Middle East and Africa (MEA): Potential Trillion Dollar Market for Pharmaceutical and Medical Technologies Industries.

White Paper prepared for the SpenglerFoxLife Sciences Practice Group
September 2014

Key points to take away from this paper

- healthcare expenditure is an important component of GDP on MEA markets that represent a potential spend of 1.1 trillion USD
- emerging markets such as the Middle East and Africa will represent about 2% of global healthcare spend
- rebates and discounts cause contention with national healthcare ministries as they boost demand in predominantly publicly-financed markets
- market entry should be carefully planned with support from proven local / regional partners, optimally using high-growth regional capitals as starting points
- potential threats to business include restrictions on public spending in healthcare, talent shortages for supply chain management, counterfeit and parallel trade issues.
Whether we speak of pharma or the med tech industry, the Middle East and Africa region offers plenty of business opportunities. This is a market that promises significant growth and looks to reach GDP volume of 2.6 trillion USD by 2040. By that same time the size of the MEA workforce will exceed that of India and China. Moreover, significant parts of the African continent will increasingly trend toward greater stability and hopefully the broader Middle East will soon follow suit. It is important to bear in mind the potential that African and Middle Eastern markets hold: the region has a compound annual growth rate (CAGR) of 12%. Expected growth also represents new, longer-term opportunities for both external and domestic suppliers. Over the coming decades the MEA region is expected to have significant growth in demand for oil, gas and other natural resources, due to growth in other industries. Likewise, as domestic markets mature, these countries will have more evolved demand for healthcare services comparable to standards currently seen on Western markets.

Large, varied market brings complexity along with opportunities

When considering business opportunities on MEA markets, it is important for businesses to understand how varied and complex the region is. We are speaking about a market with numerous languages, highly-varied subcultures and – most important – very different approaches to business in individual countries. Also public services such as healthcare tend to be public or State-run and function based on complex finance and subsidy structures. Although the market has a value of 50 billion USD, this is still just under 2% of annual global spend on pharma costs.

Middle East & Africa...

Today Healthcare opportunity reaching $50b by 2017

...diverse, multiple zones of influence, intense competition, complexity

Source: IMS Market, prognosis
If we look at the region in more detail, it is easier to grasp market developments along the lines of smaller sub-regions. In this case we speak of Northern Africa, Middle Africa, Southern Africa and the Middle East. In classifying or providing characteristics for each of these regions, our experience is as follows:

**Northern Africa:**
Algeria is the market’s rising star, Tunisia is in transition and Morocco is developing thanks to the regional medical support scheme, RAMED.

**Middle Africa:**
This region represents extremes. Kenya as part of the East Africa bloc is becoming a dominant force. However, countries like Nigeria that represent significant market opportunity are difficult to penetrate due to social unrest and political instability.

**Southern Africa:**
South Africa is the strong player in this region, where debates on the provision of continued universal healthcare currently focus on finance models and the universally perennial debate of „public vs. private“ financing. Botswana remains a stable, strong market in the region.

**Middle East:**
The Kingdom of Saudi Arabia has become the stand out player in this area. Increased inward investment into private care fuels this market.

**Factors driving market growth**

Although countries on the African continent and in the Middle East continue to develop at varied paces, they do face a common set of issues that drive market evolution. Overall, the disposable incomes of individuals have increased in recent years and employment levels among the middle class have grown. General market growth has also led to boosts in FDI and companies increasingly look for opportunities in MEA geographies.

Market growth has led both businesses and consumers to reassess how healthcare and medications are delivered. So throughout the region you see continued debate on the pricing of medications and medical services. Patients in the region remain very price sensitive, so you generally see an increased interest in generic medications (both branded and unbranded). Also companies look to keep prices lower by encouraging local manufacture of medications, while seeking export opportunities.

This is not to say, however, that local consumers are interested only in cheap prices. Groups with higher disposable incomes are expressing an interest in higher quality healthcare. In line with that greater emphasis of quality, we have also seen a rise in demand for medications to treat chronic diseases. This demand has also impacted healthcare facilities. Regional care providers more commonly report greater burdens on primary and secondary care centres.

Greater regional interest in improved, higher-quality health treatments has also meant a rethink for how governments manage healthcare services. Increased patient demand has pushed governments in the MEA region to invest more in healthcare and to establish universal healthcare systems and patient coverage. However, they have to focus on making sure these systems function properly. This means streamlining and modernising social insurance schemes and national ID systems along with further investment and ensuring competitive prices. Unfortunately, government investment does not yet keep pace with consumer needs and demands. This suggests that the need for treatment of chronic diseases will only increase in the future.
Growth potential in MEA
...as healthcare conditions continue to drive change

Unbranded and Branded generic growth increase
Encouraging local manufacturing and exportation

Disposable income rapid increase
Employment levels amongst middle class increasing
Sustained economic policies to attract FDI

Universal healthcare systems and further investments into all sectors
Social insurance schemes and national ID systems
Price referencing and competitiveness

Increasing economic wealth is linked to rise in demand for chronic disease medicines
Increased burden and usage for primary, secondary care facilities

