primarily on account of its large consumer base. Sales per capita in the year amounted to US\$ 175. The market thrives on provision of free medical and healthcare services by the government to its citizens. Around 35% of the value of pharmaceuticals sold is purchased by the government¹¹. However, compulsory health insurance for expatriates, who reside in the kingdom in large numbers, and healthy personal income of locals mean that private sector's contribution and out-of-pocket expenditure is also high. Pharmaceutical expenses of expatriates are covered under insurance policies maintained by their employers, while locals are not reluctant to purchase expensive medication even if they have to directly bear the costs. A robust hydrocarbons sector and strong government support make the Saudi Arabian pharmaceutical industry resilient to major cyclical fluctuations. The kingdom relies substantially on imports of pharmaceutical products, primarily from Europe, to meet local demand as a result of insufficient domestic drug production and lack of indigenous research capabilities.

Saudi Arabia has the largest manufacturing segment in the Gulf, however, most of the local production is destined for the export markets. Domestic production accounts for around 15% of the overall supply of pharmaceuticals in the market. There are around 15-20 pharmaceutical manufacturers operating in the kingdom including indigenous companies and subsidiaries of multinational pharmaceutical giants. Leading local players in the kingdom include SPIMACO, Jamjoom Pharma, Tabuk Pharmaceutical Manufacturing, and Jazeera Pharmaceutical Industries. The locally-grown companies primarily make generic drugs, while some also undertake under-license manufacturing on behalf of multinational pharmaceutical companies for supply in the domestic and regional markets. Certain multinational branded drug makers like GlaxoSmithKline, Daiichi Sankyo Co., and Astellas Pharma have entered into joint ventures with domestic players to establish production units in Saudi Arabia. However, there are only a handful of such instances. Most companies still prefer to enter the market through the trade route in spite of lengthy and strict imported drug approval processes.

Government regulation in pricing and shortage of qualified workforce are sighted as the main reasons for foreign investors to abstain from setting up manufacturing plants in Saudi

¹⁰ Source: "Saudi Arabia Pharmaceuticals & Healthcare Report", Business Monitor International, February 8, 2013

¹¹ Source: Healthcare industry report, Economic Intelligence Unit, August 2012

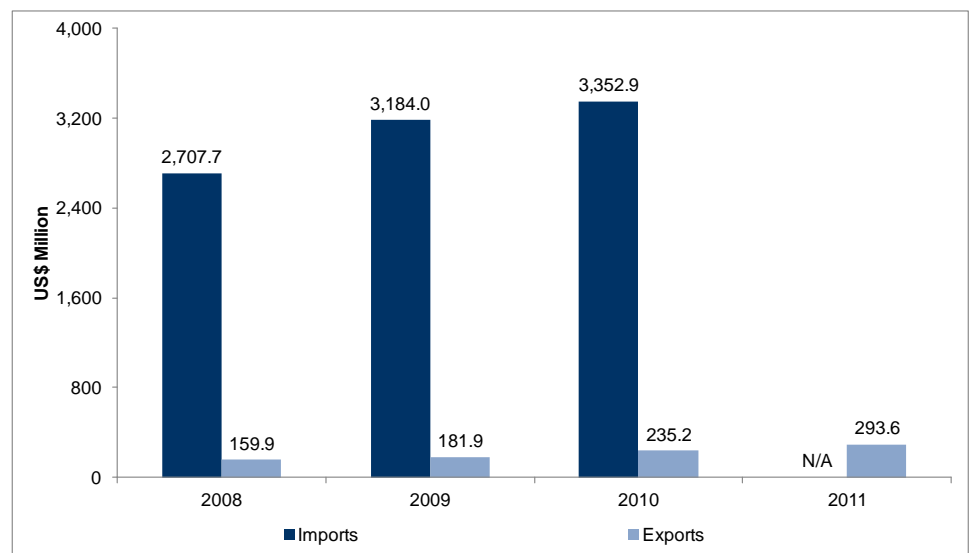


Saudi Arabia's pharmaceutical exports are miniscule in comparison to the imports

Arabia. This is despite several incentives like low tax rates, funding facilities, and quicker drug registration offered to boost local manufacturing. Government regulation in pricing includes a law passed in 2008 stipulating prices of drugs registered at least five years ago to fall 1% each year. In 2007, the government founded National Unified Procurement Company for Medical Supplies as the exclusive supplier of medicines and medical appliances to government institutions in order to eliminate inefficiencies in procurement and help in reducing prices.

Saudi Arabia's pharmaceutical exports are miniscule in comparison to the imports (see Exhibit 7). However, exports during the recent years have expanded at a robust pace (CAGR of 21.3% between 2008 and 2010 and a further 24.8% year-on-year (y-o-y) growth in 2011). In comparison, imports of pharmaceutical products grew moderately at a CAGR of 11.3% between 2008 and 2010, while the figure for 2011 is not available.

Exhibit 7: Foreign Trade of Pharmaceutical Products in Saudi Arabia



Source: Central Department of Statistics and Information, Saudi Arabia

Notes: 1) Figures reported in local currency have been converted into US\$ using annual average exchange rates available on Bloomberg

2) Imports data for 2011 is not available

Generics account for less than 20% of the Saudi Arabian pharmaceutical market

Generics, all of which are typically manufactured at the local plants, account for less than 20% of the Saudi Arabian pharmaceutical market. The Saudi population has a strong preference for imported and branded drugs and economic well-being permits them to be able to afford the costlier version of drugs available. However, the government is focused on promoting local production of generic medication in order to curtail the increasing healthcare spending and alleviate unemployment among the citizens. The government encourages establishment of more locally-grown drug manufacturers through measures such as facilitating faster entry of locally-manufactured medicines into the market and requiring only imported pharmaceutical to be tested before registration.

The influence of drug manufacturers on physicians is limited in Saudi Arabia

Prescription drugs account for over 85% of the total pharmaceutical sales in Saudi Arabia. However, several types of prescription-only medicines can be bought without a prescription. As a result, the influence of drug manufacturers on physicians and resultantly on consumers is limited unlike in the UAE. Consumers tend to prefer well-known international brands as they are perceived to be of superior quality. Growth of OTC drugs such as painkillers, digestives, and cold remedies, which constitute a small portion of the



Pharmacies in the kingdom are becoming increasingly modernized and offer a range of products

More than three-fourths of the pharmaceuticals consumed in Kuwait are imported

Kuwait's pharmaceutical market expanded by 6.0% y-o-y to US\$ 781 million in 2012

Although the industry is closely monitored by the government, medicine prices in Kuwait are high

overall market, is curtailed due to the Saudi Food and Drug Authority's regulations on advertising and prohibition on their sales in convenience stores and supermarkets.

Retail sales of pharmaceuticals through close to 4,000 pharmacies constitute 88% of the total market in Saudi Arabia. Pharmacies in the kingdom are becoming increasingly modernized and offer a range of products including medicines, personal hygiene and beauty products, infant care products, and nutraceuticals. They are increasingly adopting western retail formats to induce impulse purchases and also offer value-added services like weight and blood pressure measurements. Laws prohibiting sales of OTC pharmaceuticals in other retail outlets have also benefitted the growth of pharmacies in Saudi Arabia, although the sector faces intense shortage of trained local workforce. Investments are also restricted in the segment as regulations disallow non-GCC entities to own pharmacies in the kingdom.

2.4 The Kuwaiti Pharmaceutical Market

A booming oil and gas industry and limited diversification into other sectors have significantly constrained the manufacturing activities in Kuwait. As a result, domestic production of medicines in the country is low. More than three-fourths of the pharmaceuticals consumed are imported, including branded and generic drugs. Kuwait had only two companies active in drug making in 2010, mainly in the generics segment. They may also carry production under licensing arrangements with reputed multinational companies. The most prominent drug maker is the Kuwait Saudi Pharmaceutical Industries Company, which currently operates under a joint venture between Kuwaiti and Saudi partners, as the company's name suggests.

Widespread prevalence of chronic diseases (see "High Prevalence of Lifestyle-Related Ailments" under Section 3), growing population, high per capita income, and limited indigenous manufacturing capabilities have presented a number of growth opportunities for multinational and regional pharmaceutical companies. In line with the general trend observed in the GCC, Kuwaiti population is also highly inclined towards branded drugs. The country's pharmaceutical market was valued at US\$ 781 million in 2012, having grown by 6.0% y-o-y¹². At US\$ 206, pharmaceutical sales per capita was broadly in line with the GCC average. Kuwait's pharmaceutical industry is half the size of the UAE market. However, high public spending on healthcare and a free of cost provision of medical services for the locals have supported demand for pharmaceuticals in the country.

Due to a general rise in health awareness among the population over the years, the Kuwaiti pharmaceutical industry has experienced an increasing demand for OTC medication and pseudo-pharmaceuticals such as vitamins and supplements, weight loss formulations, and smoking cessation aids. OTC drugs can be purchased from multiple locations like pharmacies, supermarkets, specialist outlets, and convenience stores.

Although the industry is closely monitored by the government, medicine prices in Kuwait are high. In 2010, the health ministry announced its intention of cutting prices of 5,000 essential drugs by 5% and reviewing prices across the market every six months. Doctors and patients generally prefer branded products, which has stretched the government funding system. As a result, the government, which is the single largest buyer of pharmaceuticals, is keen to increase domestic production of generic medicines through participation of the private sector and foreign companies. Government hospitals and clinics are being increasingly urged to use generic drugs.

¹² Source: "Kuwait Pharmaceuticals & Healthcare Report", Business Monitor International, February 26, 2013



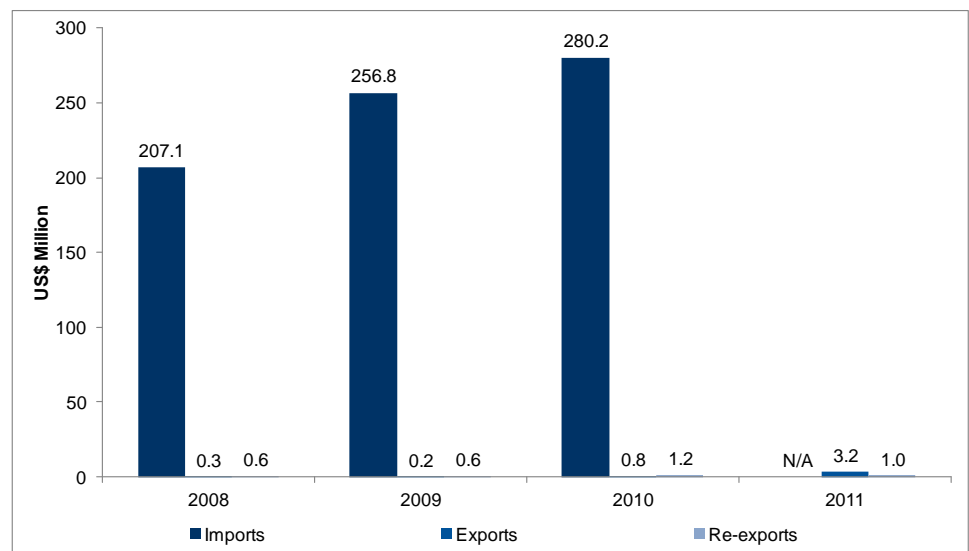
The Qatari market represented less than 5% of the GCC pharmaceutical sector in 2012

2.5 The Qatari Pharmaceutical Market

The industry was valued at US\$ 379 million in 2012, representing less than 5% of the overall pharmaceutical market in the GCC¹³. Pharmaceutical sales per capita was US\$ 206 in the year, same as that in Kuwait. Almost the entire drug consumption in the country is composed of imported products and local manufacturing activities have been very limited so far. High market prices coupled with a strong ability to spend have made the country's consumers among the highest healthcare spenders in the MENA.

Qatar imported US\$ 280.2 million worth of pharmaceutical products in 2010, translating into an annual average growth of 16.3% from 2008 (see Exhibit 8). The import data for 2011 is not available. Although pharmaceutical exports have multiplied 10 times between 2008 and 2011, the export figure is negligible in comparison to the imports.

Exhibit 8: Foreign Trade of Pharmaceutical Products in Qatar



Source: Qatar Statistics Authority

Notes: 1) Figures reported in local currency have been converted into US\$ using annual average exchange rates available on Bloomberg

2) Imports data for 2011 is not available

A recent media report suggested that Qatar would have three new drug manufacturers by 2013

Qatar Pharma, which began production in 2009, is presumably the only locally-manufacturing pharmaceutical company which operates at a reasonable scale. However, domestic drug production is gradually gaining momentum in the country. A recent media report suggested that Qatar would have three new drug manufacturers by early 2013, with one scheduled to commence operations around the end of 2012 and two other manufacturers coming online in the first quarter of 2013¹⁴. Although multinational pharmaceutical companies have been successful in the Qatari market due to high brand consciousness of the people for both prescription and OTC medicines, the small market size has discouraged manufacturers from setting up plants within the country. Instead, exporting from facilities in the MENA and Asian countries is seen as a preferable route. This is despite the government incentives which also allow a 100% ownership of manufacturing units by foreign investors. The Qatari pharmaceutical market is likely to

¹³ Source: "Qatar Pharmaceuticals & Healthcare Report", Business Monitor International, January 10, 2013

¹⁴ Source: "Qatar getting 3 new domestic drug manufacturers, official says", www.fiercepharmamanufacturing.com, September 24, 2012



To fuel growth of generic drugs, SCH stipulates all doctors to prescribe medicines only by their generic names

Regulations on advertising and retail sales through licensed pharmacies only have partially stunted the growth of OTC segment in Qatar

The pharmaceutical market in Bahrain is smallest in the GCC with a size of US\$ 260 million in 2012

remain highly import-dependent, thus providing significant opportunities for multinational branded drug makers through the trade route. Despite the recent surge in activity, the domestic manufacturing segment may see only a restricted progress in the future.

A high share of imported and branded products has inflated healthcare spending of the Qatari government, the main buyer of medicines, and the consumers. This has prompted the country's Supreme Council of Health (SCH) to take several measures such as eliminating controls on pricing of pharmaceuticals and abolishing monopoly of a few companies on drug imports. The government also favors increasing local production and higher consumption of generic medicines, which may aid in bringing down the overall pharmaceutical prices in Qatar. To fuel growth of generic drugs in the market, SCH stipulates all doctors to prescribe medicines only by their generic names, thus leaving the final choice of generic or branded drugs to the patients. However, it remains to be seen whether generic drugs are able to penetrate an affluent and brand conscious consumer base. Government measures may also witness limited success given that the importers need to meet strict regulatory guidelines, and distributors and retailers may resist to price cuts or selling cheaper unbranded medicines due to higher demand for branded versions. In the past, the SCH's attempt to remove price controls had backfired when prices of some drugs increased by up to 50%. In response, the government had to impose price caps, although it abstained from explicitly fixing the prices.

The growing incidence of lifestyle-related chronic diseases has boosted demand for high-value prescription medication in Qatar. The country's population is also becoming increasingly aware about personal healthcare. This has boosted sales of OTC products such as analgesics, cold and flu medication, digestives, pseudo-pharmaceuticals, and topical creams. However, regulations on advertising and retail sales through licensed pharmacies only have partially stunted the growth of OTC segment. Under Qatari laws, some typically OTC drugs are categorized as prescription medicines, while some drugs generally available under prescription only are dispensed OTC.

The Qatari pharmaceutical industry will benefit from the forthcoming implementation of the national health insurance program, which envisions covering all the residents and visitors in the country under the scheme. Further, potential signing of a free trade agreement between the GCC and India, thus paving the way for cheaper imports of generics, can alter structure of the pharmaceutical industry in the country.

2.6 The Bahraini Pharmaceutical Market

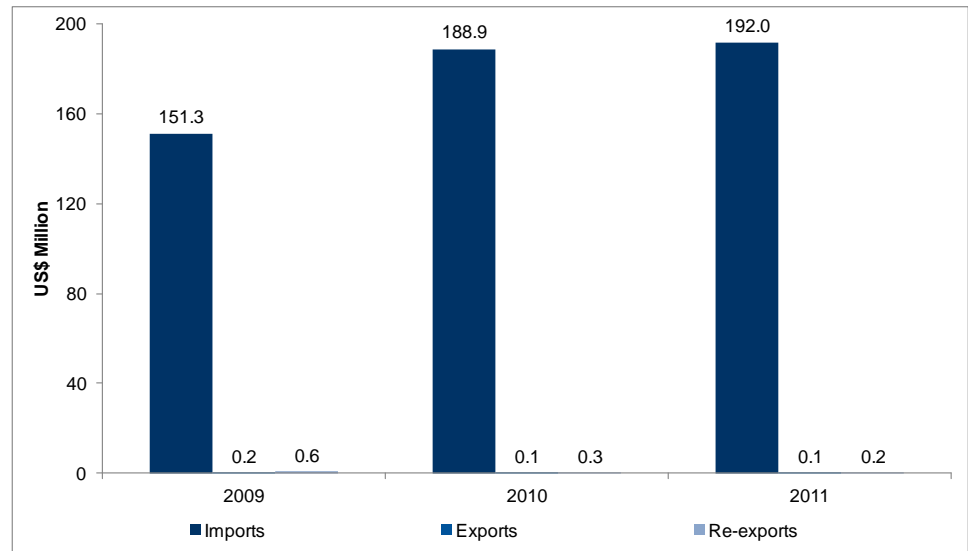
The healthcare industry in Bahrain is primarily funded by the government with public finance contributing around 70% of the total healthcare expenditure every year. The government provides healthcare services to the local population through public hospitals and dispensaries free of cost, while the services for expatriates are subsidized. The pharmaceutical industry was worth US\$ 260 million in 2012, compared to US\$ 240 million in the previous year¹⁵. Although size of the pharmaceutical market in Bahrain is smallest in the GCC in absolute terms, the sector's contribution to GDP is largest among all the regional counterparts. The country also ranked second in the region in terms of pharmaceutical sales per capita, which was US\$ 226 in 2012.

Between 2009 and 2011, imports of pharmaceutical products in Bahrain expanded at a CAGR of 12.6% to US\$ 192.0 million (see Exhibit 9). In contrast, exports and re-exports, which were collectively worth a modest US\$ 0.3 million in 2011, experienced a negative growth during the same period.

¹⁵ Source: "Bahrain Pharmaceuticals & Healthcare Report", Business Monitor International, January 23, 2013



Exhibit 9: Foreign Trade of Pharmaceutical Products in Bahrain



Source: Central Informatics & Communication Organisation, Bahrain

Note: Data for all the years is provisional

In the later part of 2011, Bahrain Pharma announced its plans to construct Bahrain's first pharmaceutical factory

SBI Pharmaceuticals was reported to be planning to open a manufacturing facility in Bahrain

A large part of the Bahraini pharmaceutical market is composed of prescription drugs

Except for the small size, general characteristics of the pharmaceutical industry in Bahrain are similar to other parts of the Gulf. Domestic production of drugs is small and market demand is almost entirely met through imported pharmaceutical products. While Bahrain did not have a single mainstream pharmaceutical manufacturer operating in 2010¹⁶, the country is gradually witnessing some development within the local manufacturing segment. In the later part of 2011, Bahrain Pharma (previously known as Bahrain International Medicine Manufacturing Company) announced its plans to construct the nation's first pharmaceutical factory at Bahrain International Investment Park. The company operates as a contract manufacturer of nutraceutical and pharmaceutical products with equipment and technology provided by the US-based Vanguard Pharmaceutical Machinery. In order to reduce its reliance on imported medicines and boost growth of the local pharmaceutical manufacturing industry, the government of Bahrain is encouraging foreign capital flow and private sector investments into the industry. SBI Pharmaceuticals, a part of the Japanese conglomerate group, SBI Holdings, was reported to be planning to open a manufacturing facility in the country¹⁷. The company identified Bahrain as its research and development base in the MENA region and also set up a representative office in the country recently. Bahraini companies such as Innovest and Bahrain International Medicine Manufacturing Company are also establishing their presence in the domestic manufacturing segment.

