

SAUDI ARABIA:

Oil Wealth Opens Doors to Health and Life Sciences

Its wealth, growing population, investment in health and the life sciences, and high rates of diseases such as diabetes, make Saudi Arabia an exciting market for pharma companies.

Saudi Arabia is perhaps best known for its oil, and the concomitant wealth that has brought to the kingdom. Indeed, Saudi Arabia is the largest economy in the Middle East and the world's largest oil exporter.

The Pharmaceutical Landscape

Alongside its strong economy, Saudi Arabia also has a growing population,

having increased at a CAGR of 2.4% over the 2000 to 2008 period and is expected to continue accelerating at this rate, reaching 28.5 million by 2012, according to NCB's report Saudi Pharmaceuticals Sector Review. Additionally, incomes have been growing rapidly from an average of \$20,700 in 2007 to a forecast average of \$33,500 by 2020, according to the Saudi Arabian General Investment Authority (SAGIA).

SAGIA claims that the kingdom is rated fifth in the world for fiscal freedom and has the 10th most rewarding tax system in the world.

A World Health Organization (WHO) report notes that Saudi Arabia has had a massive improvement in socioeconomic development in the past 30 years, with huge progress in health, education, housing, and the environment.

Saudi Arabia at a Glance

Total population: 27,448,000
Gross national income per capita (PPP international) \$22,750
Life expectancy at birth m/f (years): 69/75
Probability of dying under five (per 1,000 live births): 9
Probability of dying between 15 and 60 years m/f (per 1,000 population): 186/102
Total expenditure on health per capita (Intl \$, 2010): \$968
Total expenditure on health as % of GDP (2010): 4.3

Figures are for 2009 unless indicated.

Source: Global Health Observatory

“There is a sizeable and growing opportunity for diabetes companies in Saudi Arabia, as the country is open to innovation with a good share of spend on newer innovative treatments.”

CAROLYN GAUNTLETT / IMS Health



life expectancy, and improving healthcare infrastructure.

The public sector remains dominant in Saudi Arabia, although the private sector is growing in response to healthcare needs, the RNCOS report finds. According to WHO, the Saudi Arabian government, including the ministry of health and other governmental institutions, had the largest share of spending on healthcare in 2009, which amounted to 67%, while the private sector's spending was about 33%.

Currently the Ministry of Health is the major government provider and financier of healthcare services in Saudi Arabia, which has a total of 244 hospitals (33,277 beds) and 2,037 primary healthcare centers, says Andrea Longhi, a partner in E&Y's Middle East practice, quoting an article in the Eastern Mediterranean Health Journal from 2011.

“These services comprise 60% of the total health services,” Mr. Longhi says. “The private sector also contributes to the delivery of healthcare services, especially in cities and large towns, with a total of 125 hospitals (11,833 beds) and 2,218 dispensaries and clinics.”

According to Battelle's 2012 Global R&D Funding Forecast, Saudi Arabia is eager to ex-

Saudi Arabia Healthcare

According to a report from RNCOS Industry Research Solutions, the Saudi healthcare market is expected to grow at a CAGR of about 7% from 2012 to 2015, spurred by factors that include a rising population, prevalence of lifestyle and infectious diseases, longer

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pand its investment in the areas of R&D for the healthcare sector as the kingdom is considered one of the largest-consuming markets in the Gulf Cooperation Council (GCC). R&D spending has risen from 0.10% of total GDP in 2010 to 0.25% in 2012.

The government has committed to the life-sciences sector as a key economic driver through public-private partnerships and vast R&D funding, says SAGIA.

Pharma Growth and Focus

It is expected that the pharmaceutical industry will grow strongly over the coming years, particularly in response to lifestyle con-

“ Saudi Arabia has been keen on growing its investment in the areas of R&D for the healthcare sector as the kingdom is considered one of the largest-consuming markets in the GCC. ”

ANDREA LONGHI / E&Y



ditions such as diabetes, obesity, and cardiovascular disease. In 2008, the Saudi Arabia pharmaceutical market was estimated to have reached SAR 10.29 billion (\$2.7 billion).

“It is likely that the prevalence of chronic diseases in the region will continue to increase and healthcare expenditure will be on the rise for the foreseeable future,” says Carolyn Gauntlett, senior consultant, thought leadership, IMS Health.

