Global & GCC Pharmaceutical Market trends
Prepared for First Coordination Meeting for the Pharmaceutical Industry in the GCC & Yemen

Michael Pender-Cudlip: Principal, IMS Consulting Group
11th April 2011
Agenda

- Definition: what market(s) are we describing?
- Global and MENA Context
- GCC overview
- Focus on KSA
- Focus on UAE
- Issues to be addressed
The global pharma value chain is worth over $700 bn pa, of which R&D accounts for ~16%, manufacture ~29%, and sales and marketing ~36%; we will be focusing on the latter in GCC IMS presentation to GOIC April 2011

<table>
<thead>
<tr>
<th>Industry Segment</th>
<th>Research and Development</th>
<th>Manufacture</th>
<th>Sales/Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Active Process Development</td>
<td>Dose Form R&amp;D / Drug Delivery</td>
<td>Clinical Trials/Regulatory Filings</td>
</tr>
<tr>
<td>Overall</td>
<td>$40 B 6%</td>
<td>$20 B 3%</td>
<td>$15 B 2%</td>
</tr>
<tr>
<td>Innovator</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Generic</td>
<td></td>
<td></td>
<td>8%</td>
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<td>OTC</td>
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<tr>
<td>Biotech</td>
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<tr>
<td>TOTAL</td>
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</tbody>
</table>

Sources: IMS Health, Datamonitor, PhRMA, Ernst & Young, HighTech Business Decisions, PAREXEL, PharmaSource, Evaluate Pharma, S&PA analysis.
We are able to draw on IMS’s unique proprietary databases and considerable experience with clients in this region.

- **Where do IMS numbers come from, and what are they measuring?**
  
  IMS collects and compiles detailed data for the private/retail prescription markets worldwide, and combines this with informed estimates for other sectors (e.g. tender/government/hospital sales, consumer health). Product data is prescription pharmaceuticals, whether patent-protected or generic, and whether sold via pharmacies or hospitals, although not all ‘institutional’ markets (hospitals, tenders) are covered.

  The volume of each item is measured and valued at ‘ex-manufacturer’ prices to ensure consistency across countries with different distribution margins and tax regimes. The data can be reported by product, molecule, dose-form, therapy class, company and country/region, and is adjusted to ensure consistent trend information (e.g. allowing for exchange rates).

- **Why do IMS figures ‘disagree’ with other figures we may have seen in material issued by (for example) companies and governments?**
  
  IMS measures the use of pharmaceuticals ‘in-market’, so avoids the complication of imports and exports. Companies which report sales rarely do by product, and almost never by product by country, and many companies also incorporate into their sales figures other revenue-earning activities (e.g. bulk chemical, consumer products, diagnostics, and distribution) are not covered.

- **Are IMS insights only derived from its data?**
  
  No. IMS has local offices in Dubai and Jeddah, and has undertaken many consulting assignments within GCC during which it has established high quality relationships with, and understanding of the major stakeholders in the pharmaceutical market.

  IMS also operates globally, so is able to leverage insights from other markets which have relevance to GCC.
Pharmaceuticals in the MENA region in which GCC lies is expected to grow at an ‘emerging markets’ rate.

**Global: IMS Regional Pharmaceutical Outlook in 2014 (US$ Billions)**

- **North America**
  - Size: US$ ~398bn
  - Growth: ~4%

- **Europe (EU)**
  - Size: US$ ~262bn
  - Growth: ~3%

- **Europe (Non-EU)**
  - Size: US$ ~26bn
  - Growth: ~5%

- **Asia excl Japan**
  - Size: US$ ~132bn
  - Growth: ~18%

- **Latin America**
  - Size: US$ ~94bn
  - Growth: ~13%

- **MENA* **
  - Size: US$ 18bn
  - Growth: ~9%

- **Rest of Africa (excl. NA**)**
  - Size: US$ ~10bn
  - Growth: ~8%

- **Oceania**
  - Size: US$ ~15bn
  - Growth: ~5%

- **Japan**
  - Size: US$ ~116bn
  - Growth: ~4%

- **Global market**
  - Size: $1130bn
  - 6% CAGR

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Source: IMS Health, Market Prognosis, 2010

*GCC includes: Saudi Arabia, UAE, Kuwait, Yemen, Qatar, Oman, Bahrain  **NA includes: Egypt, Algeria, Morocco, Tunisia, Libya, Sudan