Consumers are generally inclined to purchase branded medication thanks to a strong spending power and a general perception that branded drugs are superior to the generics. However, traditional medicines are also still in demand in the country, and there are a number of companies making herbal pseudo-pharmaceuticals. A large part of the Bahraini pharmaceutical market is composed of prescription drugs. However, a strong buying power and increasing health awareness have created a growing market for OTC products and pseudo-pharmaceuticals like weight loss products, vitamins, and probiotics. Suppliers of OTC drugs, especially branded products, benefit from wide availability of these products at pharmacies, supermarkets, and specialist stores.

¹⁶ Source: "Guidelines to establish Gulf Pharmaceutical Industries Association", www.goic.org.qa, April 11, 2011

¹⁷ Source: "Japan's SBI Pharmaceutical Plans Bahraini Plant, Alwasat Reports", Bloomberg, June 28, 2012



Oman has the lowest pharmaceutical sales per capita in the GCC

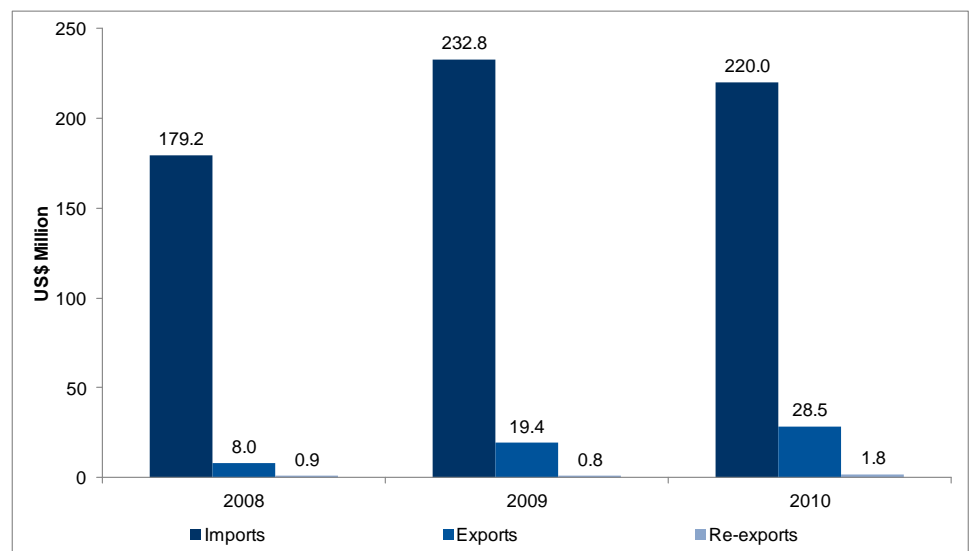
The government is increasingly encouraging the use of generic medicines among the doctors and patients. Patients are allowed to claim reimbursements on prescriptions of generic products. Moreover, the import of generic drugs into the Bahraini market should increase once the free trade agreement between the GCC and India is signed.

2.7 The Omani Pharmaceutical Market

At US\$ 150, Oman had the lowest sales per capita of pharmaceuticals in the GCC in 2012. The size of Omani pharmaceutical market was valued at US\$ 476 million in the year, compared to US\$ 431 million in 2011¹⁸.

Between 2008 and 2010, Oman experienced a volatile movement in imports of medical and pharmaceutical products (see Exhibit 10). The import value increased strongly in 2009 despite a negative volume growth, while the value declined in 2010 notwithstanding an increase in import volume. On the other hand, exports of medical and pharmaceutical products expanded at a CAGR of 89.0% between 2008 and 2010, while re-exports have also seen a surge during this period. In spite of this growth, Oman continues to be a net importer of pharmaceutical products due to strong demand for branded drugs and limited local manufacturing capabilities.

Exhibit 10: Foreign Trade of Medical and Pharmaceutical Products in Oman



Source: National Center for Statistics and Information, Oman

Note: Figures reported in local currency have been converted into US\$ using annual average exchange rates available on Bloomberg

Drug prices are strictly regulated by the government, which tries to maintain them at low levels

Branded medicines account for majority of the pharmaceutical spending in the country. Drug prices are strictly regulated by the government, which tries to maintain them at low levels. Price levels were broadly unchanged since 2008 to until the beginning of 2012. However, in view of foreign exchange rate fluctuations, which made medicine imports from Europe and Japan cheaper, the Ministry of Health announced price revisions of at least 1,790 medicines with effect from March 10, 2012.

Oman has only a few notable domestic drug makers like National Pharmaceutical Industries, Oman Chemicals & Pharmaceuticals, and Oman Pharmaceutical Products

¹⁸ Source: "Oman Pharmaceuticals & Healthcare Report", Business Monitor International, January 28, 2013



ALPEN
CAPITAL

The few notable domestic drug makers in Oman are primarily active in the generic drugs segment

Company. These manufacturers are primarily active in the generic drugs segment. While the market is dominated by imported pharmaceuticals, the government regulates entry of imported products into the country by imposing certain conditions on the foreign drug suppliers. These include requiring these suppliers to have a research department and supply only those pharmaceuticals that are licensed in at least two other GCC countries.

In order to increase local production and imports of generic products, the Omani government is seeking greater participation from private sector companies and foreign generic manufacturers. However, the market is likely to be dominated by imported products in the near future, although generic drugs may capture a larger market given the government's emphasis and recent interest shown by Indian drug makers.



3. Growth Drivers

Expansion of the Population Base

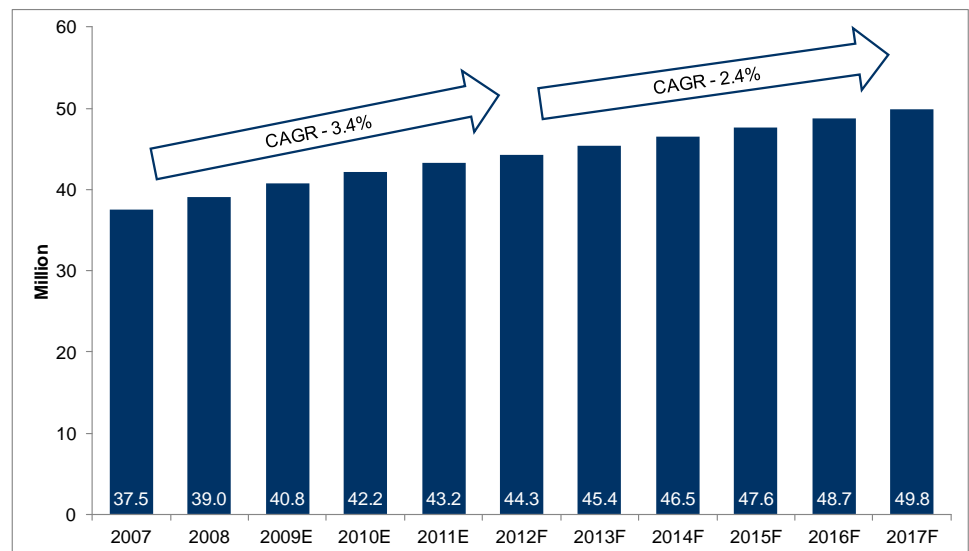
Total GCC population is expected to grow from 37.5 million in 2007 to nearly 50 million in 2017

Total population in the GCC was estimated to have expanded at a CAGR of 3.4% from 37.5 million in 2007 to 44.3 million in 2012¹⁹ (see Exhibit 11). Higher life expectancy, robust economic growth, shortage of local workforce, and attractive employment opportunities are the major factors contributing to the expansion of local and expatriate population in the region. Over the last several years, expatriate population has expanded at a higher rate than the local inhabitants. In countries like the UAE, Kuwait, and Qatar, expatriates represent 70%-90% of the entire population. Although the current forecasts suggest a decline in population growth rate in the future, the number of inhabitants in the Gulf is anticipated to continue expanding at a consistent pace each year and reach nearly 50 million in 2017.

The GCC is one of the most urbanized regions worldwide with more than three-fourths of the people living in urban areas

The GCC is one of the most urbanized regions worldwide with more than three-fourths of the people living in urban areas²⁰; almost all the inhabitants of Qatar and Kuwait reside in cities. While high levels of urbanization ensures greater access to healthcare facilities, a strong expatriate presence means that preference for imported and newer versions of medicines is high.

Exhibit 11: GCC Population Trend



Source: World Economic Outlook, International Monetary Fund, October 2012
Note: E – Estimated, F – Forecast

Increased Life Expectancy and Ageing Population

Average life expectancy in the Gulf has increased significantly over the past decades

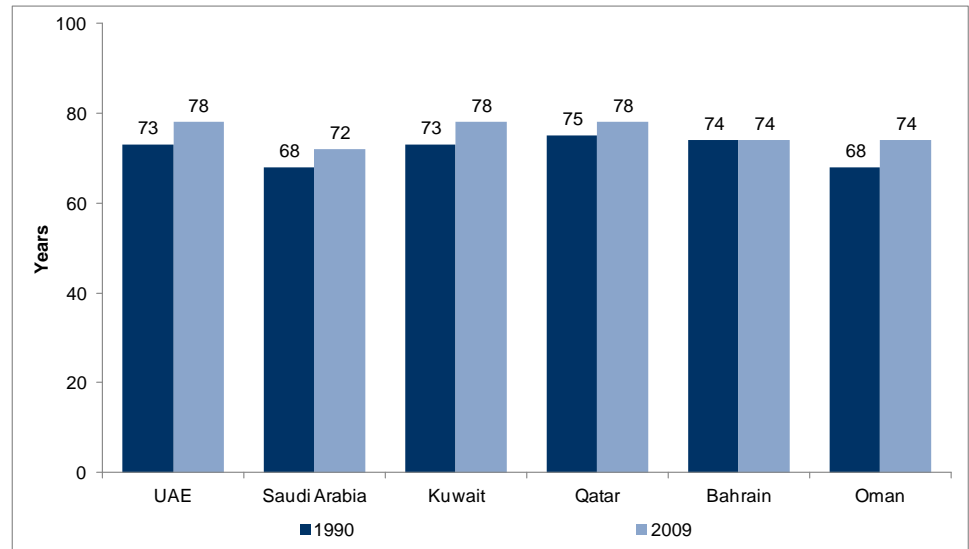
Advances in medical research, greater awareness about healthcare, and improvement in the overall quality of life have collectively brought about positive changes in certain key health indicators of the GCC population. Average life expectancy of the inhabitants has increased significantly over the past decades reflecting improved means of controlling communicable diseases. From 1990 to 2009, all the GCC constituent countries, except

¹⁹ Source: World Economic Outlook, International Monetary Fund, October 2012
²⁰ Source: "Affordable housing a GCC priority", Arab News, October 6, 2012



Bahrain, have seen average life expectancy at birth increase by at least three years (see Exhibit 12). Population in the UAE, Kuwait, and Qatar had life expectancy of 78 years in 2009, almost at par with the life expectancy of the US population (79 years).

Exhibit 12: Improvement in Life Expectancy at Birth in the GCC Countries



Source: World Health Statistics 2012, World Health Organization

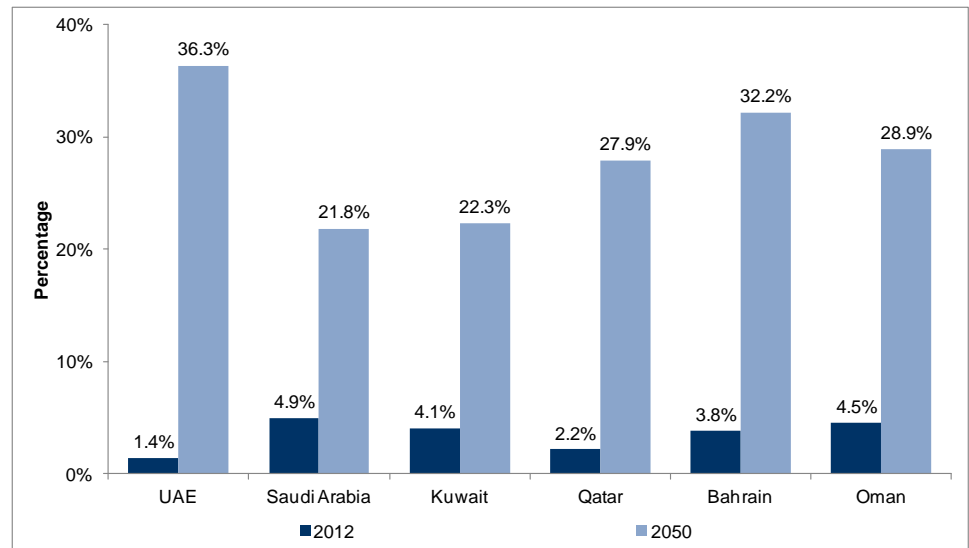
Population aged 60 years and above is expected to increase at a CAGR of 6.1% from 1.9 million in 2012 to 17.8 million in 2050 in the GCC

Although youth make up a large part of the GCC population currently, increased life expectancy and lower birth rate is expected to gradually lead to an increase in median age of the population. Over the next few decades, the Gulf countries are likely to witness a substantial growth in population aged 60 years and above. Combined population in this age group in all the GCC countries is expected to increase at a CAGR of 6.1% from 1.9 million in 2012 to 17.8 million in 2050²¹. As a percentage of total population, the UAE is expected to experience the largest increase in population aged 60 years and above with the proportion set to rise from 1.4% to 36.3% during the period (see Exhibit 13).

²¹ Source: "Population Ageing and Development 2012", United Nations Population Division



Exhibit 13: Population Aged 60 Years and Above as a Percentage of Total Population



Source: "Population Ageing and Development 2012", United Nations Population Division

The elderly population forms a big slice of the overall pharmaceutical spending in the region

Typically, individual healthcare expenditure is high at birth and during the first few years of life, after which the spending declines during young adulthood, only to increase gradually during the middle age and surge quickly thereafter during the old age. The elderly population forms a big slice of the overall pharmaceutical spending in the GCC, and the expected growth in its size augurs well for the sector.

Sedentary lifestyle among people in the GCC has resulted in a high incidence of obesity

High Prevalence of Lifestyle-Related Ailments

High per capita income, hot weather conditions, and unhealthy food habits have promoted a sedentary lifestyle among people in the GCC. This has resulted in a high incidence of obesity among the inhabitants. The proportion of obese people in the region is alarmingly high compared to the global average. Over 30% of the population above 20 years of age was said to be obese in five out of six GCC countries, with the proportion going as high as 42.8% in case of Kuwait (see Exhibit 14). Although Oman, which had the lowest percentage of obese people in the Gulf, has an obesity rate of 22.0%; it exceeded the global average of 12.1% by a large margin.

The Gulf has among the highest prevalence rates of diabetes in the world

High obesity and increasing life expectancy have led to the spread of other chronic ailments such as diabetes and cardiovascular diseases. The GCC region has among the highest prevalence rates of diabetes in the world, with an average 15.9% of the 20-79 years population suffering from diabetes (see Exhibit 15). The region's prevalence rate is nearly double the global average. Since these diseases tend to persist throughout the life of patients, they entail higher medical expenditure than sporadic forms of illnesses.



Exhibit 14: Prevalence of Obesity in the 20+ Years Population in the GCC* (2008)

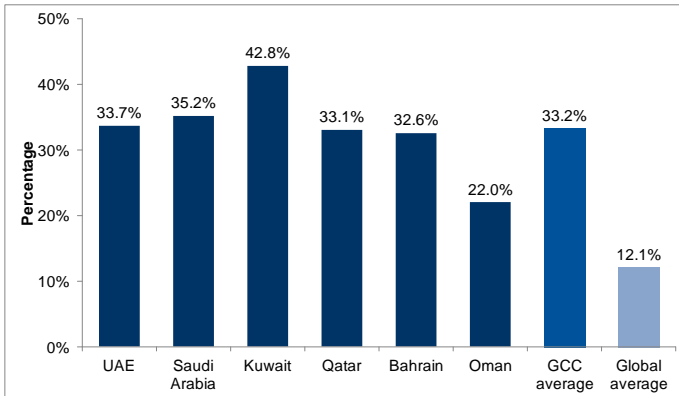
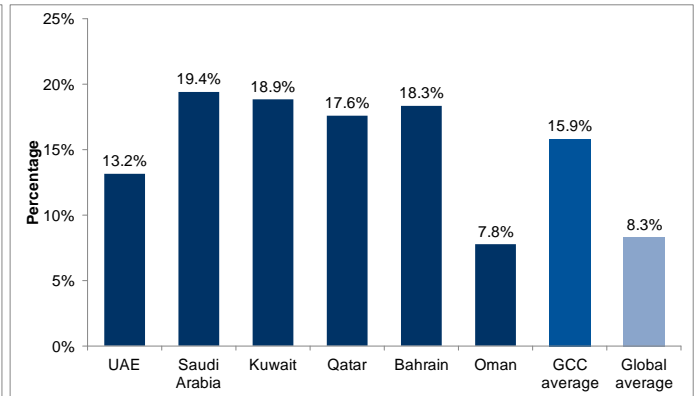


Exhibit 15: Prevalence of Diabetes in the 20-79 Years Population in the GCC (2012)



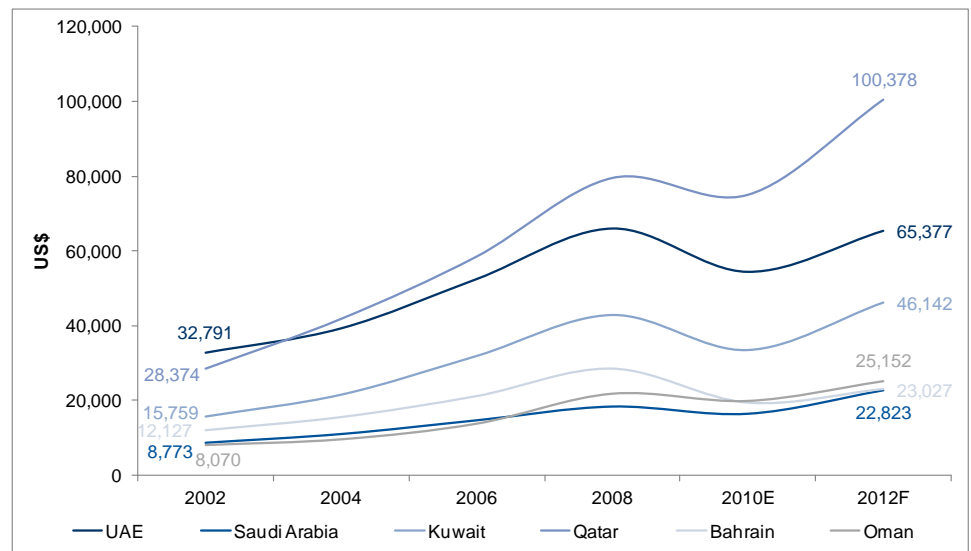
Source: World Health Organization, International Diabetes Federation
Note: * - Age-standardized estimate

Growing Income Levels

GDP per capita in 2012 is estimated to have increased to 2-3 times the 2002 level across the GCC region

Over the last decade, economic prosperity and general income levels of the GCC countries have grown in line with increase in oil demand and prices and the progress made within certain key non-oil sectors such as retail and tourism. In Qatar, the richest country in the world, GDP per capita in 2012 is estimated to have increased to 3.5 times the 2002 level (see Exhibit 16). In the remaining countries also, GDP per capita projections for 2012 are 2-3 times the 2002 figures. Growing income levels and resultantly a higher spending power have improved the quality of life and overall ability to spend on medicines. General health awareness among the people has also increased. With hydrocarbon prices remaining stable, per capita income levels in most of the GCC countries are expected to increase further in the long term.