The leading Saudi pharmaceutical companies are Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO), Tabuk Pharmaceuticals Company, and Jamjoom Pharmacy. Several global pharma companies have established facilities in Saudi Arabia, including GSK, Pfizer, Novartis, AstraZeneca, and Janssen.

However, there remains a lack of local pharma R&D in the country, the NCB report notes.

Unlike many markets, branded pharmaceuticals are favored over generics. Pharmaceutical imports amounted to SAR 9.65 billion (\$2.57 billion) and according to the report from NCB, were expected to rise to SAR 11.57 billion in 2012. A 2009 study *Pharmaceuticals: Bringing in Global Leaders*, published in *Middle East Economic Digest*, estimated the market share of generic medicines in Saudi Arabia was just 5.8% compared with 50% in many European countries.

However, the NCB report predicted the market share of patented drugs would erode between 2009 and 2012. (Editor's note: these are the latest available figures.)

Market Trends

As is seen throughout the Middle East region, the proportion of chronic diseases is on the rise in Saudi Arabia, Ms. Gauntlett says.

“Diabetes, hypertension, and hyperlipidemia are now highly prevalent in the country, leading to increased healthcare expenditures as patients remain on treatment for a significant number of years,” Ms. Gauntlett says. “Diabetes is a particular concern, with a prevalence rate of more than 23%, versus the international rate of 8.2%, according to the International Diabetes Federation.”

Ms. Gauntlett notes that factors driving this trend include: a low awareness level among the population, poor eating habits

with increasing fast food consumption among the young, and lack of sporting activity across the population, particularly women, increasing obesity levels.

Mr. Longhi adds that almost 30% of Saudi males are considered to be obese, making this a major health problem.

“While efforts are being established to target prevention, there remains a sizeable opportunity for diabetes companies in Saudi Arabia, as the country appears open to innovation with a high share of spend on newer innovative treatments,” Ms. Gauntlett notes. “Just under 50% of all diabetes pharmaceutical spend in Saudi Arabia is on the modern insulin analogs and the DPP-IV agents, although innovative products in this class are often launched later in Saudi Arabia than in other countries in the region.”

According to the SAGIA, Saudi Arabia has an unusually high rate of congenital disorders due to inter-marriages, making the Saudi population valuable for genetic research.

Another factor that sets Saudi Arabia apart from other markets is the Hajj, a religious pilgrimage. The kingdom places a huge focus on healthcare during the pilgrimage season, providing integrated and free health services to pilgrims.

Additionally, there is a focus by the country to improve medical education and infrastructure. For example, King Abdullah University for Science and Technology (KAUST) opened in 2009 with a \$14 billion investment — \$4 billion on infrastructure and \$10 billion allocated for science and technology endowments.

The Saudi government has implemented regulatory reforms to encourage private sector investment in the healthcare sector. PV

Saudi Arabia: A Growing Market

- » Saudi pharmaceutical market size is estimated to have reached SAR10.29 billion (USD\$2.74 billion) in 2008.
- » Market size is expected to post a CAGR of 5.74% and is estimated to reach SAR13.1 billion (US\$3.49 billion) by 2012.
- » Local manufacturers had supplied around 16% of the total pharmaceuticals market, while the remaining 84% were imported from other countries.
- » Leading domestic players/manufactures are: SPIMACO, Tabuk Pharmaceuticals Company, Jamjoom Pharmacies, Al-Jazira Pharmacies, Riyadh Pharmacies, and Saja Pharmacies, and foreign firms including; GlaxoSmithKline (UK), Pfizer, Novartis, AstraZeneca, MSD, and Janssen.
- » Combined value of local manufacturing is estimated to have reached SAR1.62 billion in 2008 and expected to reach SAR2.12 billion in 2012.
- » Imports of pharmaceuticals are estimated to grow by 5.25% and projected to reach SAR10.81 billion in 2012 from SAR8.67 billion in 2008.
- » About 54% of pharmaceuticals by value were purchased by the public sector, while remaining 46% bought by private healthcare facilities and out-of-pocket purchases by individuals.
- » More than 5,700 registered drugs are sold through more than 4,500 pharmacies, and OTC sale stood at SAR692 million in 2008.
- » There are no looming threats to the business of pharmaceuticals sector. However, lack of indigenous R&D is one of the major limitations to developing new drugs locally.