Source: All statistics sourced from IMS MIDAS Audit calculations. 2012 vs. 2013 performance

<table>
<thead>
<tr>
<th>Country</th>
<th>Market Status</th>
<th>Important Growth Forces</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>• Branded generics driving growth under government universal healthcare plan</td>
<td>• Adwia posting double-digit growth figures</td>
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<tr>
<td></td>
<td>• Fastest growing market with a 3.9% rate; generics account for 2.7% of this growth</td>
<td>• Key therapy areas include Penicillin, Anti-rheumatic, Diabetes treatments</td>
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<tr>
<td>South Africa</td>
<td>• Expected fundamental change in the structure of the healthcare system</td>
<td>• Cipla an important player</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>• Original brands are the greatest contributor to market growth in this country; representing 1.3% of a 2.9% market growth figure</td>
<td>• Key therapy areas are Oncology and OTC medications</td>
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<td>• Posts the region’s poorest performance with a 0.2% drop in growth, despite this the branded generic market posted 0.3% growth</td>
<td>• Biggest investment in private healthcare services</td>
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<td></td>
<td></td>
<td>• Government favours local providers and procurement is done through state agency, NUPCO</td>
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<tr>
<td></td>
<td></td>
<td>• Established social insurance scheme</td>
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<td></td>
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<td>• Potential export market for Libya</td>
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Business strategy:
key entry points for regional markets

It goes without saying that entry onto a market like MEA requires a well-thought-out strategy. This includes developing the right partnerships with local companies and selecting the right cities as penetration points.

As you will see in the graph below (based on IMS calculations for Healthcare Spend and Urban Wealth Levels from the World Bank and the World Health Organization), key national capitals and larger metropolises like Cairo, Johannesburg, Algiers, Lagos and Nairobi represent important locations for market entry.

Geographical focus
...unlock the opportunities in cities and portfolio approach

The next step is to make sure you have aligned your products and service portfolio to match the partnerships you plan to set up, i.e. make sure local partner companies are the right ones to deliver on your business plans. Working with proven partners you can examine individual local markets and assess product demand as well as optimize sales plans for volume/price trade-offs against customer segments that exist in the region.

Dense population and income distribution

<table>
<thead>
<tr>
<th>City</th>
<th>Country</th>
<th>Value in 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cairo</td>
<td>Egypt</td>
<td>$1.8b</td>
</tr>
<tr>
<td>Jo'burg</td>
<td>South Africa</td>
<td>$1.0b</td>
</tr>
<tr>
<td>Cape Town</td>
<td>South Africa</td>
<td>$0.9b</td>
</tr>
<tr>
<td>Pretoria</td>
<td>South Africa</td>
<td>$0.8b</td>
</tr>
<tr>
<td>Algiers</td>
<td>Algeria</td>
<td>$0.7b</td>
</tr>
<tr>
<td>Casablanca</td>
<td>Morocco</td>
<td>$0.6b</td>
</tr>
<tr>
<td>Alexandria</td>
<td>Egypt</td>
<td>$0.6b</td>
</tr>
<tr>
<td>Lagos</td>
<td>Nigeria</td>
<td>$0.6b</td>
</tr>
<tr>
<td>Nairobi</td>
<td>Kenya</td>
<td>$0.3b</td>
</tr>
</tbody>
</table>

Of the $50b potential in 2017, the top 10 cities will drive opportunities between $7-10b by 2017.

Geographical focus & Commercial strategies

...portfolio selection and optimized volume/price trade-offs

Given the structure and nature of healthcare service delivery on regional markets, it is important that multinational companies in the pharma and med tech sectors do not discount opportunities for selling to the public sector. Sales to the public sector are quite important in the region due to potential order volumes and longer-term commitments to the purchase of goods and services. Unfortunately, past misconceptions about system complexity and competition have caused international businesses to shy away from regional opportunities or from public procurement processes.

Such strategies are, however, shortsighted and mean that businesses miss out on long-term growth prospects in the public sector. An example from South Africa can help put this in perspective: the South African government spends over 500 million USD annually on the procurement of medicines via public tenders.


Portfolio segmentation

<table>
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<tr>
<th>Price</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volumes, Margins</td>
<td>Low</td>
<td>Medium</td>
</tr>
</tbody>
</table>

- Low Volumes, Medium Margins
  - Novartis supplies public/NGO malaria tenders to Zambia. Medicines are provided at an affordable price point.

- Low Volumes, High Margins
  - Pfizer has adopted a high-priced product strategy in Nigeria including oncology and mental health products.

- Large Volumes, Low Margins
  - Aspen awarded largest share of HIV ARV tender in S. Africa (however price cuts in the tender commenced in Jan 2011).

- Large Volumes, Low Margins
  - In East Africa and Nigeria, GSK local offices have adopted a successful and aggressive high-volume low-margin model.

Publically purchased drugs (including Donor and NGO purchased)

Privately purchased drugs

Business strategy:
maturing markets increase focus on market prices

When working on MEA markets, businesses quickly find that many national markets have begun to face issues currently affecting what we call "mature" Western markets. With governments serving as the predominant suppliers of healthcare services and medications, consumers increasingly put cross-facing pressures on them to a/ deliver quality service and b/ keep prices affordable. Moreover, governments also face internal constraints, given that national budgets do not allow them to spend at whim on medical and healthcare services.