Exhibit 16: Growth of GDP per capita (at current prices) in the GCC Countries



Source: World Economic Outlook, International Monetary Fund, October 2012
Note: E – Estimated, F – Forecast



Incentives provided to boost domestic production include free property leases, interest-free loans, low tax rates, and faster drug registrations

Many GCC countries have set up free zones dedicated to healthcare and life sciences companies

Compulsory medical insurance schemes for locals and expatriates have either been enacted or are in the process of being launched across the GCC

Medical insurance makes healthcare more affordable and fosters a sustainable development of the sector

Government Incentives

The GCC governments are providing a number of incentives to boost domestic pharmaceutical production in order to reduce the reliance on imports. Companies wanting to set up manufacturing units can avail incentives like free property leases, interest-free loans, low tax rates, and faster drug registrations. The governments also permit 100% foreign ownership in local pharmaceutical manufacturing companies and provide support for setting up research and development capabilities. Through these constructive measures, the regional governments are creating a favorable environment for the domestic private sector and multinational companies to allocate fresh investments to the pharmaceutical industry.

Public funding into the sector, especially in creating a favorable back-end infrastructure and providing an easy access to healthcare facilities and medicines to the people, also continues to flow in at a healthy pace. Many GCC countries have set up free zones dedicated to healthcare and life sciences companies. These free zones provide world-class infrastructure and tax incentives, thus attracting a number of domestic and international companies. Dubai Biotechnology and Research Park (DuBiotech), launched in February 2005, is one such example. The facility currently houses a number of biotechnology, pharmaceutical, and research companies including multinational players such as Pfizer, Merck Serono, Amgen, and Genzyme. DuBiotech issued 40 commercial licences in 2012, almost double the previous year's figure of 21, taking the total number of companies having a base in the life sciences park to 126.

Mandatory Health Insurance

To ease the pressure on public funding, the governments are also encouraging private sector participation in the healthcare funding system. Across the region, compulsory medical insurance schemes for locals and expatriates have either been enacted or are in the process of being launched. Health insurance coverage for expatriate workers has already been made mandatory in Saudi Arabia, Kuwait, and Oman. Saudi nationals employed in the private sector are also covered under a health insurance program. Currently, the kingdom's health ministry is contemplating to make medical coverage compulsory for the dependents of expatriates.

Health insurance laws have been under consideration in the UAE for many years. A mandatory insurance program for expatriates and nationals has been implemented in Abu Dhabi, and Dubai may soon follow suit. In February 2013, a senior officer from the General Directorate of Residency and Foreigners Affairs stated that all visitors to the UAE, except those who are eligible to obtain visas on arrival, need to have a health insurance²². This rule is pursuant to a ministerial decision taken in 2008. Qatar is also in the process of introducing a compulsory health insurance for all its citizens, expatriates, and tourists. Qatar's Social Health Insurance scheme is being launched in phases and is expected to be fully implemented by the end of 2014.

As noted in Alpen Capital's 2011 GCC Healthcare Industry report, medical insurance makes healthcare more affordable, and subsequently, leads to higher demand for healthcare services. It also fosters a sustainable development of the sector by alleviating financial burden on the government. Effects of an increase in health insurance penetration in the Gulf and development of the healthcare sector are expected to percolate onto the pharmaceutical industry and aid its expansion.

²² Source: "Health insurance mandatory to enter UAE – Residency department", Gulf News, February 16, 2013

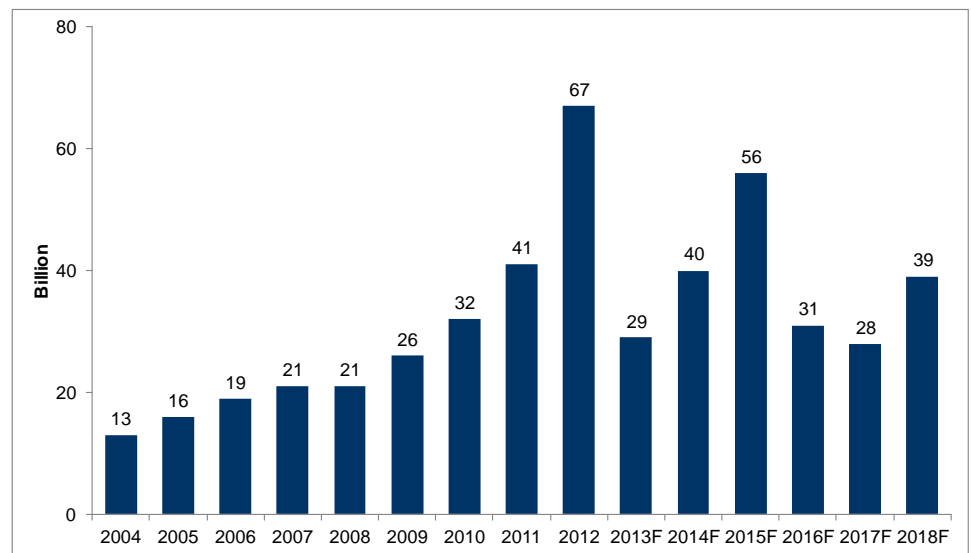


Regional drug makers are benefitting by making generic versions of drugs whose patents have expired over the recent years

Patent Cliff

Majority of the indigenous pharmaceutical manufacturers in the GCC produce generic drugs due to lack of in-house research and development capabilities and high capital outlay required for the development of branded medicines. These regional drug makers are benefitting by making generic versions of drugs whose patents have expired in the global pharmaceutical market over the recent years. Total sales at risk²³ due to expiry of drug patents worldwide during 2004-2012 were estimated at US\$ 256 billion²⁴ (see Exhibit 17). For the next six years, total sales at risk are estimated at US\$ 223 billion. This provides enormous opportunities for drug manufacturers in the Gulf to supply generic versions of some top-selling branded drugs in the local and export markets.

Exhibit 17: Total Sales at Risk from Patent Expiration Worldwide



Source: "World Preview 2018", EvaluatePharma, 2012

Note: F – Forecast

²³ Total sales at risk represent the worldwide product sales in the year prior to patent expiry but allocated to the year of expiry

²⁴ Source: "World Preview 2018", EvaluatePharma, 2012



4. Challenges

Obstacles in the Growth of Local Manufacturing

Several factors have limited the capabilities of local drug makers primarily to the manufacture of generics

Setting up a pharmaceutical manufacturing unit is highly capital intensive and typically involves a long payback period. Further, lack of focus on the development of a manufacturing sector in the GCC until a few years back, small domestic market size, difficulty in raising adequate funds, and shortage of knowledge and skilled manpower are some of the major factors that restricted flow of investments into the pharmaceutical manufacturing sector. This has limited the capabilities of local drug makers primarily to the manufacture of generics in a market where demand for branded drugs is predominant. Multinational branded drug companies also abstained from setting up their own production facilities in the region due to the limited market size and price controls. Instead, they prefer to export drugs into the region from the neighboring pharmaceutical export hubs like Egypt and Jordan.

High Drug Prices and Regional Disparities

Drug prices in the GCC are significantly higher than the world average and vary significantly across the region

Drug prices in the GCC are significantly higher than the world average due to high preference for branded drugs, which are largely imported. Small size of the end-market, low bargaining power, and high per capita income are other factors contributing to elevated prices of medicines in the region. Although this inflates the size of the pharmaceutical market, they prove to be a big strain on government finances and individual expenses. Excessive price levels in any industry do not prove to be conducive for the overall progress and growth in real terms in the long term. Apart from being high, drug prices vary significantly within the region depending on specific market characteristics of each constituent country.

In order to mitigate the price discrepancies and lower drug prices by taking advantage of a higher negotiation power, all the GCC countries are working towards implementing a comprehensive joint-import mechanism for pharmaceuticals.

Substantial Reliance on Imported Products

The GCC countries are highly dependent on imports of equipment, raw materials, and medicines for end use

Pharmaceutical consumption across the entire Gulf region is mainly controlled by imported drugs. Moreover, domestic drug manufacturers also considerably depend on equipment and pharmaceutical ingredients sourced from other countries. This has restricted growth of the domestic manufacturing sector and demand for generic drugs. Further, constituents of the pharmaceutical supply chain and end-consumers are exposed to supply-related problems and price changes due to foreign exchange rate fluctuations.

Outbound Medical Tourism

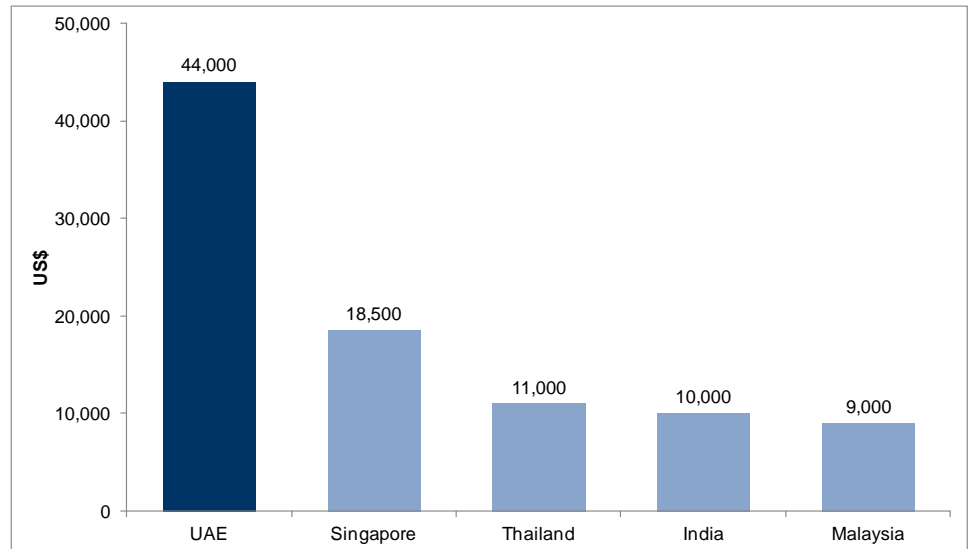
A significant portion of residents in the region also prefer to seek treatment for serious ailments abroad

Medical tourism has gained momentum worldwide due to increasing costs and long waiting time for treatments in western countries. A number of patients from these regions prefer to visit Eastern countries such as Thailand, Singapore, and India that provide high-quality medical treatments at relatively lower costs. A significant portion of residents in the GCC region also prefer to seek treatment for serious ailments abroad. This outbound medical travel can be attributed to non-availability or poor quality of specialized treatments required, high costs compared to Asian medical tourism hubs, and expatriates preferring to travel to their home countries for receiving healthcare. Compared to cost in the UAE, a heart bypass surgery costs, on average, less than half in Singapore and only around a



quarter in Thailand and India²⁵ (see Exhibit 18). While Germany and the UK are among the popular destinations for GCC residents seeking high-quality healthcare, Asian countries have also been gaining prominence.

Exhibit 18: Comparison of Cost for a Heart Bypass Surgery



Source: www.gtuae.net, February 2010

The UAE government spends US\$ 2 billion annually to send patients for medical care abroad

The expenses for medical travel for GCC citizens are mainly borne by the government, thus proving a huge drain on public funds. On each patient, the GCC governments spend between US\$ 100,000 and US\$ 500,000 with costs surpassing US\$ 1.5 million in some cases²⁶. It is estimated that the UAE government spends US\$ 2 billion annually to send patients for medical care abroad²⁷. In 2011, the Saudi government spent in excess of US\$ 400 million on outbound medical tourism.

As much as 65% of the Kuwaitis prefer to seek treatment for major illnesses abroad

According to a survey of GCC nationals conducted by Gallup Inc.²⁸, in 2011, a notable proportion of people preferred to receive medical care outside their home country in case of a serious health concern (see Exhibit 19). As much as 65% of the Kuwaitis said that they would seek treatment for major illnesses abroad. In comparison, the least percentage of Saudi nationals (35%) voted for treatments abroad.

A person taking medical treatment abroad creates a fictional loss of revenues for the pharmaceutical industry in his home country. Medication required during the phase of his treatment abroad will be typically purchased locally from the foreign country. Upon return to his home country, the patient may continue to favor medicines from the same manufacturer or brand with which he would have got familiar during treatment. This proves non-beneficial for the drug manufacturers in his home country.

²⁵ Source: "High cost of healthcare leading to competitive disadvantages in UAE, says Grant Thornton", www.gtuae.net, February 2, 2010

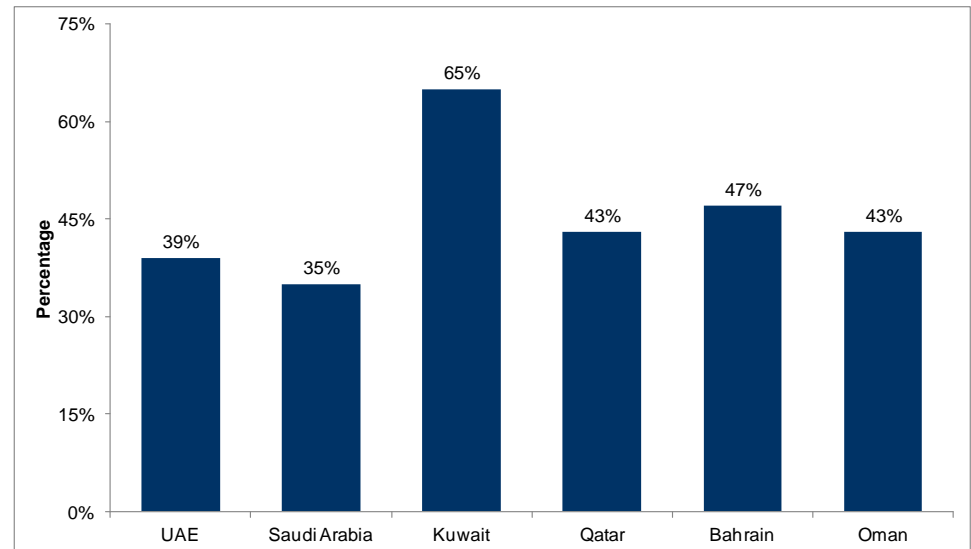
²⁶ Source: "Reversing the GCC's Patient Drain", www.hospitalchoices.co.uk, 2012

²⁷ "Many in GCC Prefer to Get Medical Treatment Abroad", Gallup Inc, August 8, 2012

²⁸ Gallup Inc. is a US-based consultancy firm with global presence



Exhibit 19: Proportion of Nationals in the GCC Preferring Medical Care Abroad



Source: Gallup Inc (based on a survey conducted in 2011)

The strong preference in favor of foreign healthcare destinations in the GCC is despite people being largely satisfied with the quality of healthcare available in their home country. Thus, a major challenge lies ahead for the government and healthcare providers in the region to turn around the preference of residents and aid expansion of the domestic pharmaceutical industry.

Government Regulations

Governments in the GCC exercise stringent control over the pharmaceutical industry in their respective countries. Entry of foreign firms only through partnership with local companies, local drug testing requirements and long registration period especially for imported drugs, stiff intellectual property rights laws, and pricing are some of the aspects administered by the governments. Profit margins for distributors and retailers are also regulated. Further, direct advertising of drugs to consumers is largely banned and there are provisions on dispensing of OTC medicines only through registered pharmacies in most of the Gulf countries. These government policies, while implemented to have a greater control on the healthcare sector given its sensitivity and influence over quality of life of the general public, have played a role in holding back the industry development to some extent.

Shortage of Skilled Manpower

Pharmaceutical industry in the Gulf faces severe shortage of local personnel with requisite skills and knowledge. This has restricted the region's capabilities in research and development and manufacturing of drugs. The pharmacy segment also witnesses a scarcity of indigenous pharmacists due to inadequate educational facilities and lack of local interest in taking up service-oriented and customer-facing jobs. As a result, drug manufacturers and pharmacies are forced to employ a largely expatriate workforce, which entails higher costs. This also makes it difficult for the industry players to maintain a stable employee base as attrition rates among these employees are high. The governments across the region have recognized this challenge and are implementing measures to promote involvement of the local population in the pharmaceutical industry. However, a disparity between the number of indigenous residents and total population in the GCC (especially in

Entry of foreign firms, local drug testing and registration, and pricing are some of the aspects administered by the GCC governments

Gulf pharmaceutical companies are forced to employ a largely expatriate workforce, which entails higher costs and creates an unstable workforce



Consumption of counterfeit drugs can hinder effective treatment and may prove hazardous for patients

Recent media reports quoted Bahrain's top health official that around 30% of medicines sold in the country may be counterfeit

the UAE, Kuwait, and Qatar) means that the industry will continue to depend on foreign workers to meet market demand in the coming years.

Counterfeit Medicines

The problem of fake medicines is prevalent in the GCC as it is in other parts of the world. Such medicines pose a serious health threat to users since they may contain toxic ingredients, lack the required active ingredients, or contain them in incorrect quantities. Consumption of counterfeit drugs can hinder effective treatment and may prove hazardous particularly for patients being treated for serious ailments. Further, counterfeit products also damage brand reputation of pharmaceutical companies, pose health risks, affect sales volumes of manufacturers and distributors, and remain unaccounted for in the legal financial system.

It is difficult to precisely estimate the quantity of counterfeit medicines floating in the market. Over time, estimates for such medicines in Saudi Arabia have varied from 30%-40% of medicines sold at pharmacies and hospitals to less than 0.5% of overall medicines sold²⁹. Recent media reports quoted chief executive of Bahrain's National Health Regulatory Authority that around 30% of medicines sold in the country may be counterfeit³⁰. However, the claim was strongly refuted by the president of Pharmacies Owners and Importers Society of Bahrain.

Irrespective of the estimates, it is a generally accepted fact that a parallel market of counterfeit medicine does exist in the GCC. Better prevention of imports and exports of such drugs is required through effective supervision and stricter regulations from the health authorities.