IMS presentation to GOIC April 2011
Both KSA and UAE are strong performers in the broader MENA region

<table>
<thead>
<tr>
<th></th>
<th>Saudi Arabia</th>
<th>Egypt</th>
<th>Algeria</th>
<th>Morocco</th>
<th><strong>UAE</strong></th>
<th>Lebanon</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Overview</strong></td>
<td>Strong domestic demand driving robust growth</td>
<td>Double digit pharma growth</td>
<td>Double digit growth; inequitable access to healthcare</td>
<td>Moderate but consistent single-digit growth in pharma market</td>
<td>Double digit growth; economic rebound expected</td>
<td>Double digit growth despite political volatility</td>
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<tr>
<td><strong>Therapy Area Deep-dive</strong></td>
<td>Local/regional players offer high growth products</td>
<td>Top TAs growing but heavily genericised</td>
<td>Strong value and volume growth in specialist care</td>
<td>Primary care and acute diseases driving growth</td>
<td>Recent original product launches in top TAs</td>
<td>All top products from international players</td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td><strong>Competitive Environment</strong></td>
<td>Strong international presence with local/regional players driving growth</td>
<td>Dominance by local/regional players</td>
<td>Dominance by local/regional players</td>
<td>Dominance by local/regional players</td>
<td>Strong international presence with local/regional players driving growth</td>
<td>*Strong international presence with local/regional players driving growth</td>
</tr>
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<td></td>
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</tr>
<tr>
<td><strong>Market Access</strong></td>
<td>Growing private health coverage; adequate IP protection</td>
<td>Poor IP protection but improving regulatory environment</td>
<td>Import ban and cost pressure restricting international players entry</td>
<td>Recent reforms improving healthcare system and market access</td>
<td>Relatively easy registration for FDA/EMA approved products</td>
<td>Poor IP protection and non-transparent regulatory framework</td>
</tr>
</tbody>
</table>

* Attractive as manufacturing base
Regional and local players in GCC account for significantly less of the market than in Egypt and Morocco

### Market Size and Split by Company Type

**Retail Sales $m, MAT Q2 2010**

<table>
<thead>
<tr>
<th>Region</th>
<th>Local/Regional</th>
<th>Other International</th>
<th>Top10 MNC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>26%</td>
<td>11%</td>
<td>62%</td>
<td>2,001</td>
</tr>
<tr>
<td>Saudi</td>
<td>41%</td>
<td>24%</td>
<td>35%</td>
<td>1,825</td>
</tr>
<tr>
<td>Algeria</td>
<td>44%</td>
<td>28%</td>
<td>28%</td>
<td>1,694</td>
</tr>
<tr>
<td>Morocco</td>
<td>38%</td>
<td>55%</td>
<td>8%</td>
<td>920</td>
</tr>
<tr>
<td>UAE</td>
<td>59%</td>
<td>25%</td>
<td>16%</td>
<td>631</td>
</tr>
<tr>
<td>Lebanon</td>
<td>52%</td>
<td>36%</td>
<td>12%</td>
<td>483</td>
</tr>
</tbody>
</table>

### Top10 MNC Growth, 4yr CAGR

- Egypt: 19.2%
- Saudi: 6.3%
- Algeria: 5.2%
- Morocco: 7.5%
- UAE: 28.2%
- Lebanon: 7.0%

### Other Intl Growth, 4yr CAGR

- Egypt: 9.7%
- Saudi: 11.8%
- Algeria: 15.1%
- Morocco: 10.2%
- UAE: 21.5%
- Lebanon: 11.2%

### Local/Regional Growth, 4yr CAGR

- Egypt: 17.5%
- Saudi: 12.8%
- Algeria: 22.7%
- Morocco: 12.6%
- UAE: 33.7%
- Lebanon: 15.0%