Healthcare ministries in the region have begun to up pressure on pharmaceutical suppliers to rein in the prices of medications. There are a number of factors influencing this process: need to finance non-medicine-related healthcare costs, population growth and subsequent growth in the number of national healthcare service clients, fear of non-competitive prices and bureaucratic registration processes leading to supply bottlenecks.
Business strategy: management structure

Having acknowledged the specificities of individual markets, it logically follows that businesses on individual MEA markets have their unique approaches to business management. For example, some companies have succeeded in building stronger national presences and rely on the leadership of local GMs to manage national market activities and focus on growing sales.

Other companies maintain a limited national presence but prefer to manage local activities out of a regional hub, i.e. such as Dubai in the UAE. Still others might have the management of their African subsidiaries integrated into an EMESA-type structure, using South Africa as their continental base with reporting made to EU entities. In some cases companies using this latter approach (i.e. working out of a South African base) report to Dubai.

In any case, our experience is that the models mentioned above are not always optimal. One drawback for business on MEA markets is that beyond securing skilled people for top management posts, the local talent is not always developed enough to manage day-to-day activities. A key struggle for many businesses entering the market is how best to secure and mentor skilled managerial talent and succeed at employee retention.

Business supply chain: multiple agents with common aim of providing healthcare

Although supply chains are critical in bringing goods to market, they involve a number of actors that can be difficult to manage. On MEA markets, where business often focuses on indirect or semi-indirect sales models, management of the channel and response to regulatory oversight, or lack thereof, can become very complicated.

Challenges that impact the market range from difficulty in managing sales and marketing organisations to interaction with NGOs, who manage supply of pharmaceuticals and healthcare services for the needy outside standard business models. Also patient healthcare literacy presents a key problem. On markets where regulatory bodies fail to provide timely, thorough services, it can prove difficult to get the right goods and services to market (i.e. in many countries medical services and pharma suppliers compete with the market penetration of substandard and/or counterfeit medicines due to poor regulatory oversight).
Business supply chain: multiple agents with common aim of providing healthcare

Moreover, weaknesses in the supply chain also vary based on whether sales are made to the public or private sectors. In the public sector some of tougher issues impacting supply relate to inadequate skills in ordering and logistics, insufficient transport and distribution networks; this in addition to poor stock management, low-level education among employees and consumers and disruption in energy supplies. Meanwhile, in the private sector fragmented wholesaler and distribution, expensive credit to businesses and the varied quality of local distributors often disrupt the supply chain.

These many challenges, along with increasingly price-sensitive government procurement policies, have led to the consolidation of regional players in the pharma and med tech industries as they get squeezed on price and margin. Prime examples of this include Aptekor/Helderberg on the Western Cape of South Africa and Pharmed in Kenya, Zimbabwe and Nigeria.

Middle Africa country...example multiple stakeholders, with regional presence and complex relationships

Source: Universe study Interviews, PMR
About Omar Ehsan

Omar is a senior executive with extensive experience in business transformation, development and management. He has spent 10 years in senior positions within the global healthcare business services sector. Omar has a background in international sales, marketing, operations and general management and has a proven track record of identifying and exploiting new opportunities through commercial deals, strategic business partnering, commercial licensing and portfolio/pricing models. He has also helped companies establish and manage new operational units within emerging markets, launch key products, drive sales and create strategic business development/M&A opportunities.

He supported and serviced the pharmaceutical industry at IMS for over 15 years in numerous sales, marketing and leadership roles. In these roles he focused on solutions for commercial effectiveness in emerging geographies to address key incentive and performance issues affecting the industry. After executing a turnaround plan for IMS North Africa, Omar was appointed GM for IMS Africa. His mission involved expanding the healthcare data footprint throughout Africa and launching further commercial effectiveness services to bring enhanced market measurement insights to the pharmaceutical industry.

Omar has an MBA from CASS Business School, London with a specialised focus on Strategic Management of Technology. His master’s thesis, commissioned on behalf of Nortel Networks, focussed on wireless applications in the gaming industry.

About SpenglerFox

SpenglerFox is a global executive search firm that was born a little over ten years ago. 2013 represented a transformational year for our business as the leadership team successfully completed a management buyout. Today we have built a network of 20 wholly-owned offices and we currently employ 105 full-time individuals within our business.

In addition to our Life Sciences Practice Group (featuring a team of over 20), we also have three additional practice groups that operate within different industry sectors; namely Consumer, Industrial and Manufacturing and Business Services.

In our last fiscal year, SpenglerFox completed just under 500 executive placements in 62 different markets. Within the Life Sciences Practice Group, a big part of our focus has been to help the headquarters of organizations for our pharmaceuticals, medtech and biotech sciences clients develop their strategies for emerging markets.

We support clients in these areas across Russia, CIS, Asia-Pacific, Latin America and the Middle East and Africa. Navigating the business and cultural complexities of this incredibly diverse region has always been a challenge and an area where our clients have constantly requested our advice and guidance.
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