²⁹ Source: "Media Reports on Medicine Quality: Focusing on USAID-assisted Countries", The United States Pharmacopeial Convention Inc, December 2012

³⁰ Source: "Fears over fake drugs in Bahrain allayed", Trade Arabia, January 7, 2013



Although branded pharmaceuticals will continue to dominate the GCC market, generics are expected to narrow the volume gap

Private capital outlay in the GCC pharmaceutical industry is anticipated to rise with governments providing a range of incentives

Government efforts to achieve unification of pharmaceutical prices have gained momentum over the recent months

5. Trends

Growing Use of Generic Drugs

Branded medicines maintain a significant lead in the GCC pharmaceutical market, however, generic drugs have increased their contribution in terms of overall sales volume. Key factors fuelling sales of generics include the growth of local manufacturing industry and government encouraging higher use of such drugs. Although branded pharmaceuticals will continue to dominate the market in the foreseeable future due to high brand preference of the consumers, generics are expected to narrow the volume gap. Apart from the above-mentioned factors, expiry of a number of patented medicines used to treat chronic diseases is likely to bring new and cheaper generic substitutes of those drugs into the market. While the GCC consumers are expected to be hesitant in buying generic drugs because of the ingrained perception of inferior quality, government measures favoring generics should eventually lead to higher sales volume. This expected trend would, in turn, help in bringing down the average pharmaceutical price levels in the Gulf market.

Increasing Privatization

Government measures to boost local drug manufacturing and penetration of health insurance are expected to increase the level of privatization in the GCC pharmaceutical sector. Private capital outlay in the industry is anticipated to rise with governments across the region providing a range of incentives for domestic and international players to set up new production plants. The pharmaceutical retail segment has also experienced higher participation of private pharmacy operators since expatriates in many Gulf countries are required to purchase medication from private pharmacies and retail outlets. Moreover, with mandatory medical insurance programs for nationals and expatriates already being enacted in some constituent countries and likely to be implemented in the remaining countries in the future, the burden of medical care will gradually shift from the government to employers and private insurance companies.

Greater Drug Price Unification

Government attempts to achieve unification of pharmaceutical prices within the GCC have been ongoing for a number of years. However, the efforts have gained momentum over the recent months as large price disparities continue to remain between different constituent countries. In October 2012, media reports suggested that the health authorities in each country may agree to collectively import drugs at unified prices for the private sector³¹. Upon implementation, dealers across the GCC would be able to purchase medicines from suppliers at unified prices. A proposal for joint pharmaceutical imports in the government sector has already been approved. As discussed earlier in this report, the UAE government approved a new system in February 2013 which is aimed at reducing the price variance in medicines between the UAE and other parts of the region. Qatar's SCH had organized a three-day meeting of the Gulf Committee for Drug Pricing in the same month to discuss the resolution of unifying imported drug prices in the GCC countries.

Although the unified import mechanism may not completely eliminate the differences in medicine prices as wholesale and retail margins vary in each country, these efforts are expected to prove effective in regulating inconsistencies in the future.

³¹ Source: "GCC plans joint import of medicines", Mubasher Info, October 1, 2012

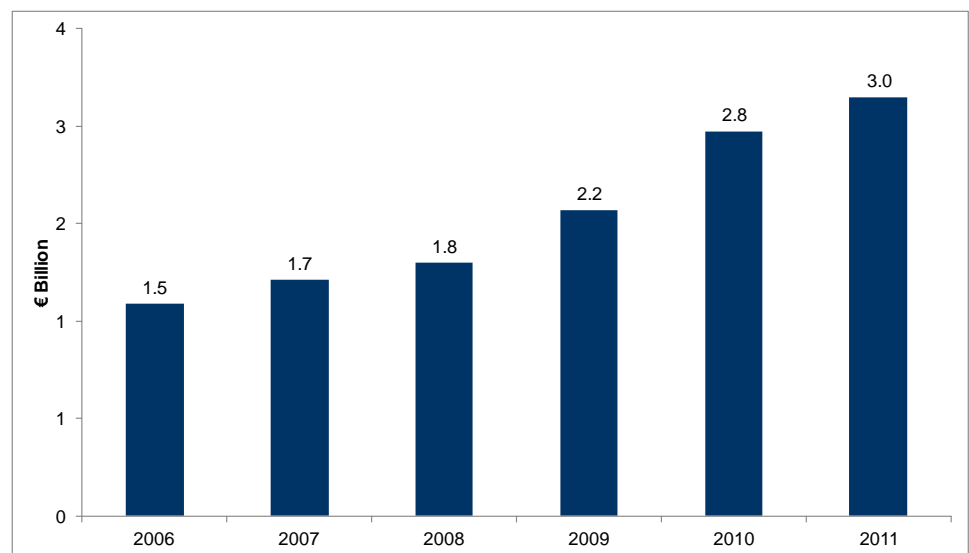


Between 2006 and 2011, pharmaceutical imports from the EU countries into the GCC doubled from EUR 1.5 billion to EUR 3.0 billion

Higher Imports from Europe

An expanding population and growing purchasing power have transformed the GCC into an attractive market for the European pharmaceutical companies. Between 2006 and 2011, pharmaceutical imports from the 27 EU countries into the GCC doubled from EUR 1.5 billion to EUR 3.0 billion (see Exhibit 20), translating into a five-year CAGR of 14.6%. Imports from the EU into the UAE grew at an even healthier rate of 20.0% annually during the same period. In the wake of the global financial crisis and regional debt problems, European drug manufacturers encountered difficult economic conditions and challenging market dynamics in their home countries. To offset this weakness, they augmented their focus on the relatively emerging Gulf pharmaceutical market. Subsequently, during the three years to 2011, pharmaceutical imports from the EU into the GCC expanded at a CAGR of 18.3%, outpacing the five-year growth rate.

Exhibit 20: Pharmaceutical Imports from the European Union into the GCC



Source: European Commission

The EU is an important trading partner for the GCC and a free trade agreement between the two regions has been under negotiations for many years. Pharmaceutical imports from the EU may increase further in the medium term when the agreement is finally brought into implementation.

GCC Countries Wooing Indian Pharmaceutical Companies

In order to promote private sector involvement in the domestic pharmaceutical sector, the GCC governments are adopting a liberal approach to encourage local and foreign players to set up base in the region. Leveraging on the strength of existing trade relations and presence of a large expatriate population of Indian origin, the Gulf countries are attracting Indian companies to benefit from their experience in the generics segment.

In June 2012, Aurobindo Pharma, one of the leading pharmaceutical companies in India, announced its entry into the GCC by entering into an agreement with the Khimji Ramdas Group, a well-known business conglomerate in Oman. While the agreement only encompasses distribution of Aurobindo Pharma's products in the country through Khimji Ramdas Pharmacy, it has paved the way for more such agreements with Indian companies. Saudi Arabia is also encouraging investments by Indian companies and has announced incentives for players intending to establish their presence in the kingdom

Leveraging on the existing trade relations and a large Indian presence, the Gulf countries are attracting Indian generic players to set base in the region



Signing of a free trade agreement between the GCC and India will further open up the pharmaceutical for Indian companies

Technology parks attract the much-needed foreign investments and technology required to build patented drug production capabilities

The UAE has emerged as the top destination for medical tourism in the GCC

through technology transfers and medical education programs. In May 2012, a Saudi delegation visited India to discuss trade partnerships in different sectors, with pharmaceuticals being among the areas of main interest. The delegates sought companies for setting up manufacturing bases in Saudi Arabia, which will increase the availability of medicines at cheaper rates in the local market. Around mid-2012, Bahrain signed an agreement to establish a new body focusing on growing business ties with India.

Signing of the impending free trade agreement between the GCC and India will further open up the Gulf pharmaceutical market for Indian companies by eliminating trade barriers and encouraging foreign direct investments. This is expected to enable Indian players to capture a larger share of the GCC generic drugs market, largely at the cost of manufacturers in the Middle East.

Biotechnology Parks Emerging as Centers for Innovation

Governments across the GCC region are seeking economic diversification beyond the traditional hydrocarbons sector. Apart from developing the retail and tourism industries, governments' strategic vision also lays importance to advancement of the healthcare sector. Development plans for the sector envision better and cost-efficient medical care for residents, meeting international standards in order to attract medical tourists, and establishment of new biotechnological products. To foster these objectives, a number of biotechnology parks and free zones have been established in the GCC such as DuBiotech in the UAE and Jeddah BioCity Science Park in Saudi Arabia. These parks offer member companies benefits like fewer regulatory requirements, ownership and tax relaxations, unrestricted capital movement, research facilities, and warehousing and logistics support. By providing a modern infrastructure and conducive regulatory environment, the biotechnology parks have attracted domestic and multinational drug companies to set up their regional bases for research and production.

Domestic manufacturing plants are well off making branded drugs rather than generics due to higher demand for such drugs in the local market. Moreover, it is tough for Gulf companies to compete in the generics segment against the large players from the Middle East and rest of Asia. Technology parks play a major role in bringing the much-needed foreign investments and technology required to build local capabilities for manufacturing of patented pharmaceutical products.

Medical Tourism

The GCC has been allocating substantial resources towards the necessary infrastructure development over the recent years to establish itself as a preferred destination for medical tourism. Establishment of dedicated healthcare cities and internationally accredited medical facilities, with state-of-the-art technologies, have attracted medical tourists. The UAE has emerged as the top destination for medical tourism in the GCC. Dubai Healthcare City, launched in 2002, has two hospitals, around 100 outpatient medical centers and diagnostic laboratories served by more than 3,000 professionals to provide comprehensive medical services to residents and travelers. The UAE also has the largest number of medical facilities accredited by the Joint Commission International in the Gulf. In addition, the government has sought to offer superior healthcare services by collaborating with international firms for management of the facilities. For instance, the Sheikh Khalifa Medical City in Abu Dhabi is being managed by Cleveland Clinic and Corniche Hospital by Johns Hopkins Medicines. Medical tourism industry in the UAE was valued at US\$ 1.6 billion in 2012, and is projected to grow 6.5% to US\$ 1.7 billion in 2013³². The number of

³² Source: "Medical tourism boosts UAE health care sector", www.gulfbase.com, February 16, 2013



Apex Medical Group is currently building the International Medical City in Oman for an estimated cost of US\$ 1 billion

CTD is a standard format that compiles all the information on human pharmaceuticals for submission at the time of registration

The Saudi Food & Drug Authority intends to make eCTD mandatory for drug registration from January 03, 2015

medical tourists visiting Dubai grew 10%-15% y-o-y in 2012, and are estimated to expand at a CAGR of 7.2% until 2015.

Some of the other Gulf countries are also building capabilities to capitalize on the growing number of health tourists globally. To promote medical tourism in Oman, Apex Medical Group is currently building the International Medical City at Salalah for an estimated cost of US\$ 1 billion. The medical city is planned to have a well-equipped organ transplant center; a 530-bed multi-specialty tertiary care hospital and rehabilitation and diagnostic facilities; along with a healthcare resort, wellness center, and recreational facilities. Construction work began in December 2012 and operations are scheduled to commence by mid-2015.

Although the aforementioned developments do not signal an immediate reversal of the outbound medical tourism in the Gulf, it is a definite sign that the region may witness a lower disproportion between inbound and outbound medical tourists going forward. This will open up a new growth avenue for the GCC pharmaceutical industry.

Adoption of Electronic Common Technical Document (eCTD) for Drug Registration

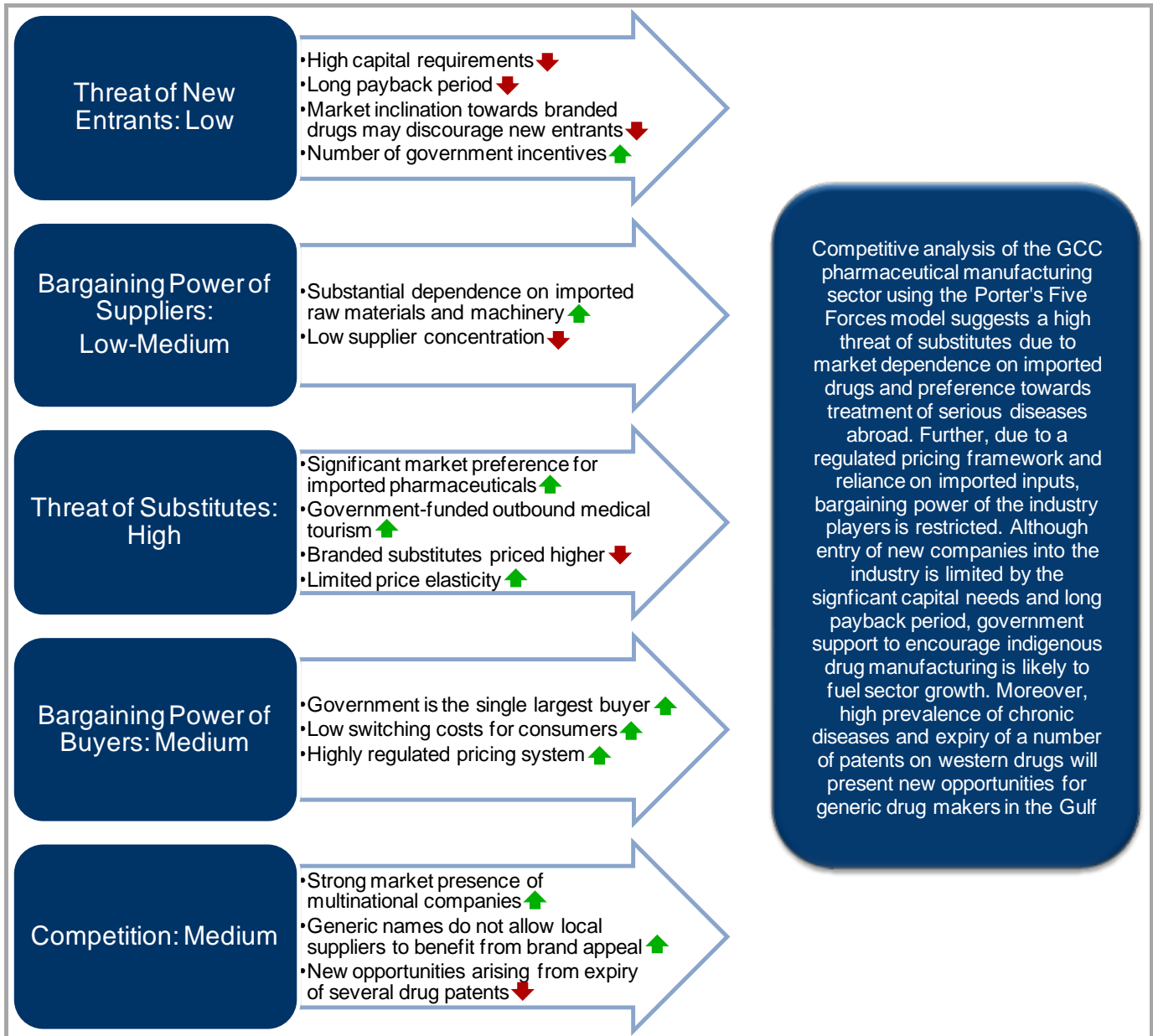
CTD is a standard format that compiles all the quality, safety, and efficacy related information on human pharmaceuticals for submission to regulatory authorities at the time of registration. The common format consists of five modules wherein Module 1 provides region-specific administrative information and its contents may vary according to the region of drug registration. Modules 2 to 5 are common for all the regions and present details including quality, clinical, and non-clinical studies on the pharmaceuticals to be registered. The CTD was proposed by The International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH) in 2000 for bringing harmonization in the drug registration procedures of its member regions, Europe, Japan, and the US.

The GCC countries agreed to adopt the ICH's CTD framework in 2009 and have since progressively moved towards its implementation. The CTD can be submitted in two forms, Non-eCTD electronic Submission (NeeS) and eCTD. The difference between NeeS and eCTD is that eCTD contains certain additional files that make navigation through the entire submission easier. The GCC countries have devised their respective roadmap for implementing CTD, first through the NeeS framework and later migrating onto eCTD. The Saudi Food & Drug Authority intends to make eCTD mandatory for drug registration from January 03, 2015.

6. Porter's Five Forces Model

Although imported drugs account for majority of the medicine consumption in the Gulf, we believe that the actual dynamics of the region's pharmaceutical market will be signified by the state of the domestic manufacturing segment. Subsequently, in order to evaluate the industry's competitiveness, focus has been laid on the indigenous manufacturing sector only which is primarily concentrated around the generics segment (see Exhibit 21).

Exhibit 21: Competitiveness of the GCC Pharmaceutical Market



Source: Alpen Capital

Note: ↑ - Indicates that the factor is increasing the intensity of a particular force

↓ - Indicates that the factor is decreasing the intensity of a particular force



7. Merger and Acquisition (M&A) Activities

The number of deals consummated each year in the Gulf are correlated to the global economic health and investor sentiments

Saudi and Kuwaiti companies featured as acquirers in 16 out of 20 transactions listed

The GCC pharmaceutical industry is not highly active in terms of M&A activities due to its small size and stringent government regulations. The number of deals consummated each year since 2008 has been closely correlated to the global economic health and investor sentiments (see Exhibits 22 and 23). In 2008, the sector saw the highest number of acquisitions, after which M&A activities dried out significantly in 2009 when the global financial crisis was at its peak. Deal-making recovered strongly in 2010 in line with the improvement in investor sentiments and economic performance. However, the momentum of M&A transactions suffered again in 2011 and 2012 as concerns over the European debt crisis and slowdown in emerging economies hampered the world financial markets. The M&A activities have started gaining traction in 2013 with two deals already announced. This trend in deal-making activities contradicts the general perception that economic cycles have a minimal impact on the pharmaceutical industry. The largest reported deal in the Gulf pharmaceutical market was the acquisition of Cephalon Inc's Middle East and African drug business by Switzerland's Acino Holding AG, announced in October 2011. Geographically, Saudi and Kuwaiti companies were the most active in making acquisitions, and collectively featured in 16 out of 20 transactions listed. SPIMACO was in the forefront with the help of three acquisitions having a combined consideration of US\$ 40.3 million.

Exhibit 22: Major M&A Deals in the GCC Pharmaceutical Sector

Acquirer	Acquirer's Country	Target Company	Target's Country	Year	Consideration (US\$ million)
Acino Holding AG*	Switzerland	Cephalon Inc's Middle East and African drug business	Saudi Arabia	2011	80.0
National Technology Enterprises Co. and others	Kuwait / Other countries	Oxford Immunotec Ltd	UK	2010	39.7
Saudi International Trading Company	Saudi Arabia	Al-Mawarid Trading Company Ltd.	Saudi Arabia	2008	36.0
Ali Abdulwahab Sons and Company	Kuwait	Safwan Trading and Contracting Company	Kuwait	2010	26.1
SPIMACO	Saudi Arabia	Eirgen Pharma Ltd.	Ireland	2012	24.8
Saudi Venture Development Co. and others	Saudi Arabia / Other countries	Surface Logix Inc	US	2009	15.0
SPIMACO	Saudi Arabia	CAD Middle East Pharmaceutical Industries	Saudi Arabia	2011	10.9
Dallah Healthcare Holding Company*	Saudi Arabia	Dawara Medical Factory	Saudi Arabia	2013	10.1
National Technology Enterprises Co. and others	Kuwait / Other countries	MTM Laboratories AG	Germany	2010	9.8
Ali Abdulwahab Sons and Company	Kuwait	Safwan Trading and Contracting Company	Kuwait	2010	9.1
SPIMACO	Saudi Arabia	E-Pharma Morocco	Morocco	2011	4.6
Tabuk Pharmaceutical Manufacturing Company	Saudi Arabia	Sigma-Tau Sudan	Sudan	2010	4.5

Source: Zawya, Bloomberg, media reports

Note: * - Deal pending completion (status as on March 26, 2013)



Exhibit 23: Major M&A Deals in the GCC Pharmaceutical Sector (contd.)