**Source:** IMS MIDAS; Retail Panel

IMS presentation to GOIC April 2011
The GCC pharma market is dominated by Saudi Arabia, which accounts for two thirds of the total GCC region value US$ million at Ex-Manufacturer Prices, using Constant Exchange Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>3451</td>
<td>3749</td>
<td>4076</td>
<td>4430</td>
<td>4820</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>996</td>
<td>1145</td>
<td>1317</td>
<td>1540</td>
<td>1802</td>
</tr>
<tr>
<td>Kuwait</td>
<td>311</td>
<td>336</td>
<td>361</td>
<td>386</td>
<td>411</td>
</tr>
<tr>
<td>Yemen</td>
<td>127</td>
<td>130</td>
<td>134</td>
<td>139</td>
<td>144</td>
</tr>
<tr>
<td>Qatar</td>
<td>111</td>
<td>119</td>
<td>129</td>
<td>138</td>
<td>147</td>
</tr>
<tr>
<td>Oman</td>
<td>108</td>
<td>118</td>
<td>129</td>
<td>140</td>
<td>153</td>
</tr>
<tr>
<td>Bahrain</td>
<td>74</td>
<td>80</td>
<td>84</td>
<td>87</td>
<td>91</td>
</tr>
</tbody>
</table>

- Saudi Arabia accounts for two-thirds of GCC region’s sales
- Together with UAE and Kuwait, it accounts for 91% of GCC sales; it is for this reason that IMS only compiles detailed product information for these three markets
- UAE growth, and consumption per head, is significantly faster than elsewhere
Over time, local/regional manufacturers have slowly increased their market share, but more in terms of volume than value.

 GCC* Corps, Global vs. Local Top 100

<table>
<thead>
<tr>
<th>Sales Value 2010 - US $ (Million) (% are estimates)</th>
<th>Sales Volume 2010 - SU (Million) (% are estimates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global  2006: 1.6  80%</td>
<td>Local  2006: 0.2  20%</td>
</tr>
<tr>
<td>2007: 1.9  80%</td>
<td>2007: 0.2  20%</td>
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<tr>
<td>2008: 2.1  81%</td>
<td>2008: 0.2  20%</td>
</tr>
<tr>
<td>2009: 2.4  80%</td>
<td>2009: 0.2  20%</td>
</tr>
<tr>
<td>2010: 2.7  79%</td>
<td>2010: 0.2  20%</td>
</tr>
<tr>
<td>Global  2006: 9.8  78%</td>
<td>Local  2006: 1.6  22%</td>
</tr>
<tr>
<td>2007: 10.9  77%</td>
<td>2007: 1.6  22%</td>
</tr>
<tr>
<td>2008: 11.6  78%</td>
<td>2008: 1.6  22%</td>
</tr>
<tr>
<td>2009: 12.9  76%</td>
<td>2009: 1.6  22%</td>
</tr>
<tr>
<td>2010: 14.0  76%</td>
<td>2010: 1.6  22%</td>
</tr>
</tbody>
</table>

Source: IMS Health MIDAS December 2010

GCC*: Saudi Arabia, UAE, Kuwait retail only

IMS presentation to GOIC April 2011
Saudi Arabia currently spends a relatively small fraction of its GDP on healthcare. However, this is expected to change.

**Healthcare spend as a % of GPD**

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<tbody>
<tr>
<td>US</td>
<td>15.7</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
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<tr>
<td>Germany</td>
<td>10.4</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
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<tr>
<td>Lebanon</td>
<td>8.8</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
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<td>6.0</td>
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<tr>
<td>Egypt</td>
<td>6.3</td>
<td>6.3</td>
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<td>6.3</td>
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<td>6.3</td>
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<tr>
<td>South Korea</td>
<td>6.3</td>
<td>6.3</td>
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<tr>
<td>Mexico</td>
<td>5.9</td>
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<tr>
<td>Turkey</td>
<td>5.0</td>
<td>5.0</td>
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<tr>
<td>Saudi Arabia</td>
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<td></td>
<td></td>
<td></td>
<td>3.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6.0</td>
</tr>
<tr>
<td>UAE</td>
<td>2.7</td>
<td>2.7</td>
<td>2.7</td>
<td>2.7</td>
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<td>2.7</td>
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<td>2.7</td>
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<td>2.7</td>
</tr>
<tr>
<td>Kuwait</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
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<td>2.2</td>
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</tr>
</tbody>
</table>

Forecast healthcare expenditure to around 6% of GDP by 2020 will sustain the growth of healthcare and pharmaceutical industries.

*Source: WHO 2010; IMS market prognosis; IMS analysis*

IMS presentation to GOIC April 2011
Government policy to provide the highest possible quality of care has driven public spending to ~80% of the total.