Source: Saudi Pharmaceuticals Sector Review, NCB Economics Department, January 2011



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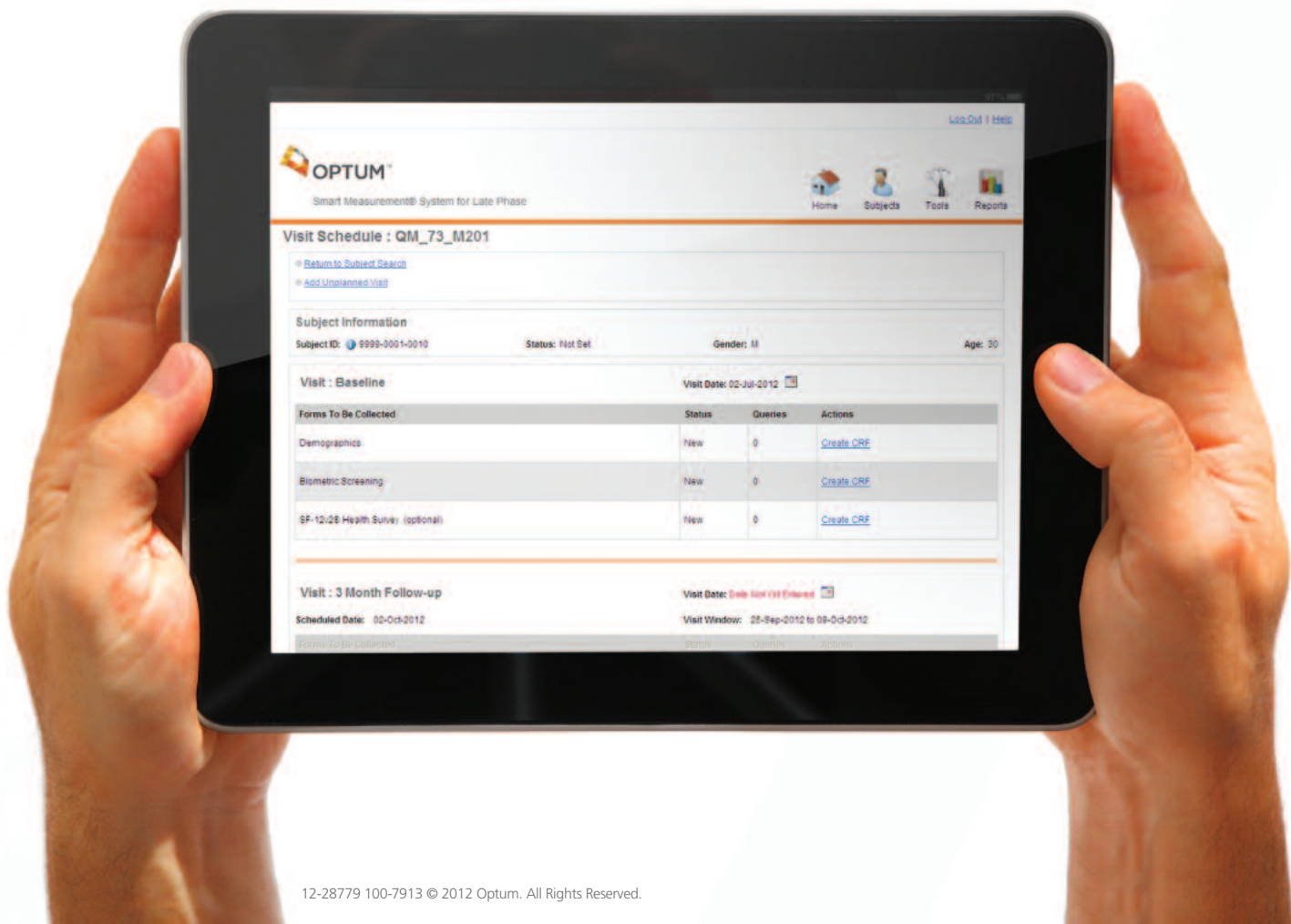
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Saudi Arabia Puts Emphasis on Life Sciences

The government of Saudi Arabia has committed to establishing a knowledge-based economy in the kingdom by 2020 with a focus on strategic sectors selected as economic drivers. Its “Eighth Development Plan” has placed new levels of emphasis on diversifying the oil-based economy of the kingdom by developing science and technology capabilities. Saudi Arabia has set plans to become the premier life-sciences center in the Middle East and establishing a strong R&D culture. The following initiatives are under way in order to make this a successful endeavor:

» The Saudi government has committed to life-sciences sector as a key economic driver through public-private partnerships and vast R&D funding.