Acquirer	Acquirer's Country	Target Company	Target's Country	Year	Consideration (US\$ million)
Abraaj Group	UAE	Vine Pharmaceuticals	Uganda	2013	N/A
National Bank of Kuwait	Kuwait	Bavet	Turkey	2012	N/A
National Bank of Kuwait*	Kuwait	Dem Ilac San ve Tic AS	Turkey	2012	N/A
Unnamed buyer	India	Globalpharma Company	UAE	2008	N/A
Dubai Investments Industries	UAE	Globalpharma Company	UAE	2008	N/A
Al-Mawarid Trading Company Ltd.	Saudi Arabia	Al Dawaa Medical Services Company	Saudi Arabia	2008	N/A
Al Ritaj Holding Co.	Kuwait	National Pharmaceutical Industries	Oman	2008	N/A
Public Pension Agency	Saudi Arabia	SPIMACO	Saudi Arabia	2008	N/A

Source: Zawya, Bloomberg, media reports

Note: * - Deal pending completion (status as on March 26, 2013)



8. Market Outlook and Recommendations

This section provides a long-term outlook of the GCC pharmaceutical industry and proposes certain recommendations, which in Alpen Capital's opinion, can alleviate the major problems currently faced by the sector. The recommended measures could help attract higher foreign investments, bring regional drug prices closer to the world average, and aid the overall market growth. While some of these measures are implicitly factored into the current industry outlook, their effective and timely implementation may positively alter the actual growth trajectory of the market going forward.

The GCC pharmaceutical market is projected to expand at a CAGR of 6%-8% between 2010 and 2020

According to the current projections, the GCC pharmaceutical sector is projected to expand at a CAGR of 6%-8% between 2010 and 2020³³. This growth is expected to be driven by an expanding population base, increase in disposable income, and a higher willingness to spend on healthcare products in the region. Additionally, a rising incidence of lifestyle ailments, government impetus to the local manufacturing segment, and implementation of mandatory insurance schemes in several member countries would also support growth in the future.

Multinational players can take advantage of various government incentives to establish manufacturing presence in the Gulf

In order to attract private operators and foreign investments into the drug manufacturing segment, governments across the region could set up more free zones for the healthcare industry that offer tax holidays, relaxed ownership laws, unrestricted movement of capital, and other incentives. A large number of free zones are already operational within the healthcare sector and other industries in the Gulf, which gives the governments a chance to replicate the successes and avoid the failures of the precedents. By directly engaging with multinational pharmaceutical companies, the regulatory bodies should effectively communicate their plans of encouraging private sector involvement in the region. This will foster confidence and create a conducive environment necessary to ensure greater foreign interest and capital inflows into the industry. Multinational players, who are keen on tapping the opportunities offered by the GCC market, can take advantage of the various incentives offered by the regional governments. Instead of waiting for long registration periods and adhering to strict import requirements and price controls, it may be beneficial for these companies to establish a manufacturing unit or form an alliance with a domestic manufacturer in the Gulf rather than cater to the market through the trading route.

Indigenous drug producers should focus on enhancing their research capabilities and developing complex and high-value generic drugs

Indigenous drug producers should focus on enhancing their research capabilities and developing complex and high-value generic drugs. These manufacturers can also try to create a competitive advantage by focusing on branding. They will be at an advantage by not pitching themselves against low-cost foreign manufacturers in the low-priced and commoditized generics segment. The local companies can maintain a presence in the commoditized generics market by outsourcing production to low-cost countries and being directly involved in the repackaging function only. They may need financial and technical support from the government and industry partners in developing innovative products and technologies. Local business groups and pharmaceutical distributors can venture into branded drugs manufacturing with the help of technology transfer and licensing arrangements with multinational companies. The joint venture can benefit from the brand name and superior technology of the foreign partner, while capitalizing on the market knowledge and distribution network of the local partner.

A mandatory insurance policy program to cover medical expenses of nationals and expatriates is currently in different stages of planning/implementation in the GCC countries. In countries where such a program is yet to be implemented, the respective

³³ Source: "Strategic Analysis of GCC Pharmaceutical Market Overview and Outlook", Frost & Sullivan, August 31, 2012



Substantial investments need to be allocated towards modernizing the education system

governments need to put in place a comprehensive health insurance framework with minimum delay. This would bring an increasing number of people under insurance coverage, thus shifting the healthcare burden from the public sector onto the private sector. Alongside, subsidized medication and healthcare can continue to be provided at the government-owned facilities.

Substantial investments need to be allocated towards modernizing the education system. This will help set up an indigenous congregation of researchers, pharmacologists and medical doctors capable of conducting pharmaceutical research and clinical trials. Focus is also required on creating a higher number of pharmacy graduates to reduce the reliance on expatriate pharmacists. The governments should partner with foreign universities for designing and running medical and pharmacy courses in the Gulf. They also need to explore ways of incentivizing careers in medicine and pharmaceuticals for young citizens.

To reduce the magnitude of outbound medical tourism, it is important for the governments to advertise and highlight some of the key achievements and progress made by the indigenous healthcare industry. Subsidized services can be provided to nationals opting for receiving treatments within their respective countries. Special incentives can be designed for companies to encourage investments in medical specialties and services that are in most demand among the GCC residents.

The governments need to review the restrictions on advertising and retailing of OTC pharmaceuticals

There is a need to review the restrictions on advertising and retailing of OTC pharmaceutical products to boost growth in the market. Advertising of common OTC drugs like cold remedies and digestives can be permitted. Moreover, allowing dispensing of these drugs in supermarkets and convenience stores will also increase the points of sale and the segment will benefit from impulse purchases.

Regulatory agencies in the region are required to enhance their vigilance to check proliferation of counterfeit and sub-standard drugs in the local market. There is a strong need for them to develop stricter regulations and hefty penalties to discourage the perpetrators.

While the above-mentioned factors are likely to fuel an increase in demand for pharmaceuticals in volume terms, government price controls and higher penetration of generic drugs are forecast to partially hold back the growth rate in monetary terms. To mitigate growth impediments in the pharmaceutical sector, the government in each Gulf nation should review its pricing and registration policies, especially with respect to imported drugs. While the government needs to lend some protection to the domestic manufacturers, it should not be over-protective and deter foreign drug suppliers. It is important for the GCC governments to work towards achieving a balance in protecting the interests of local manufacturers, foreign suppliers, distributors, retailers, and the end-users.

All the regional governments should work closely to implement an inclusive and unified drug registration and import mechanism without delay

The GCC countries already have a group-purchasing program in place through the Health Minister's Council for GCC States. However, foreign pharmaceutical suppliers can still deal with government agencies and private distributors in the individual countries directly, thus undermining the benefits of having a unified imports program. In 1999, the Gulf General Committee for Drug Registration was founded to have a common drug registration process across the region. However, the committee still functions concurrently with the registration body in each country and the GCC region is yet to establish a completely unified registration mechanism. All the regional governments should work together closely to implement an inclusive and unified drug registration and import mechanism with minimum delay. This will help in creating a standardized regulatory framework across the Gulf and lead to greater uniformity in prices and efficiency in the drug procurement process.



Typically, the public sector in mature markets has limited participation in execution aspects of the healthcare system

Qatar and Bahrain are projected increase their respective market shares at the regional level going forward

To conclude, governments in the GCC have a significant involvement in all aspects of the healthcare system. Typically, the public sector in mature markets assumes more of a supervisory role of implementing regulations and monitoring compliance. On the other hand, the private sector oversees execution by developing infrastructure, supplying products and services, and providing funding for medical expenditure. Government agencies have a limited participation in these execution aspects. However, the healthcare industry structure is different in the GCC with government agencies administering the regulatory framework and also largely responsible for providing medical care and funding. In order to avoid conflict of interests and a monopolistic market, the public sector in the region needs to gradually transfer execution onto the private sector. This would also allow the governments to relinquish their operational and financial risks, and focus on creating a progressive regulatory environment for the sector.

Overall, the GCC pharmaceutical industry is expected to experience sustainable growth in the medium to long term. Increased domestic production, foreign investments, and consumption of generics are likely to support the market's evolution. Expansion of pharmaceutical sales in Qatar and Bahrain is projected to outpace the overall regional growth rate, thus translating into a higher market share of these countries at the regional level going forward³⁴. The remaining Gulf countries are forecast to either maintain a stable share or experience a decline in their representation in the GCC pharmaceutical industry. Nevertheless, Saudi Arabia is expected to maintain its position as the largest pharmaceutical market within the Gulf in the foreseeable future. The UAE is also likely to retain its ranking as the second largest pharmaceutical market.

³⁴ Source: "Strategic Analysis of GCC Pharmaceutical Market Overview and Outlook", Frost & Sullivan, August 31, 2012

Country Profiles



UAE

Key Driving Factors

- **Demographic factors:** Total number of inhabitants in the UAE is forecast to increase at a CAGR of nearly 3% between 2012 and 2017. Resident population aged 60 years and above is likely to expand at an even faster pace in the long term.
- **Sedentary lifestyle:** Sedentary lifestyle and unhealthy eating habits have led to increased incidence of chronic illnesses like obesity, diabetes, and cardiovascular disorders.
- **Government incentives:** The UAE government is focused on creating a favorable environment for attracting foreign direct investment and augmenting local manufacturing of pharmaceuticals. High preference for branded products and strong buying power offers substantial growth opportunities for multinational companies in the country.
- **Medical tourism:** Development of world-class healthcare infrastructure like the Dubai Healthcare City has bolstered the UAE's image as a hub for healthcare excellence in the GCC. Increasing public and private investments in the sector is likely to further enhance this image and boost the influx of medical tourists from around the world.

Recent Industry Developments

- In February 2013, the UAE cabinet approved a new system that will change the profit margins between pharmacies and agents on medicines imported by the private sector. It would lead to price reductions of 1%-40% on 6,619 types of medicines.
- In December 2012, it was reported that Al Noor Medical, an operator of hospitals, clinics, and pharmacies in Abu Dhabi, has revived its plans to launch an IPO in 2013.
- In December 2012, Neopharma announced its plans to invest up to AED 300 million in the next one year to manufacture two of Merck's branded drugs locally under a five-year agreement with the German company.
- In a joint initiative of the Dubai Health Authority and General Directorate of Residency and Foreigners Affairs, Dubai introduced a three-month visa, extendible twice up to nine consecutive months, for medical tourists seeking treatment.

Macro-economic Indicators

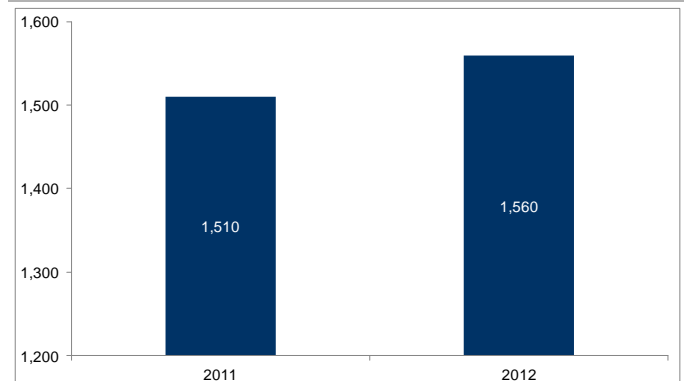
Indicators	Unit	2012E	2013F	2017F
Total GDP, constant prices	AED bn	692.3	709.9	810.8
Real GDP growth	%	4.0	2.6	3.6
GDP per capita, current prices	US\$	65,377	65,755	67,349
Population	mn	5.5	5.7	6.4
Inflation	%	0.7	1.6	2.1

Source: International Monetary Fund (WEO Database, October 2012)
Note: E - Estimated, F - Forecast

Key Players

Company	Type
Al Khayyat Investments	Distributor and Pharmacy operator
Aster Pharmacy	Pharmacy operator
Globalpharma Company	Generic drugs manufacturer
Julphar	Generic drugs manufacturer
LIFE Healthcare Group	Pharmacy operator
Medpharma Pharmaceutical and Chemical Industry	Generic drugs manufacturer
Modern Pharmaceutical Company	Distributor and pharmacy operator
Neopharma	Generic drugs manufacturer
Pharmatrade	Distributor

Pharmaceutical Market Size (US\$ million)



Source: Business Monitor International



Saudi Arabia

Key Driving Factors

- **Consumer base:** Saudi Arabia has the largest population base in the Gulf, which is projected to expand at an annual average growth of more than 2% over the next five years. Growth of the hydrocarbons sector and robust government spending has boosted GDP per capita of the economy, and the trend is anticipated to sustain in the future.
- **Chronic ailments:** Over 35% of the Saudi population over 20 years of age was said to be obese in 2008. At 19.4%, the kingdom had the highest prevalence of diabetes in the 20-79 years population in the GCC in 2012.
- **Religious tourism:** Saudi Arabia is the center for religious tourism in the Gulf. The Hajj pilgrimage attracts millions of pilgrims each year, thus providing a market for large volumes of vaccines and OTC drugs.
- **Other factors:** Increasing general health awareness, rising medical insurance coverage, and government measures to boost the local drug manufacturing segment are expected to positively impact the pharmaceutical market in the kingdom.

Recent Industry Developments

- In February 2013, the Saudi Arabian health ministry was reported to have launched preparations for making health insurance coverage compulsory for the dependents of expatriates.
- In January 2013, the kingdom's health minister announced that a health budget of SAR 54.4 billion for 2013 would help to improve healthcare services and meet the health requirements of citizens.
- Sanofi laid the foundation stone for its maiden manufacturing plant in Saudi Arabia in December 2012 to become the first multinational pharmaceutical company to set up an industrial facility with a 100% foreign direct investment.
- In October 2012, the health ministry was reportedly about to sign contracts worth SAR 1.2 billion for several projects at the King Fahd Medical City including construction of a cancer center, neurosciences center, lab building, a stem cell research center, and expansion of the Prince Salman Cardiac Center.

Macro-economic Indicators

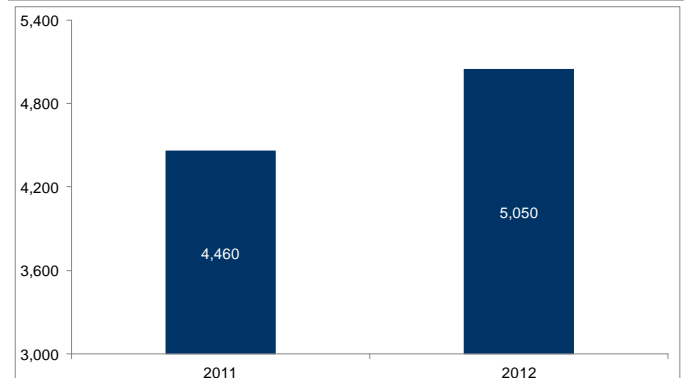
Indicators	Unit	2012E	2013F	2017F
Total GDP, constant prices	SAR bn	998.0	1,039.5	1,222.7
Real GDP growth	%	6.0	4.2	4.2
GDP per capita, current prices	US\$	22,823	23,199	24,428
Population	mn	28.8	29.4	31.9
Inflation	%	4.9	4.6	4.0

Source: International Monetary Fund (WEO Database, October 2012)
Note: E - Estimated, F - Forecast

Key Players

Company	Type
Saudi Arabian Japanese Pharmaceutical Company	Generic and branded drugs manufacturer
SPIMACO	Generic drugs manufacturer
Tabuk Pharmaceutical Manufacturing Company	Generic drugs manufacturer
Tamer Group	Distributor
Yassen United Group	Distributor and pharmacy operator

Pharmaceutical Market Size (US\$ million)



Source: Business Monitor International



Kuwait

Key Driving Factors

- **Demography:** An expanding population coupled with close to 100% urbanization and a large proportion of expatriate residents bode well for the growth of pharmaceutical industry in Kuwait. The inhabitants are among the wealthiest in the MENA region, suggesting strong ability to spend on imported and branded drugs.
- **Chronic diseases:** Incidence of diabetes among the Kuwaiti population is significantly higher than the GCC average. Prevalence of chronic disorders like cardiovascular ailments and smoking-related illnesses is also increasing.
- **Investments in healthcare:** Large investments are being undertaken for development of the healthcare sector through the public-private partnership route. Mandatory health insurance, which is currently applicable only to the expatriates, is likely to be extended to the indigenous population in the future. This expansion of the healthcare sector in the country will be accompanied by growth in demand for medicines.
- **Preventive healthcare:** The trend towards preventive healthcare is rising in line with an increase in healthcare awareness, thus supporting expansion of the OTC segment.

Recent Industry Developments

- In November 2012, the Kuwait-based Boubyan Petrochemical Co. announced the signing of an agreement for acquisition of a 20% interest in Al Borj Medical Lab Co. (Al Borj) for US\$ 20.2 million. Al Borj is an operator of medical, veterinary, and environmental laboratories in Saudi Arabia.
- In September 2012, based on results of a study conducted by Adan Hospital on 400 children aged between 7 and 11 years, it was concluded that 40% of the children in Kuwait were obese.
- In July 2012, the Dasman Diabetes Institute launched a campaign in association with Kuwait Red Crescent Society to collect funds for providing insulin pumps to child diabetics. Kuwait, second in Asia in the number of diabetics below 14 years of age, faced a severe shortage of insulin pumps.

Macro-economic Indicators

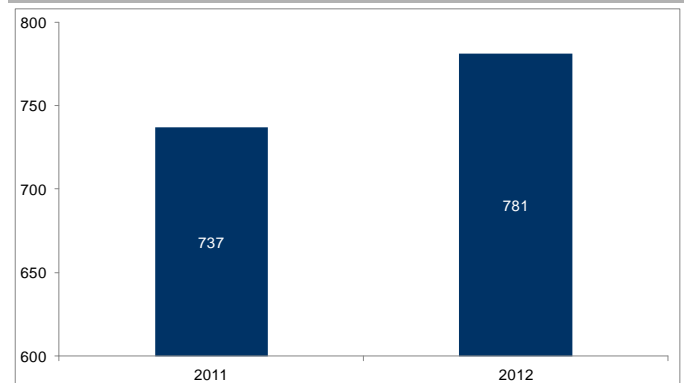
Indicators	Unit	2012E	2013F	2017F
Total GDP, constant prices	KWD bn	22.3	22.7	26.3
Real GDP growth	%	6.3	1.9	3.9
GDP per capita, current prices	US\$	46,142	45,050	44,468
Population	mn	3.8	3.9	4.3
Inflation	%	4.3	4.1	4.1

Source: International Monetary Fund (WEO Database, October 2012)
Note: E - Estimated, F - Forecast

Key Players

Company	Type
Al Mojil Drug Company	Distributor
Kuwait Saudi Pharmaceutical Industries Company	Generic drugs manufacturer

Pharmaceutical Market Size (US\$ million)



Source: Business Monitor International



Qatar

Key Driving Factors

- **Population growth:** Between 2012 and 2017, the International Monetary Fund expects Qatar to witness the largest expansion in population base in the Gulf. During the period, the population is forecast to expand at a CAGR of 4.0%. Due to increasing life expectancy and lower birth rate, age profile of the country's population is gradually shifting in favor of the older age group.
- **Per capita income:** Qatar has the highest GDP per capita in the GCC, which is expected to increase further in the medium term. The affluent consumer base has made the market highly attractive for branded drug suppliers.
- **Incidence of obesity and diabetes:** Around one-third of the Qatari population over 20 years of age was found to be obese in 2008. Obesity may lead to other chronic diseases like heart problems and blood pressure. Prevalence of diabetes in the country is also higher than the global and regional averages. Chronic ailments tend to remain with patients throughout their lifetime, and thus entail constant consumption of medication.
- **Insurance coverage:** Insurance coverage in Qatar is expected to increase significantly with implementation of the mandatory health insurance scheme at a national level. This is likely to boost demand for healthcare services in the country, and positively impact the pharmaceutical sector.