The Government is the major provider of healthcare in Saudi Arabia accounting for ~80% of all healthcare expenditure.

Saudi nationals and some public sector expats are eligible to receive free public health services and pharmaceuticals.

As well as the MoH, some Saudis and their dependants are eligible to receive healthcare from other governmental institutions such as the National Guard, Ministry of Defense and others.

The remaining expenditure is derived from private sources including private health insurance and out-of-pocket expenditure.

Source: WHO 2010; IMS Analysis

Note: *Other Private Expenditure includes non-profit institutions, resident corporations and quasi-corporations not controlled by government.
The Saudi pharmaceutical market is subject to many pressures

- **Saudi Generics Sales**
  - Drug expenditure will decrease from 22% to 18% of healthcare spend by 2020
  - Establishment of NUPCO
  - Push for use of lower cost drugs
  - Increased Access to Healthcare
    - Healthcare expenditure forecast to increase from 3.5% to 6% of GDP within 10 years
  - The share of local and regional generic companies will grow at the current, faster rate over the forecast period

- **Population and Economic Growth**
  - 4% GDP growth assumed for forecast period

**Focus on KSA**

**IMS presentation to GOIC April 2011**
The KSA government has invested heavily to improve access to high quality healthcare, and this can be expected to accelerate

**Healthcare Dynamics**

- Saudi Arabia has one of the most developed and sophisticated healthcare systems in the region
- The healthcare system consists of 3 tiers: primary (healthcare centres), secondary (general hospitals) and tertiary (specialist hospitals). Health Centres are assigned to catchments areas with a defined population and they act as the first point of contact for patients
- The MoH and the other governmental institutions (e.g. National Guard, Ministry of Defence) account for >75% of the healthcare expenditure
  - The MoH is responsible for the management, financing and regulation of the healthcare system; it is the major provider of national healthcare services
  - Saudi nationals and some public sector expats are eligible to receive free public health services and pharmaceuticals
- The remaining expenditure is derived from private sources including private health insurance and out-of-pocket expenditure

**Healthcare Infrastructure**

- 3489 pharmacies
- 110 hospitals
- 16 physicians per 10,000 population
- 22 hospital beds per 10,000 population

Source: WHO; Business Monitor International; IMS analyses
The dynamics within the KSA market can be expected to benefit local producers, with volume growth and price constraint.

**Historic & forecast market evolution (LC US$ Bn)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Gx</th>
<th>Rx</th>
<th>n.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>'06</td>
<td>2.4</td>
<td>57%</td>
<td>33%</td>
<td>10%</td>
</tr>
<tr>
<td>'07</td>
<td>2.6</td>
<td>55%</td>
<td>33%</td>
<td>12%</td>
</tr>
<tr>
<td>'08</td>
<td>2.8</td>
<td>54%</td>
<td>33%</td>
<td>12%</td>
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<tr>
<td>'09</td>
<td>2.9</td>
<td>47%</td>
<td>39%</td>
<td>14%</td>
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<tr>
<td>'10E</td>
<td>3.5</td>
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<tr>
<td>'11E</td>
<td>3.7</td>
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<td>'12E</td>
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<td>'13E</td>
<td>4.4</td>
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<tr>
<td>'14E</td>
<td>4.8</td>
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</tbody>
</table>

**Drivers**
- Strong economic credentials with growing affluence despite the economic downturn
- Growing local population generating solid domestic demand
- Rising chronic disease burden (e.g. diabetes)
- Continued investment from the government to modernise and expand healthcare infrastructure
- Broader health insurance coverage (e.g. compulsory co-operative insurance for all expats and Saudi nationals in the private sector)
- Persistent dominance of patented and imported products which tend to have higher price

**Constraints**
- Fluctuating oil prices affecting government’s healthcare budgets
- Cost containment initiatives including strict price controls and enforced price cuts
- Increasing generics usage as a result of the efforts of MoH and insurance companies to lower pharmaceutical costs

- Saudi Arabia is projected to contribute 30% of the total regional market (2010)

Source: IMS Market Prognosis; Business Monitor International; IMS analyses

IMS presentation to GOIC April 2011
UAE has the highest per capita health spend in the region; the government is committed to provide high quality of care

**Total Health Expenditure as % GDP ‘07: 2.7%**

<table>
<thead>
<tr>
<th></th>
<th>UAE</th>
<th>Regional Average*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.7%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