- » King Abdulaziz City for Science and Technology (KACST), which coordinates science and technology in the kingdom, endowed with SAR8 billion (\$2.13 billion) for research.
- » The King Abdullah University for Science and Technology (KAUST), opening its doors in the fall of 2009, is set to be a leading scientific center, with a \$14 billion investment — \$4 billion on infrastructure and \$10 billion allocated for Science & Technology endowments.

The Saudi Arabian General Investment Authority (SAGIA) has embarked on an initiative to promote and nurture the life-sciences industry in the kingdom. After an assessment of Saudi Arabia’s competitive advantages in the life sciences, the creation of a supportive regu-


latory framework benchmarked to international best practices and the development of unique value propositions for each segment, the sector is ripe for investment and growth. Ultimately, SAGIA’s vision is to create centers of excellence in biotechnology, research, and development that will ensure knowledge transfer and allow Saudi Arabia to lead the region in biotechnology applications. The economic cities will be at the forefront of the life-science strategy, with the establishment of world-class life-science and biotech parks planned for each city, in line with the city’s offering.

SAGIA’s rationale for investment in life-sciences in the kingdom is to commercialize and manufacture pharmaceutical, biotechnology, medical, and diagnostic products designed to improve human health.

Saudi Arabia has by far the largest market in the Gulf Cooperation Council (GCC) with \$1.89 billion of pharmaceutical sales and \$500 million of medical device sales and can serve as a launch pad to 250 million customers in the MENA region, with a pharmaceutical market valued at more \$16.8 billion and a medical devices market of \$2.6 billion.

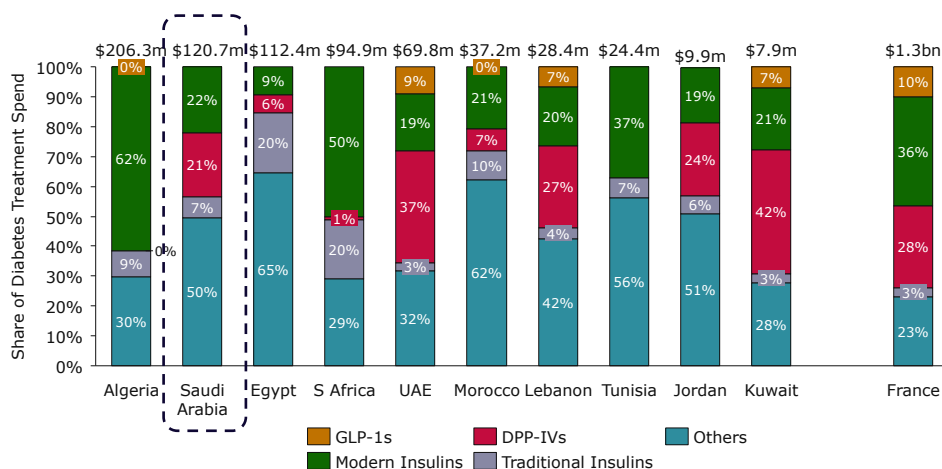
Imports account for 90% of the Saudi pharmaceuticals market and 98% of the medical devices market. There are only nine local pharmaceutical manufacturers currently in the kingdom.

In terms of disease prevalence, there is an alarmingly high incidence of diabetes, hepatitis, breast cancer, obesity, and genetic disorders. Some estimates show that more than 30% of the Saudi population suffers from diabetes, making demand for drugs and services extremely high. The unusually high rate of congenital disorders due to inter-marriages makes the Saudi population valuable for genetic research.

According to SAGIA, upstream petrochemicals to pharmaceutical manufacturing are available at one-eighth of international prices in the kingdom, which lowers materials and supplies costs, translating into significantly better profits margins. For more information, visit sagia.gov.sa. 

Diabetes Market: Middle East

% spend in Middle East on newer diabetes agents (DPP-IVs /GLP-1s) in line with major European markets



Source: IMS Health, MIDAS MAT June 2012. Rx Bound. Data is Retail Sales Only

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