Recent Industry Developments

- In December 2012, Qatar's Advisory Council announced that the government spent US\$ 328.8 million in 2011 on treatment of its citizens abroad, a substantial increase over the US\$ 213.7 million incurred in 2010.
- The Supreme Council for Health temporarily closed down 13 pharmacies in different districts of Qatar on allegations of selling medicines without requisite prescriptions in October 2012.
- In February 2012, government officials stated that medicine prices in Qatar continue to remain high despite having been deregulated by the government six months before.

Macro-economic Indicators

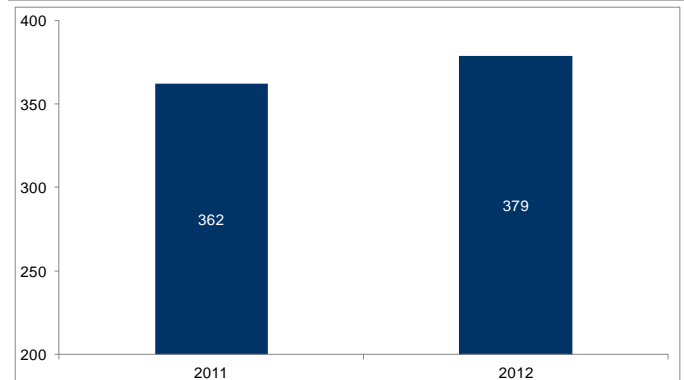
Indicators	Unit	2012E	2013F	2017F
Total GDP, constant prices	QAR bn	344.7	361.8	460.8
Real GDP growth	%	6.3	4.9	7.3
GDP per capita, current prices	US\$	100,378	99,838	106,320
Population	mn	1.8	1.9	2.2
Inflation	%	2.0	3.0	4.0

Source: International Monetary Fund (WEO Database, October 2012)
Note: E - Estimated, F - Forecast

Key Players

Company	Type
Al Baker Trading Establishment	Distributor
Ebn Sina Medical	Distributor and pharmacy operator
Qatar Pharma	Branded and generic drugs manufacturer

Pharmaceutical Market Size (US\$ million)



Source: Business Monitor International



Bahrain

Key Driving Factors

- Market indicators:** Despite being the smallest pharmaceutical market in the GCC in absolute terms, key industry indicators in Bahrain show a healthy trend. Pharmaceutical sales as a percentage of GDP is the highest in the region, while pharmaceutical sales per capita is also above the Gulf average. According to Frost and Sullivan's projections, pharmaceutical sales growth in Bahrain is projected to surpass the regional growth rate going forward.
- Population:** Apart from the growth in per capita spending, the pharmaceutical industry is expected to benefit from population growth in Bahrain. The number of inhabitants is forecast to increase at a CAGR of 2.0% between 2012 and 2017. Population aged 60 years and above is expected to expand at a faster pace compared to the overall average in the long term.
- Disease profile:** As in most of the GCC countries, the prevalence of obesity and diabetes in Bahrain is significantly above the global average.
- Government measures:** The government in Bahrain is keen to attract private investments in the healthcare and pharmaceutical sectors. It is also unlikely to reduce public spending in the near future to avoid potential social unrest. To capitalize on Bahrain's reputation for high quality of medical care and relatively low prices, development of medical tourism is being given a substantial push.

Recent Industry Developments

- In January 2013, the National Health Regulatory Authority in Bahrain was reported to be drafting a new regulation for preventing the use of fake medicines. According to the authority's chief executive, approximately 33% of medicines sold in the country could be counterfeit.
- In June 2012, Gulf Biotic, a Saudi-based company, announced plans to construct an insulin manufacturing plant at the Salman Industrial City in Bahrain. The plant, to be built at an estimated cost of US\$ 93 million, would make insulin vials and cartridges to meet the increasing demand across the GCC.

Macro-economic Indicators

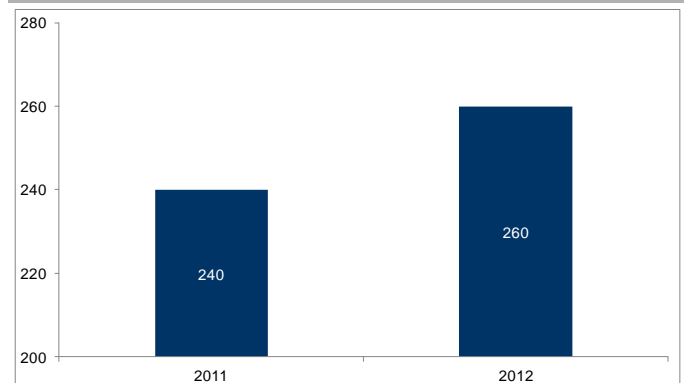
Indicators	Unit	2012E	2013F	2017F
Total GDP, constant prices	BHD bn	5.3	5.5	6.1
Real GDP growth	%	2.0	2.8	2.8
GDP per capita, current prices	US\$	23,027	23,597	23,889
Population	mn	1.2	1.2	1.3
Inflation	%	0.6	2.0	2.0

Source: International Monetary Fund (WEO Database, October 2012)
Note: E - Estimated, F - Forecast

Key Players

Company	Type
Bahrain Pharmacy & General Store	Distributor and pharmacy operator

Pharmaceutical Market Size (US\$ million)



Source: Business Monitor International



Oman

Key Driving Factors

- **Population expansion:** One of the major growth drivers for the pharmaceutical industry in Oman is likely to be the 3.1% annual average growth rate in population between 2012 and 2017.
- **Individual spending:** The low level of pharmaceutical sales per capita currently prevalent in Oman leaves significant room for growth going forward. People are expected to increase consumption of medicines due to higher healthcare awareness and insurance penetration in the future. Existing drug prices below that in most of the other GCC nations limits the scope for government-induced price reductions.
- **New investments:** Government incentives provided to attract foreign and local investments are expected to boost domestic drug manufacturing in the coming years. Inflow of public and private funds is likely to boost Oman's healthcare system and increase the country's appeal as a healthcare destination, especially among tourists from the other GCC countries.

Recent Industry Developments

- The International Medical City in Salalah, which would be home to the region's first purpose-built transplantation and rehabilitation center, is scheduled to begin operations in 2016. The project is expected to establish Oman as a hub for transplant-based medical tourism in the Gulf.
- Oman's healthcare budget in 2013 was increased 9.4% y-o-y to OMR 547 million, which is likely to boost new developments in the sector.
- In April 2012, the health ministry was reported to have reduced prices of 1,242 medicines by up to 20% primarily imported from the UK, European Union, Sweden, and Denmark. The price revision came in response to changes in foreign exchange rates.
- Around 20% of all Omani and expatriate children aged between 5 years and 15 years in the country were said to be overweight in January 2012.

Macro-economic Indicators

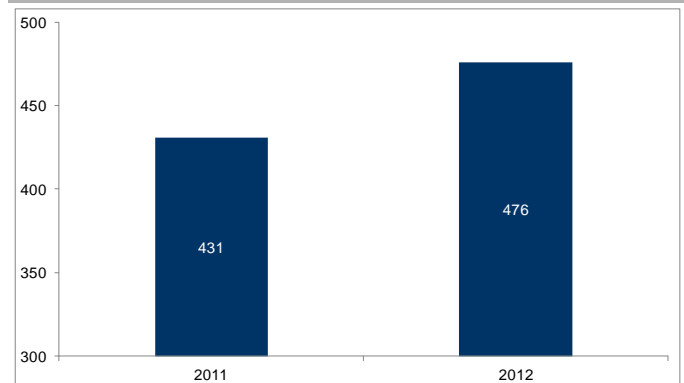
Indicators	Unit	2012E	2013F	2017F
Total GDP, constant prices	OMR bn	13.4	13.9	15.9
Real GDP growth	%	5.0	3.9	3.7
GDP per capita, current prices	US\$	25,152	25,269	24,324
Population	mn	3.2	3.3	3.7
Inflation	%	3.2	3.0	3.3

Source: International Monetary Fund (WEO Database, October 2012)
Note: E - Estimated, F - Forecast

Key Players

Company	Type
Muscat Pharmacy	Pharmacy operator
National Pharmaceutical Industries	Generic drugs manufacturer
Oman Chemicals & Pharmaceuticals	Bulk drugs manufacturer
Oman Pharmaceutical Products Co.	Generic drugs manufacturer

Pharmaceutical Market Size (US\$ million)



Source: Business Monitor International

Company Profiles



Al Baker Trading Establishment (Privately Owned)

Qatar

Company Description

Al Baker Trading Establishment (Al Baker), founded in 1945, is a Qatar-based company having diversified operations across many sectors. The company is an importer and distributor of pharmaceutical products, consumer products, building materials, furniture & accessories, and sanitary products. It also undertakes real estate development & investments, and owns a printing press and library. Al Baker represents several global pharmaceutical companies including Abbott Laboratories, Bayer, Pfizer, Boehringer, Merck, and GlaxoSmithKline. As on September 27, 2012, the company operated with 300 employees.

Business Segments/Product Portfolio

The company distributes products falling in below mention categories:

- Pharmaceuticals
- Consumer products
- Building materials
- Furniture & accessories
- Sanitary products

Key Strengths

- Experience of operating in Qatar for over six decades.
- Represents major pharmaceutical manufacturers in the drug distribution business.

Al Khayyat Investments (Privately Owned)

UAE

Company Description

Al Khayyat Investments (AKI) is a family-owned company established in 1982 with healthcare being the core business. Apart from healthcare, it has business interests in retail, contracting, and automobile sectors, to name a few. The company's long-term strategy has been to pursue growth by partnering with players who are leaders in their respective sectors. Some of the company's partners in the healthcare business include Bayer, Meda, Siemens Healthcare Diagnostics, Stago, and Boston Scientific.

Business Segments/Product Portfolio

AKI operates through the below-mentioned autonomous business units:

- **Healthcare:** The company undertakes two types of activities within this division through Alphamed Pharma and Alphamed Medlab.
 - **Alphamed Pharma:** This was the founding business of AKI. The division is engaged in distribution of pharmaceutical products including prescription drugs, OTC drugs, skincare products, and specialty products to both private and institutional customers in the Middle East region. It sells its products on a wholesale basis to private sector and public sector clients. The company, through its partners, enjoys between 40% to 50% share in the UAE's skincare product market.
 - **Alphamed Medlab:** Through Alphamed Medlab, AKI supplies hi-tech medical equipment across the UAE. Some of the company's partners in this business unit include Zeiss, Smith & Nephew, Bio-Rad, Siemens Healthcare Diagnostics, and Boston Scientific.
- **Retail:** Through this business unit, the company undertakes retail operations in several sectors including healthcare, food & beverages, and fashion & lifestyle. Some of the retail partners of the company include Fila, Holland & Barrett, Steak & Ale, and Kickers. This division operates a chain of close to 50 pharmacy stores in the UAE under the brand, Bin Sina Pharmacy. The store number is expected to increase to 60 by the end of 2013, and there are plans to set up outlets across the Gulf.

Others

- **Client Concept:** This is the consumer product distribution division having its focus on fast moving consumer goods, beauty, household, and consumer electronics.
- **Fitness & Bowling:** This unit offers serves the commercial and private fitness markets through the Deltatrade brand.
- **Contracting:** This business unit offers turnkey services for interior and exterior projects.
- **Environmental Services:** This unit provides pest management services and operates under the Pestfree brand.
- **Automotive:** Through this unit, AKI has been engaged in retailing and rental of cars in Jordan since 1996.
- **Investments:** Through this unit, AKI holds strategic investments in sectors like education, real estate, and equipment leasing.

Key Strengths

- Experience of around 30 years in pharmaceutical distribution business.
- Relationship with major global pharmaceutical manufacturers.
- Robust product portfolio covering a wide range of pharmaceuticals and medical equipment.

Recent Developments/Future Plans

- In March 2012, Bin Sina Pharmacy opened its second store in Dalma Mall in Abu Dhabi.
- In January 2012, Alphamed entered into an agreement with Arabio to sell its human vaccines and drugs in the UAE.

Al Mojil Drug Company (K.S.C.C) (Privately Owned)

Kuwait

Company Description

Al Mojil Drug Company (K.S.C.C) (Al Mojil) was established in 1964 as a supplier of pharmaceutical products in Kuwait. Later, it diversified into other areas of healthcare by supplying medical equipments, veterinary, and consumer products. Al Mojil has a relationship with around 30 suppliers including Novartis, Astellas, Abbott, Pfizer, and Johnson & Johnson. Major customers of the company include Kuwait Oil Company, Ministry of Health in Kuwait, and Kuwait National Petroleum Company.

Business Segments/Product Portfolio

- **Pharmaceutical:** Started in 1964, the pharmaceutical division of Al Mojil was divided into private and institutional sector in 2003. The private sector caters to private pharmacies and hospitals, whereas the institutional sector caters to various Kuwaiti ministries, charitable institutions, and government subsidiaries, to name a few. Through its pharmaceutical division, Al Mojil distributes approximately 500 products of more than 20 companies to nearly 450 customers across Kuwait.
- **Nutrition:** The division, established in 2000, supplies around 47 nutritional products to close to 450 customers in Kuwait, with Kuwait Supply Company being its largest customer. Al Mojil is the sole distributor of Abbott Nutrition in Kuwait and enjoys a 40% market share in the domestic nutritional market.
- **Lab & Diagnostics:** The division was established in 2000 and supplies laboratory and diagnostic equipment to around 40 customers across the country, with the Ministry of Health being one of its largest customers. The product portfolio includes equipment from companies like Abbott Diagnostics, Adam Equipment Company, and Barkey GmbH.
- **Consumer:** The Consumer division, established in 1973, is engaged in distribution of around 185 products to over 90 customers, including wholesalers and retailers across Kuwait. Key customers of this division include Lulu Hypermarket, Carrefour, City Centre, Gulf Mart, and High Way Centre; while Church & Dwight, Jaywir, and SMI are the major suppliers of consumer products to the company.
- **Veterinary:** Started in 2006, the Veterinary division of Al Mojil is engaged in distribution of medicines for poultry farming, animal husbandry, and aquaculture in Kuwait. It supplies around 27 products including Amoxyinject, Ampicillin, Gentamicin, Avibblue, Lovit, Electrovit, and Kopper Kare to approximately 30 customers including Agrifish, Naif Poultry Company, and Kuwait United Poultry Company. Al Mojil's major suppliers in this division include Bremer Pharma, Lohmann Animal Health, and Vetripharm.

Key Strengths

- Diversified pharmaceutical and healthcare offerings catering to private as well as public clients.
- Represents a number of recognized global pharmaceutical firms.



Aster Pharmacy (Privately Owned)

UAE

Company Description

Aster Pharmacy, a part of DM Healthcare, was established in 1989. It is one of the largest providers of healthcare services in the UAE. The company is engaged in retailing of pharmaceutical and healthcare products in the GCC region. As of December 1, 2012, Aster Pharmacy operated a network of 95 stores located across the Gulf, with main focus on the UAE market. The chain of pharmacy stores was branded as Medshop until 2010, after which it was rebranded as Aster. Apart from pharmacies, DM Healthcare also operates clinics, polyclinics, and diagnostic centers under the Aster brand.

Business Segments/Product Portfolio

The company offers pharmaceutical and healthcare products in a number of categories including baby care, cardiac care, diabetes care, eye care, foot care, hair care, lifestyle, mother care, nutrition, oral care, personal care, rehab & home care, respiratory care, skin care, and weight management.

Key Strengths

- Wide range of product portfolio catering to various verticals of the healthcare industry.
- Robust network of pharmaceutical retail stores in the UAE.

Recent Developments/Future Plans

- In December 2012, all the eighteen pharmacies operating under the Al Shafar Group were brought under Aster Pharmacy pursuant to a strategic partnership between the two parties.

Bahrain Pharmacy & General Store (Privately Owned)

Bahrain

Company Description

Bahrain Pharmacy & General Store (Bahrain Pharmacy) was established in 1945 by Ali Ahmed Al Awadhi. It is a wholesaler and retailer of pharmaceutical and consumer products in Bahrain.

Business Segments/Product Portfolio

- **Pharma:** This division is in the business of selling drugs on wholesale basis to both private as well as public clients in Bahrain. Some of the customers of this division include Ministry of Health, Bahrain Defense Force Hospital, various private hospitals & clinics, and pharmacies across the country. It distributes products of various pharmaceutical companies including Abbott Laboratories, Novartis, Smith & Nephew, Norgine, and Meda.
- **Consumer:** Through this division, Bahrain Pharmacy offers a broad range of products including healthcare, cosmetics, food stuffs, beverages, perfumes, toiletries, and household products of multiple companies. Some of the key suppliers of Bahrain Pharmacy include Pfizer Nutritionals (Ireland), Milton Lloyd Cosmetics (UK), OKF Corporation (South Korea), Comb International (UK), Karaja (Italy), and Optima Healthcare (UK).
- **Retail:** The company operates six pharmacy outlets in the country including Dawa Al Bahrain, Bahrain Pharmacy, Kingdom Pharmacy, Muharraq Pharmacy, and Manama Pharmacy.

Key Strengths

- Rich experience of more than 65 years of serving the Bahrain's pharmaceutical market.
- Represents a number of recognized global pharmaceutical firms.



Ebn Sina Medical (Privately Owned)

Qatar

Company Description

Ebn Sina Medical (Ebn Sina) was founded in 1971 as Ebn Sina Pharmacy, a single-outlet pharmaceutical retail business. The company gradually expanded to become one of the prominent players in the Qatari market by signing a series of exclusive distribution agreements with reputed pharmaceutical suppliers and through acquisition of pharmacy stores. Apart from pharmaceuticals, Ebn Sina is also engaged in the marketing and distribution of medical equipment & hospital sundries, dental, laboratory & diagnostic appliances, skincare & foot care products, and medicated cosmetics. The company is a part of Aamal Company QSC (Aamal), a Qatari conglomerate and a public company listed on the Qatar Stock Exchange with interest in sectors such as real estate, trading, leisure, building material, steel, and power cables.