**Per Capita Health Expenditure-PPP’07, US$: $982**

<table>
<thead>
<tr>
<th></th>
<th>UAE</th>
<th>Regional Average*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>982</td>
<td>587</td>
</tr>
</tbody>
</table>

**Healthcare Infrastructure**

- 15 physicians per 10,000 population
- 19 hospital beds per 10,000 population

**Healthcare Dynamics**

- UAE has a comprehensive, government-funded healthcare system although the level of insurance coverage varies in the different emirates
- UAE nationals receive free healthcare funded by the government
- >50% of the population e.g. blue collar workers lack public health insurance cover, although non-insured could still receive free basic treatments in public facilities
- Expats must pay for healthcare services
  - In Abu Dhabi, this is done through the compulsory health insurance where the premiums are paid by the employer
  - In Dubai and other emirates, this is done through either private insurance or out-of-pocket
- The private sector is relatively new but its importance in providing quality care is expected to increase in the coming year, especially for UAE nationals and upper-middle class expats
  - Private clinics and hospitals are usually found in most urban centres and the quality of the facilities and services are highly variable
- Most insurers offer virtually the same range of services with minor differences in terms of which services and medicines they reimburse

**Healthcare sector spend ‘08**

- 70.5% Private Expenditure
- 29.5% Government Expenditure

*Data averaged from Algeria, Egypt, Lebanon, Morocco, Saudi Arabia and UAE; **Other Private Expenditure includes non-profit institutions, resident corporations and quasi-corporations not controlled by government
The UAE pharma market has retained a strong preference for originator, branded products

**Historic & Forecast Market Evolution**

<table>
<thead>
<tr>
<th>LC US$ Bn*</th>
<th>'06</th>
<th>'07</th>
<th>'08</th>
<th>'09</th>
<th>'10E</th>
<th>'11E</th>
<th>'12E</th>
<th>'13E</th>
<th>'14E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total market</td>
<td>0.4</td>
<td>0.6</td>
<td>0.8</td>
<td>0.9</td>
<td>1.0</td>
<td>1.1</td>
<td>1.3</td>
<td>1.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Rx</td>
<td>0.3</td>
<td>0.5</td>
<td>0.6</td>
<td>0.7</td>
<td>0.8</td>
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<td>Gx</td>
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</table>

- **Drivers**
  - Small but growing and wealthy population base
  - Government’s significant investment in health infrastructure
  - Expansion of the private health sector
  - Promising economic outlook
  - Prescriber’s and KOL’s reference for branded products
  - Increasing public-private partnerships as evidenced in Johns Hopkins’ takeover of management control of Tawam Hospital in ’06
  - Exports

- **Constraints**
  - Increasing generics usage in Abu Dhabi in accordance to the basic insurance policies
  - Regionally fragmented healthcare system and insurance coverage, leading to an uneven access to healthcare services

**General Market Drivers & Constraints**

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  - Government’s significant investment in health infrastructure
  - Expansion of the private health sector
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  - Increasing public-private partnerships as evidenced in Johns Hopkins’ takeover of management control of Tawam Hospital in ’06
  - Exports

- **Constraints**
  - Increasing generics usage in Abu Dhabi in accordance to the basic insurance policies
  - Regionally fragmented healthcare system and insurance coverage, leading to an uneven access to healthcare services

Source: IMS Market Prognosis; BMI; IMS analyses

IMS presentation to GOIC April 2011
A number of conclusions can be drawn from this relatively brief analysis

• GCC pharmaceutical markets have shown, and can be expected to continue to show sustained growth given favourable economic and demographic factors.

• Significant investment has taken place in GCC to strengthen the economic, scientific, regulatory and healthcare infrastructure.

• However, with a few notable exceptions, local manufacturers have gained a relatively low proportion of the value in this market

• There are locally-HQ’d companies, and some of them have strong branded generics portfolios. However, few of them have a significant presence outside GCC and in most cases they market branded generics or products developed by, and licensed in from multinational companies

• The GCC pharmaceutical industry is therefore relatively poorly positioned along the pharmaceutical value chain, and in particular the Discovery/Research into innovative products and formulations

• We believe that opportunities both within and outside GCC should be identified and evaluated using consistent evidence-based criteria. We will discuss during a separate session how these might best be addressed