Business Segments/Product Portfolio

- **Wholesale:** Ebn Sina imports and distributes pharmaceuticals, medical & dental equipment, laboratory & scientific appliances, and disposables. The clientele comprises Hamad Medical Corporation, Supreme Council of Health, Qatar Petroleum, Qatar Diabetes Association, Ras Gas, private hospital & polyclinics, pharmacies, hypermarkets, and other private companies.
- **Retail:** Ebn Sina operates pharmacies and healthcare outlets across Doha, Qatar and Bahrain. The company's network comprises six pharmacies (all in Qatar), three foot care centers (one in Bahrain), and two skincare centers (one in Bahrain). The skincare centers are operated under a franchisee arrangement with the Italian cosmetic brand, Bottega Verde.

Key Strengths

- Association with a number of leading global pharmaceutical companies.
- Decades of experience in trading and distribution of pharmaceutical products.
- Leading position in the local market.
- Broad product portfolio.

Recent Developments/Future Plans

- In April 2012, Aamal announced that revenues of its Trading and Distribution division increased 22.1% y-o-y in 2011 driven by strong performance of Ebn Sina Medical, apart from a couple of other businesses. It stated that, during the year, Ebn Sina Medical signed new exclusive distribution agreements with several international names such as Labatec, Biopharm, Mendor, and Vitane Pharmaceuticals.



Globalpharma Company (Privately Owned)

UAE

Company Description

Globalpharma Company, a subsidiary of Dubai Investments Industries, was established in 1998. The company is engaged in the manufacturing of pharmaceutical products. It operates with two production facilities in the UAE with a combined annual capacity of 300 million tablets, 150 million capsules, and over 7 million liters of dry syrup and liquid. The products manufactured by the company are sold in the Middle East and African markets.

Business Segments/Product Portfolio

- The company manufactures more than 60 types of tablets, capsules, syrups, and suspension forms catering to multiple therapeutic areas including antibiotics, analgesics, nutritional supplements, gastrointestinal, anti-histamines, anti-diabetics, cardiovascular, and gynecology.
- Some of the in-licensed products of the company include Vagi C, Macmiror, Glovit Junior, Glovit Probiotic, Lyner, and Tergynan.

Key Strengths

- Diverse range of products serving several therapeutic segments.
- Strong backing of the parent group, Dubai Investments PJSC, which is the largest investment company listed on Dubai's Financial Market.

Recent Developments/Future Plans

- In March 2012, Globalpharma Company organized a scientific symposium to discuss chronic diseases, where it introduced three new medicines launched in Iraq to healthcare consultants.



Gulf Pharmaceutical Industries (Julphar)

UAE

Company Description

Gulf Pharmaceutical Industries (Julphar), established in 1980, is engaged in the production and distribution of pharmaceutical products. The company, through a portfolio of diverse therapeutic products, has presence across five continents, with a strong focus on the Middle East market. At the end of FY2011, it had 3,608 registered products in more than 50 countries. The company operates 11 manufacturing facilities in the UAE and one in Ethiopia. Julphar generated revenues of approximately US\$321.2 million in FY2012.

Business Segments/Product Portfolio

- Products manufactured by the company are available in various dosage forms for different therapeutic segments including anti-infective, cardiovascular system, endocrinology, central nervous system, respiratory system, musculoskeletal & joint diseases, immunosuppressant, oral cavity & gastro-intestinal tract, nutrition and blood, skin, and local anesthetics.
- The company generated 53.6% of total sales from the GCC region in FY2011, with Saudi Arabia and the UAE constituting 32.6% and 12.0% respectively. The remaining 46.2% of FY2011 sales was derived from other countries including Iraq (11.4%), Lebanon (6.9%), Afghanistan (5.3%), Egypt (4.6%), Libya (3.6%), Jordan (3.2%), and Sudan (2.7%).
- Private market sales and tender market sales constituted 72.8% and 27.2% of overall sales respectively in FY2011.

Key Strengths

- One of the largest producers of drugs in the Middle East.
- Fifth largest producer of insulin in the world, and the only one in the Middle East.
- Strong presence across several therapeutic segments.

Recent Developments/Future Plans

- In February 2013, Julphar inaugurated its first manufacturing facility in Ethiopia at a cost of US\$9.6 million, in partnership with a local partner, Medtech.
- In November 2012, the company launched its diabetes drug in Algeria.
- In September 2012, Julphar opened a new plant in the UAE which will be used for producing insulin.
- In July 2012, the company entered into an agreement with Merck Sharp & Dohme, a global healthcare company, for development of various pharmaceutical products.
- In November 2011, it entered into a corporate partnership agreement with the International Diabetes Federation for promotion of diabetes care.

Current price (US\$) 0.81

Price as on March 20, 2013

Stock Details

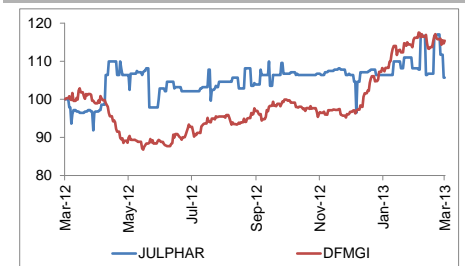
Bloomberg ticker	JULPHAR UH
52 week high/ low	0.90/0.71
Market Cap (US\$ mn)	636.6
Enterprise value (US\$ mn)	768.0
Shares outstanding (mn)	784.7

Source: Bloomberg

Average Daily Turnover (000's)

	AED	US\$
3M	98.4	26.8
6M	78.3	21.3

Share Price Chart



Valuation Multiples

	2012	Current	2013E
P/E (x)	11.8	11.7	N/A
P/B (x)	1.4	1.4	N/A
EV/S (x)	2.4	2.4	N/A
Dividend Yield (%)	3.3	N/A	N/A

Source: Bloomberg

Shareholding Structure

Public	51.08%
Government of Ras Al Khaimah	22.73%
Arab Company for Drug Industries & Medical Appliances	8.18%
Islamic Development Bank	6.72%
Others	11.29%
Total	100.00%

Source: Zawya



Financial Performance			
US\$ Million	2011	2012	Change (%)
Revenues	278.8	321.4	15.3
COGS	107.9	131.5	21.9
Operating Income	50.7	57.6	13.7
Operating Margin (%)	18.2	17.9	
Net Income	46.3	54.6	17.8
Net Income Margin (%)	16.6	17.0	
ROE (%)	11.2	12.2	
ROA (%)	7.8	8.3	

- Revenues increased by 15.3% y-o-y to US\$ 321.4 million in FY2012 driven by growth in tender market sales.
- Operating income expanded by 13.7% y-o-y during the same period to US\$ 57.6 million, on higher revenues. The growth was partially subdued by an increase in COGS per unit of revenues coupled with over 30% increase in general and administrative expenses compared to the previous year.
- Despite lower other income and higher finance costs, net income grew by 17.8% to US\$ 54.6 million in FY2012. The bottomline was positively impacted by a gain from investments and others in contrast to a loss in FY2011.

Source: Bloomberg, Company filings



Company Description

Kuwait Saudi Pharmaceutical Industries Company (KSP) was established with the support of a Swedish partner (Astra) as KPICO. Until Iraq's invasion of Kuwait, KSP operated under the guidance of the Swedish partner. In 1994, after Kuwait's liberation, the ownership of KSP was transferred to a Kuwait-Saudi joint venture and subsequently, the company acquired its present name. KSP is engaged in the development, manufacturing, and marketing of pharmaceutical products. The company's target market includes the GCC, Middle East, and some African countries.

Business Segments/Product Portfolio

KSP's product portfolio includes the following:

- **Large Volume Parenterals (LVPs):** Production of LVPs was started by KSP in 1995. Various products offered under this category include electrolyte solutions, nutritional preparations, electrolyte & nutritional preparations, osmotic diuretics, plasma volume expanders, irrigation solutions, urological irrigation solutions, peritoneal dialysis solutions, and hemodialysis solutions.
- **Small Volume Parenterals:** Products offered by KSP under this category include antibiotics, pain & anesthesia, anti-anemia, and sterile water for injections and diluents.
- **Tablets and Capsules:** KSP offers tablets and capsules for medical branches such as cardiovascular system, central nervous system, endocrine system, gastro-intestinal system, immune system, infectious diseases, and respiratory system, to name a few.
- **Syrups & Liquids:** KSP offers several syrups and liquids for faculties like central nervous system, gastro-intestinal system, infectious diseases, musculoskeletal & joint diseases, nutrition, and respiratory system.
- **Cream and Ointment:** KSP offers cream and ointments falling in categories like antiviral, antibiotic, corticosteroids, and analgesic.
- **Suppositories & Pessaries:** Products from this category are used in treatment of gastro-intestinal disorders, and pain & inflammation.

Key Strengths

- Strong footprint in the Middle East.
- Robust portfolio of products catering to multiple therapeutic areas.



LIFE Healthcare Group (Privately Owned)

UAE

Company Description

LIFE Healthcare Group (LIFE) was established in 1986 as United Pharmacies. It owns and operates pharmacy retail outlets, nutrition centers, healthcare hypermarkets, and health & wellness stores across the UAE. LIFE has presence in Dubai, Abu Dhabi, Sharjah, and Umm Al Qaiwain through more than 100 retail outlets (comprising of pharmacies, healthcare hypermarkets, and health & wellness stores). The company is in the process of setting up operations in remaining emirates of the UAE and other GCC countries. Additionally, it also plans to enter the Indian market and commence operations in key cities including New Delhi, Mumbai, Bangaluru, and Chennai.

Business Segments/Product Portfolio

LIFE provides products and services in the following healthcare categories:

- Medicines
- Vitamins & supplements
- Sports nutrition
- Skin & beauty care
- Specialty home care
- Mother & baby care
- Orthopedics & rehabilitation
- Personal care
- Homoeopathy medicines
- Optics

Key Strengths

- One of the leading companies in the healthcare retail segment in the UAE.
- Diversified product range catering to multiple healthcare classes.
- Aggressive expansion plans.

Recent Developments/Future Plans

- LIFE intends to open 200 stores in India over the next two years through franchisee, joint venture, and ownership routes.



Company Description

Medpharma Pharmaceutical and Chemical Industry (Medpharma) was established in 1998 and is engaged in the manufacturing of generic drugs, cosmetics, and beauty care products. The company manufactures its products in various dosage forms including tablets, capsules, suspensions, ointments, creams, gels, and syrups at plants located in Sharjah, UAE. Total production capacity of plants is 15 million cream tubes, 185 million capsules, 20 million antibiotic bottles, 20 million syrup bottles, 20 million hygienic and cosmetic products, and 850 million tablets. Medpharma distributes its products through a network of agents and distributors across the Middle East and Africa.

Business Segments/Product Portfolio

Products manufactured by the company fall under the below-mentioned therapeutic and healthcare categories:

- Anti-bacterial (systemic and topical)
- Anti-fungal (systemic and topical)
- Antiviral (systemic and topical)
- Analgesics and anti-inflammatory
- Respiratory medications
- Gastrointestinal
- Gynecological
- Multivitamins & supplements
- Mouthwash & oral cavity
- Beauty care
- Hair care
- Skin care
- Skin & burns topical antiseptics
- Topical corticosteroids & anti-inflammatory
- Antiseptics & disinfectants

Key Strengths

- One of the leading names in the UAE generic drug market.
- Diversified product range catering to multiple therapeutic and healthcare categories.



Modern Pharmaceutical Company (Privately Owned)

UAE

Company Description

Modern Pharmaceutical Company (MPC), established in 1970, is engaged in the distribution of pharmaceutical and healthcare products on retail and wholesale basis. It is a part of the Al Batha Group, one of the largest private business groups operating in the UAE. As of January 31, 2012, MPC owned and operated six pharmacy retail outlets in the country including Al Kawthar Pharmacy, Modern Al Riqqa Pharmacy, and Modern Pharmacy. The company represents some of the major international pharmaceutical companies like Pfizer, Sanofi Aventis, Astra Zeneca, and Boston Scientific.

Business Segments/Product Portfolio

- **Pharma:** This division distributes pharmaceutical products across the UAE. The company represents more than 30 global and regional pharmaceutical companies and caters to around 20% of country's overall drug requirement.
- **Medical:** Some of the products offered by this division include equipment, instruments and consumables used in surgical operations; laparoscopy, bariatric, endoscopy & neurospine products; laboratory diagnostics & analytical equipment; reagents & consumables; and dental consumables & equipment.
- **Personal Health & Beauty Care:** This division offers beauty and wellness products in various segments including hair care, skincare, foot care, diabetes monitoring, diabetes management, electrical healthcare products, analgesics, and vitamins.
- **Retail:** The company operates a chain of pharmacies in the UAE through this division. Major products offered by the retail outlets include medicines, vitamins & nutritional supplements, skincare products, cosmetics, home healthcare, and monitoring devices.

Other

- **Logistics Services:** The company, in partnership with Hellmann Caliper, provides logistics solutions to its clients.
- **Human Resources:** Through this division, MPC provides human resources solutions and services including job analysis & grading, human resources planning, employee recruitment, performance appraisal, career planning, and learning & development programs to its partners.
- **Finance & Administration:** This division provides support and services to all other divisions of the company.

Key Strengths

- Experience of over four decades in the UAE's pharmaceutical and healthcare sector.
- Diversified portfolio of products.
- Represents a number of recognized global pharmaceutical firms.

Recent Developments/Future Plans

- In January 2011, MPC launched its new logo to rebrand its visual identity.



Muscat Pharmacy & Stores LLC (Privately Owned)

Oman

Company Description

Muscat Pharmacy & Stores LLC (Muscat Pharmacy), established in 1968, is one of the oldest and largest retail pharmacy store operators in Oman. Apart from operating in the urban areas of Oman, Muscat Pharmacy has also penetrated the interior areas of the country. Over the years, the company has diversified beyond selling pharmaceuticals, hospital & laboratory equipment, and surgical products to selling a range of perfumes, cosmetics, baby care products, health foods, as well as veterinary, agricultural, and fertilizer products. As of April 30, 2012, the company operated 68 retail outlets and seven warehouses located across Oman.

Business Segments/Product Portfolio

- **Pharmaceuticals:** The products offered by the company under this category range from vitamins to anti-cancer drugs. Some of the major suppliers of Muscat Pharmacy include AstraZeneca, Aventis, Bayer, Boehringer Ingelheim, and Boots Healthcare.
- **Consumer Products:** Through this division, Muscat Pharmacy distributes a variety of products including over-the-counter remedies, health and dietary supplements, personal care products, toiletries and household products. Some of the major suppliers to the company include GlaxoSmithKline, Boots Healthcare, Procter & Gamble, and Himalaya Herbals.
- **Hospital Disposables and Surgicals:** This division distributes products including catheters, bandages, gauze pads, sutures, intravenous needles, surgical gloves, disposable syringes & needles, pacemakers and drug delivery systems, to name a few. Some of the suppliers include 3M USA, Adam Rouilly, Aesculap, Ambu, Arrow, Asahi Medicals, Ethicon (Johnson & Johnson Group), Intersurgical, Unoplast, and Johnson & Johnson (advanced wound care products).
- **Veterinary & Fertilizers:** This division distributes several veterinary and fertilizer products including multivitamins, antibiotics, vaccines and disinfectants, natural and inorganic pesticides, bio-pesticides, and synthetic pesticides.
- **Laboratory Products:** Through this division, Muscat Pharmacy supplies laboratory equipments like automated clinical chemistry analyzers, haematology analyzers, clinical microbiology equipment, and histopathology equipment to hospitals and clinics across Oman. This division is also one of the largest suppliers of laboratory consumables like glassware, chemicals, and reagents in the country.
- **Perfumes & Cosmetics:** This division provides a wide range of perfumes, cosmetics, fragrances, and make-up & skin care products to end-users.
- **Engineering Division**

Key Strengths

- Extensive network of retail outlets in urban as well as rural areas of Oman.
- Strong presence in the healthcare and pharmaceutical sectors due to a wide range of product offerings.



National Pharmaceutical Industries Company SAOG

Oman

Company Description

National Pharmaceutical Industries Company SAOG (NPI), promoted by the Ministry of Health in Oman, has been in operation since 2001 and is the first pharmaceutical formulation manufacturing company in the country. NPI's products are also registered in other GCC countries, and Middle East and African countries including Yemen, Iraq, Jordan, and Kenya. As on December 31, 2011, NPI had 98 products registered with Ministry of Health, Oman and 47 products registered at the central GCC level, covering several therapeutic segments in oral and dosage form. NPI's product portfolio caters to both private and government sector clients.

Business Segments/Product Portfolio

- **Liquid & Dry Suspension (Main Plant):** The company manufactured 5.8 million bottles of liquid & dry suspension in FY2011.
- **Solids (Main Plant):** The company manufactured 293.0 million solid tablets in FY2011.
- **Sachets (Main Plant):** NPI manufactured 24.6 million sachets in FY2011.
- **Dry Suspensions (Beta-lactam Plant):** NPI manufactured 1.8 million bottles of dry suspension in FY2011.
- **Capsules (Beta-lactam Plant):** The company produced 49.2 million capsules in FY2011.

The company manufactures various formulations under the above segments. Formulations manufactured fall under various therapeutic categories such as cardiovascular, anti-bacterial, anti-allergic, non-steroidal anti-inflammatory, gastro-intestinal, anti-depressant, analgesic antipyretic and anti-diabetic.

Key Strengths

- Strong presence in the GCC and Middle East.
- Focus on R&D.

Current price (US\$) 0.26

Price as on March 21, 2013

Stock Details

Bloomberg ticker	NPMI OM
52 week high/low	0.26/0.26
Market Cap (US\$ mn)	13.0
Enterprise value (US\$ mn)	24.7
Shares outstanding (mn)	50.0

Source: Bloomberg

Average Daily Turnover (000's)

No significant trading history in last six months

Share Price Chart

No significant trading history in last one year

Valuation Multiples

	2012	Current	2013E
P/E (x)	9.5	9.5	N/A
P/B (x)	0.9	0.9	N/A
EV/S (x)	1.3	1.3	N/A
Dividend Yield (%)	14.0	N/A	N/A

Source: Bloomberg

Shareholding Structure

Al Ritaj Holding Company	69.46%
Middle East Investment Company	30.00%
Public	0.54%
Total	100.00%

Source: Zawya



Financial Performance			
US\$ Million	2011	2012	Change (%)
Revenues	16.5	18.5	11.7
COGS	12.4	12.8	4.0
Operating Income	1.8	2.2	25.0
Operating Margin (%)	10.6	11.8	
Net Income	2.7	1.4	-49.5
Net Income Margin (%)	16.3	7.4	
ROE (%)	21.4	9.3	
ROA (%)	7.5	3.6	

- Higher sales in both the domestic private market and export private market led to an increase in the company's revenues by 11.7% y-o-y to US\$ 18.5 million in FY2012.
- Despite a significant rise in operating expenses, operating income grew by 25.0% y-o-y to US\$ 2.2 million in the year. The profitability was boosted by a higher gross margin as the company focused on enhancing its presence in Oman, Saudi Arabia, and the UAE.
- However, income tax expense of US\$ 0.3 million in FY2012 compared to a tax benefit of US\$ 1.5 million in FY2011 translated into a 49.5% y-o-y decline in net income during the period.

Source: Bloomberg



Neopharma (Privately Owned)

UAE

Company Description

Neopharma, which started operations in 2003 in the UAE, is engaged in the manufacturing and distribution of generic pharmaceutical products in different dosage forms. The company's manufacturing facility comprises two independent blocks; with one dedicated to the production of general products while the other for beta-lactam products. The plant has an annual installed capacity of 142 million tablets, 110 million capsules, 10.1 liquid bottles, and 7.5 million sachets. Apart from selling its products in the UAE, the company's products are also exported to countries like Saudi Arabia, Oman, Qatar, Kuwait, Kenya, and Afghanistan.

Business Segments/Product Portfolio

Neopharma's product portfolio caters to several therapeutic areas including the following:

- Anti-infectives
- Analgesics
- Antipyretics
- Anti-inflammatory drugs
- Cardiovascular
- Diabetes
- Respiratory
- Gastrointestinal
- Multivitamins and other supplements

Key Strengths

- Ability to launch new products in quick succession.
- Strong focus on R&D.
- Partnership and agreements with global pharmaceutical companies for in-license manufacturing and distribution of pharmaceutical products.

Recent Developments/Future Plans

- In December 2012, Neopharma entered into partnership with Merck Serono, a division of Merck KGaA, to manufacture Merck-branded drugs for distribution across the Middle East.
- In November 2012, Neopharma entered into a joint venture agreement with India-based pharmaceutical company, Hetero Group. In the first phase of their partnership, a firm which will distribute Hetero Group's products across the UAE will be established.
- The company inaugurated its dedicated R&D center in Musaffah, UAE in September 2012.
- In 2012, Neopharma received an approval from the UAE's Ministry of Health to introduce its generic version of Levofloxacin and Losartan Potassium.
- In 2012, Neopharma received an approval to launch the generic version of Pantoprazole, a gastro-resistant tablet.



Oman Chemicals & Pharmaceuticals LLC (Privately Owned)

Oman

Company Description

Oman Chemicals & Pharmaceuticals LLC (OCPL), established in 1991, is a leading bulk drug manufacturer in the GCC region. Apart from the Gulf, OCPL also has its presence in Europe, the Middle East, Latin America, Asia, and Africa. OCPL operates with two bulk drug manufacturing units producing semi-synthetic penicillin and other value-added products. The company's manufacturing and research plants comply with current Good Manufacturing Practices (cGMP) guidelines issued by World Health Organization.

Business Segments/Product Portfolio

- **Bulk Drug Manufacturing:** Some of the products offered by OCPL include amoxicillin trihydrate (micronized and powder), ampicillin anhydrous compacted, ampicillin trihydrate (micronized and powder), cloxacillin sodium compacted, cloxacillin sodium (micronized and powder), amlodipine besilate, atorvastatin calcium, and glimepiride.

Key Strengths

- Dominant player in bulk drug manufacturing in the GCC region.

Oman Pharmaceutical Products Co. LLC (Privately Owned)

Oman

Company Description

Oman Pharmaceutical Products Co. LLC (OPP), established in 2000, is a part of Al Bhaja Group, a diversified conglomerate of Oman. OPP is engaged in the development, manufacturing, and marketing of generic and over the counter drugs in the GCC and across the world. In addition, OPP also offers contract manufacturing services to large and global pharmaceutical companies. It operates with its manufacturing facility located at Salalah in the South of Oman. Some of the major brands of the company include Becasma, Bevason, Cefim, Cefovex, Clariva, Dimet, and Pmol.

Business Segments/Product Portfolio

The company offers a variety of products in several therapeutic segments like antibacterial & antiviral, cardiovascular & anti-diabetics, analgesic & anti-pyretics, gastrointestinal, central nervous system, dermatological, hormones & steroids, respiratory, antigout, urological, and inhalers.

Key Strengths

- Diversified product offerings catering to several therapeutic segments.
- Strong backing of the parent, Al Bhaja Group, a large conglomerate with presence in Oman and other GCC countries.
- Footprint in the US and European Union, apart from other GCC member countries.
- Portfolio consists of approved drugs from a number of international regulatory authorities like MHRA-UK, TGA-Australia, RVO-Germany, and GCC-DR.



Pharmatrade LLC (Privately Owned)

UAE

Company Description

Pharmatrade LLC (Pharmatrade), established in 1977, is a UAE-based company engaged in the distribution of pharmaceutical products, and medical & laboratory equipment across the country. The company supplies products of reputed pharmaceutical and healthcare companies such as Pfizer, Sanofi Aventis, Johnson & Johnson, and Roche Diagnostics. It distributes drugs for categories ranging from anti-cancer, antibiotics, and diabetes care to cough & cold and OTC consumer health products to government and private sectors. Affiliated companies of Pharmatrade include Symbio LLC, Pharmaserve FZCO, Medysinal FZCO, and Community Health Solutions LLC.

Business Segments/Product Portfolio

- **Pharmaceutical Division:** Through this division, Pharmatrade is engaged in the distribution of a wide range of medicines to hospitals, pharmacies, health centers, and private clinics across the UAE. The company is an exclusive distributor of several major pharmaceutical firms including Sanofi Aventis, Pfizer, Rowa Pharmaceuticals, and GlaxoSmithKline. This division also provides information about new products to be launched in the country to the physicians and pharmacists.
- **Medical Division:** This division represents a number of medical, biotechnology, and consumer healthcare companies in the UAE. Pharmatrade is an exclusive distributor of suppliers like Johnson & Johnson, Argon, Coloplast, and Systagenix, amongst others. Through its sales staff, the company promotes several specialties including ortho-neuro spine implantation, urology, critical care & cardiology, safety management & disposable consumables, burn management, and skin regeneration template implantation.
- **Laboratory Division:** This division is responsible for supplying laboratory equipment to hospitals, private laboratories, clinics, and pharmacies in the UAE. The company serves both the government and private sectors through this division. Pharmatrade holds exclusive distribution rights of companies including Roche Diagnostics, Woodley Equipment Company, and Becton, Dickinson and Company.

Key Strengths

- Rich experience of more than 35 years of operating in the UAE.
- Represents a number of recognized global pharmaceutical and medical equipment manufacturers.



Qatar Pharma (Privately Owned)

Qatar

Company Description

Qatar Pharma was established in 2009 as one of the first domestic drug manufacturers in Qatar. The company started manufacturing of infusion products in the same year. Over the next two years, it expanded its operations to produce antibiotics, peritoneal dialysis solutions, irrigation solutions, pediatric products, and topical drugs. Qatar Pharma plans to start manufacturing ethical drugs in various dosage forms by the end of 2014. The company is registered as a drug supplier in all the GCC countries and some other parts of the Middle East.

Business Segments/Product Portfolio

Qatar Pharma is engaged in the production of below-mentioned products:

- **Infusions:** Through its product portfolio, the company caters to several therapeutic areas including analgesic & antipyretics, electrolytes, anesthetics, and anti-microbial.
- **Parenteral Nutrition:** It provides parenteral nutrition products, enteral nutrition products, nutrition pumps, and infusion disposables.
- **Medical Devices:** The company has expertise in container design, filter technology, clinical fluids processing equipment, disposables, and administration instruments.
- **Topical Drugs:** Qatar Pharma manufactures several topical drugs catering to multiple therapeutic categories, which are sold across the Middle East.
- **Haemo:** It provides haemo-dialysis products in various dilution ratios.

Key Strengths

- Wide range of product portfolio.
- Plans in place for expansion of the production facility and product offerings in the future.



Company Description

Saudi Arabian Japanese Pharmaceutical Company Limited (SAJA) is a joint venture company between the Saudi-based Tamer Industries and two Japanese pharmaceutical companies, Daiichi Sankyo Co. and Astellas Pharma Inc. The company is engaged in the manufacturing of pharmaceutical products catering to multiple therapeutic areas including urology, cardiovascular, rheumatic disorders, osteoporosis, gynecology, and dermatology. Apart from serving the Saudi Arabian market, SAJA's products are also exported to other GCC member countries and several countries in the Middle East and Africa region including Yemen, Jordan, Lebanon, Egypt, Sudan, and Libya.

Business Segments/Product Portfolio

- **Brands:** The company manufactures several branded products like Omnic, Omnic Ocas, Vesicare, Olmetec, Olmetec Plus, Roxonin, Yutopar, and Josaxin.
- **Generics:** The generics manufactured by the company include Finasid, Amopress, Lipomax, Simvaten, Omeprex, Pantomax, Azomax, Clarex, Floxacin, Itrazol, and Osteodens.

Key Strengths

- Ability to leverage the R&D capabilities and manufacturing expertise of the two Japanese owners, and local experience and contacts of the Tamer Group.
- The company claims that most of its brands occupy a leading market position.



Company Description

Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO), established in 1986, is engaged in the development, manufacture, and sales of pharmaceutical products and medical appliances. Apart from serving the domestic market, SPIMACO's products are also sold in other GCC member countries, in addition to Jordan, Yemen, and Libya. The company has entered into several alliances with well-recognized firms like Arac Healthcare, Merck, Bristol-Myers-Squib, Sanofi, Novartis, and Pfizer. SPIMACO also has investments in many other companies in Saudi Arabia and other countries.

Business Segments/Product Portfolio

- SPIMACO's product portfolio comprises of licensor brands, anti-allergic drugs, anti-fungal drugs, anti-viral drugs, bronchodilator drugs, cardiovascular drugs, anti-diabetic drugs, gastrointestinal drugs, antibiotics, cold preparations, cough preparations, and nasal decongestants.
- Some of the company's brands include Aerius, Bactrim, Claritine, Histop, Lorine, Neorin, Flocazole, Clovir, Amlopine, Capril, Proton (20 & 40), Cipromax, Fusiderm, Gentam, Coldact, and Flutab.
- The company intends to launch several products in various categories like tablets, capsules, dry powder for suspension, syrups & suspensions, injections, cream, ointments & gels, suppositories, mouthwash, and antiseptic products in future.

Key Strengths

- Strong positioning in the Saudi Arabian generics market.
- Diverse range of products serving several therapeutic segments.

Recent Developments/Future Plans

- In January 2013, SPIMACO signed a one-year Memorandum of Understanding with Abdi Ibrahim Company of Turkey for a strategic partnership in manufacturing and marketing pharmaceuticals.
- In December 2012, the company decided to restructure its operations in the Algerian market through a 100% owned entity under the name SPIMACO-Algeria Corporation. The entity would market and distribute SPIMACO's products in the Algerian market.
- In September 2012, the company approved the establishment of a new plant in Dammam for the production of pharmaceutical products.
- In March 2012, the company acquired 48% stake in Ireland-based pharmaceutical company, EirGen Pharma Limited.

Current price (US\$) 11.10

Price as on March 20, 2013

Stock Details

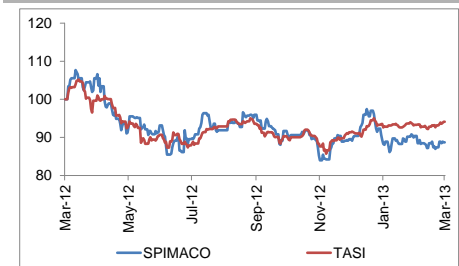
Bloomberg ticker	SPIMACO AB
52 week high/low	13.46/10.51
Market Cap (US\$ mn)	870.1
Enterprise value (US\$ mn)	837.9
Shares outstanding (mn)	78.4

Source: Bloomberg

Average Daily Turnover (000's)

	SAR	US\$
3M	5,664.3	1,510.1
6M	3,997.9	1,065.8

Share Price Chart



Valuation Multiples

	2012	Current	2013E
P/E (x)	14.7	14.0	13.1
P/B (x)	1.1	1.1	1.0
EV/S (x)	2.8	2.7	2.4
Dividend Yield (%)	4.6	N/A	3.7

Source: Bloomberg

Shareholding Structure

Public	61.10%
Arab Company for Drug Industries & Medical Appliances	20.30%
Public Pension Agency	13.00%
Khaled Saleh Abdulrahman Al Shatri	5.60%
Total	100.00%

Source: Zawya



Financial Performance			
US\$ Million	2011	2012	Change (%)
Revenues	301.1	315.5	4.8
COGS	151.6	150.6	-0.7
Operating Income	51.0	53.4	4.7
Operating Margin (%)	17.0	16.9	
Net Income	56.4	62.0	10.0
Net Income Margin (%)	18.7	19.7	
ROE (%)	6.9	7.5	
ROA (%)	5.9	6.3	

- Revenues increased by 4.8% y-o-y to US\$ 315.5 million in FY2012.
- Operating income increased 4.7% y-o-y to US\$ 53.4 million due to increase in revenue and a marginal decline in cost of goods sold.
- Increase in operating income and growth in other non-operating income mainly due to increase in cash dividends led to a 10.0% y-o-y increase in net profit to US\$62.0 million in FY2012.

Source: Bloomberg



Company Description

Tabuk Pharmaceuticals Manufacturing Company (Tabuk Pharmaceuticals), a subsidiary of Astra Industrial Group, was established in 1994. It is one of the leading developers, manufacturers, and distributors of branded generic drugs and under-licensed products in the MENA region. Its product portfolio caters to several therapeutic areas like central nervous system, cardiovascular, anti-infectives, respiratory, and muscular skeletal system. Tabuk Pharmaceuticals has its presence in several countries like Canada, France, Germany, Iceland, India, the US, Japan, and Korea, in partnership with global pharmaceutical companies. The company owns two subsidiaries namely Tabuk Pharmaceutical Research Company, operating in Jordan and Tabuk Algeria. These subsidiaries are engaged in production of generic drugs and cosmetics.

Business Segments/Product Portfolio

- **Generic Business:** Through this division, Tabuk Pharmaceuticals manufactures a wide range of generic products in various dosage forms catering to multiple therapeutic areas. Some of company's generic products include Mentex, Rapidus, Tabiclor, Tasonex, Pedovex, Triaxone, Zinoximor, Winex, and Ezipan.
- **Licensing Business:** This division sells various under-licensed drugs in collaboration with several multinational pharmaceutical firms. Some of the major under-licensed products sold by the company include Divido (dual release diclofenac sodium), Meiact (cephalosporin Cefditoren Pivoxil product), Gemifloxacin Factive (antibacterial product), and Atopicclair (atopic dermatitis treating product).
- **HealthCare:** Through this division, the company sells over-the-counter drugs. Its HealthCare portfolio includes 21 products with 27 SKUs catering to various therapeutic segments in the Saudi Arabian market. Some of its major products include Mentex, Ezipan, Artiz, Vavo, Ezilax, Prof, Tabiflex Cool, and Prokinin.

Key Strengths

- Strong presence in the domestic market.
- Significant footprints in several overseas markets.
- Focus on generic as well as under-licensed and over-the-counter businesses.

Recent Developments/Future Plans

- In January 2013, Tabuk Pharmaceuticals concluded its first Cardiovascular Convention in Casablanca, Morocco.



Company Description

Tamer Group, established in 1922, is a leading distributor of pharmaceuticals, medical equipments, and consumer goods in Saudi Arabia and other key markets in the Middle East. The group operates through several agreements, partnerships, and joint ventures including FM Tamer & Co, Tamer Industries Co, Tamer Investment Co, SAJA, and Saudi Pharmaceutical Distribution Company. Apart from distributing medicines and medical equipments, Tamer Group imports and sells famous brands of personal care, fragrances & cosmetics, foodstuff, and other fast moving consumer goods. The company distributes its products to consumers through a network of eight branches and ten distribution centers across Saudi Arabia.

Business Segments/Product Portfolio

- **Pharmaceutical:** Through this division, the company supplies pharmaceutical products including branded drugs, over-the-counter medication, and generics to the Saudi Arabian market. The company caters to a wide range of customers including private hospitals & pharmacies, government hospitals, and other healthcare institutions. Through various collaborations, the company offers promotion & marketing, and sales & distribution services to many of the world's leading pharmaceutical companies. Tamer Group also manufactures pharmaceutical products through its manufacturing arm, SAJA.
- **Medical:** Through this division, the company distributes laboratory diagnostic machines & reagents, interventional cardiology, radiology, and orthopedics products to hospitals, polyclinics, and laboratories throughout Saudi Arabia.
- **Consumer:** Through this division, the company distributes food & nutrition, personal care, fast moving consumer goods, and luxury products to consumers.
- **Other:** The company also provides services in the fields of information technology, distribution, and logistics.

Key Strengths

- Rich experience of operating in the Middle East market for more than 90 years.
- Presence across the pharmaceutical industry value chain.
- Partnership and agreements with global pharmaceutical companies.
- Strong network of branches and distribution centers across Saudi Arabia.

Recent Developments/Future Plans

- In January 2013, Ministry of Health in Saudi Arabia signed an agreement with Tamer Group to run an awareness program on non-communicable diseases across the country.
- In January 2012, the company signed an agreement to sell 500,000 square meters of freehold land in the Industrial Valley at King Abdullah Economic City to Emaar, The Economic City.



Yassen United Group (Privately Owned)

Saudi Arabia

Company Description

Yassen United Group was established in 1990 and is engaged in the distribution of pharmaceutical products, medical equipment, and cosmetics through a chain of stores across Saudi Arabia. The group operates through three companies, United Pharmaceuticals Est., Mohammed Abdurraheem Yassen & Co., and Manayer Najd Trading & Medical Supply Co. LLC. As of March 2012, the group operated five branches and 225 pharmacies spread across the kingdom.

Business Segments/Product Portfolio

Yassen United Group operates through the following companies:

- **United Pharmaceuticals Est. (UPE):** Established in 1990, UPE runs a chain of pharmacy stores across Saudi Arabia selling pharmaceutical products, medical equipments, and cosmetics. UPE also distributes products on a wholesale basis to private, government & military hospitals, polyclinics, and pharmacies across the kingdom. Some of the suppliers of UPE include Bio Product Laboratory (UK), Antiseptica (Germany), Sterisol (Sweden), and Mid Pharma (Jordan).
- **Mohammed Abdurraheem Yassen & Co.:** This company distributes pharmaceuticals and medical equipment in Saudi Arabia. Major suppliers of this company include Maeil Mam'ma (South Korea) and Lifescan (US).
- **Manayer Najd Trading & Medical Supply Co. LLC:** Established in 1994, this company distributes pharmaceutical products, food supplements, cosmetics, antiseptics, and medical supplies & equipment across Saudi Arabia. It distributes products of almost all the leading medicine and cosmetic manufacturers operating in Saudi Arabia including Mepha (Switzerland), Laboratories Pharmascience (France), EBEWE Pharmaceuticals Ltd. (Austria), Diaform Ltd. (Switzerland), Pharma International (Jordan), and Arcam GmbH (Germany), to name a few.

Key Strengths

- Robust network of pharmacy stores across Saudi Arabia.
- Strong portfolio comprising products from a number of multinational pharmaceutical companies.



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Or we can let the last 12 months speak for themselves.

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Amrith Group
Sale of Edible Oils & Fats Business
to
BUNGE
Bunge India Private Limited

USD 80,000,000


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Synchronized Term Loan & Working Capital Facility

Financial Advisor



Acquisition and Sale of Strategic Stake
in
Bin Ousran Trading & Contracting Co. W.L.L.
to
Hector Real Estate Investments W.L.L.
advised by

Exclusive Transaction Advisor



DMZ LLC

Strategic equity stake in
Empire Aviation Group FZCO

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