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In its most recent Pharmaceuticals and Healthcare report for Lebanon, Business Monitor International (BMI) issued a “cautiously optimistic” outlook for the market over the coming years. BMI believes that demand for high-value prescription drugs is driven by 3 factors: the government’s focus on facilitating access to healthcare services across the country, the rising disease burden (defined as the number of disability- adjusted life years lost to a disease in a particular country), and the high per capita healthcare spending. However, the upbeat outlook is hindered by the heavy influx of Syrian refugees, by rising violence in the region and by the political stagnation in the country.

According to BMI estimations, pharmaceutical sales in Lebanon reached \$1.63B in 2015 and are expected to grow to \$1.75B in 2016. Healthcare spending was estimated at \$3.59B in 2015 and is also expected to rise to \$3.91B in 2016.

Table: Headline Pharmaceuticals & Healthcare Forecasts (Lebanon 2014-2020)

	2014	2015e	2016f	2017f	2018f	2019f	2020f
Pharmaceutical sales, USDbn	1.53	1.63	1.75	1.87	1.98	2.09	2.20
Pharmaceutical sales, % of GDP	3.12	3.15	3.22	3.24	3.24	3.23	3.22
Pharmaceutical sales, % of health expenditure	46.4	45.5	44.8	44.1	43.4	42.8	42.3
Health spending, USDbn	3.29	3.59	3.91	4.24	4.56	4.87	5.21

e/f = BMI estimate/forecast. Source: WHO, National Sources, BMI

Lebanon's Pharmaceutical Sector

The largely urbanized Lebanese population spends a lot on pharmaceuticals. BMI projects pharmaceutical per capita spending to increase further from \$279 in 2015 to \$374 in 2016. Lebanon is likely to continue to disburse a large portion of its GDP (3.22% by 2020) on pharmaceuticals over the medium term. This portion is the largest in the MENA Region.

In its report, BMI identified four key reasons that explain why pharmaceutical and healthcare spending is so sizeable in Lebanon. First, the private sector represents around 90% of Lebanon's hospitals and pharmacies which in turn facilitates the prescription of high-value pharmaceuticals. Second, prices are not competitive since the more than 50 pharmaceutical importers operating in Lebanon are not sufficiently consolidated and operate with fixed mark-ups. Third, Lebanon's medical tourism segment is highly developed and fourth, Lebanon is highly dependent on high-value imported pharmaceuticals.

However, BMI believes that the government is likely to continue to practice cost containment on drug prices, therefore limiting the profit margins of multinational drug makers in Lebanon. In March 2015, the prices of 60 generic and 30 branded drugs were reduced. Also in 2015, Lebanon introduced a unified medical prescription form in order to alleviate the cost of healthcare spending on consumers. The form, which is the same for patients, pharmacists and healthcare providers alike, allows consumers to purchase the generic and cheaper version of the patented drug they are looking to buy.

However, much controversy has surrounded the release of this form. Some stakeholders in the sector believe that doctors are prescribing original brand- drugs for which it is difficult to find a generic and more affordable substitute. On the other hand, government officials hope that this form will prevent restricted medicines from being sold without a prescription and will allow the consumer to sign a legal consent for their wish to switch from a brand medicine to its generic twin.

According to BMI, the Lebanese pharmaceutical market is 95% dependent on finished pharmaceuticals. In fact, the poor quality of intellectual property rights, the loose regulatory and legislation frameworks deter international pharmaceutical companies from investing in direct manufacturing in Lebanon. Rather, multinational pharmaceutical companies simply enter the Lebanese market by signing licensing agreements with local drug makers. In BMI's view, multinationals are also hesitant to launch the latest drugs on the market as "Lebanese companies are allowed to register and market unauthorized copies of original innovative products, owing to the lack of effective data exclusivity and patent linkage systems."

As the large spending and prioritization of medicine in Lebanon is likely to drive market growth, some hindering elements might come into play. BMI highlights that Lebanon's proximity to war-plagued Syria will negatively affect pharmaceutical trade relations. Moreover, the poor regulatory environment and the loose enforcement of rules are also likely to limit growth prospects.

Lebanon's Healthcare Market

Spending on medications constitutes over 40% of total healthcare expenditures which renders the healthcare sector inextricably linked to the pharmaceutical market. As the Lebanese government seeks to put a cap on drug prices, the growth of the healthcare sector is expected to slow over BMI's 10 Years forecast period of 2015-2020. The growth in health spending will likely experience a gradual drop from 8.91% in 2015 to 7.03% in 2020.

Table: Healthcare Expenditure Trends, Historical Data And Forecasts (Lebanon 2012-2020)

	2012	2013	2014	2015	2016f	2017f	2018f	2019f	2020f
Health spending, USDbn	3.09	3.05	3.29	3.59	3.91	4.24	4.56	4.87	5.21
Health spending, USDbn, % y-o-y	7.94	-1.44	8.12	8.91	8.91	8.58	7.61	6.75	7.03
Health spending, LBPbn	4,647.64	4,590.27	4,971.58	5,414.21	5,887.69	6,393.00	6,931.01	7,502.48	8,108.00
Health spending, LBPbn, % y-o-y	7.83	-1.23	8.31	8.90	8.75	8.58	8.42	8.25	8.07
Health expenditure constant FX rate, USDbn	3.08	3.04	3.29	3.59	3.90	4.24	4.59	4.97	5.37
Health spending, USD per capita	627.5	576.0	586.7	612.9	652.2	702.2	757.9	816.8	885.0
Health spending, % of GDP	6.99	6.45	6.71	6.91	7.18	7.36	7.46	7.54	7.62

f = forecast. Source: World Health Organization (WHO), BMI

The government is seeking to reduce the price of medication not only to allow higher access for the population but also to alleviate the burden on public finances. Private healthcare is subsidized by the government through the National Social Security Fund (NSSF) with government expenditure on healthcare expected to increase from \$1.83B in 2015 or 51.1% of total health expenditure to \$2.71B in 2020 or 52% of total health expenditure. However, that subsidizing process is problematic given that the NSSF has been suffering from a chronic deficit and its future revenues are jeopardized by the aging of the population. As the government looks to increase private sector contribution to the national social security scheme, BMI believes that it could lead to individuals favoring private insurance programs.

Lebanon’s Patented Drug Market

The campaign promoting the use of generic drugs is fairly recent in Lebanon, therefore patented drug sales are still dominant on the Lebanese market. In 2015, sales of patented drugs reached \$800M and as such accounted for 61.8% of prescription drug sales and 49% of the total market. BMI believes that the generic drugs are perceived as inferior to patented drugs which leads to the estimate that patented drugs will still represent 51% of total medicine sales in 2020 and 52.2% by 2025.

Table: Patented Drug Market Indicators, Historical Data And Forecasts (Lebanon 2012-2020)

	2012	2013	2014	2015	2016f	2017f	2018f	2019f	2020f
Patented drug sales, USDbn	0.61	0.70	0.75	0.80	0.87	0.94	1.00	1.06	1.13
Patented drug sales, USDbn, % y-o-y	1.69	14.54	6.38	7.03	8.34	8.05	7.13	6.01	5.77
Patented drug sales, LBPbn	922.30	1,058.63	1,128.11	1,207.32	1,306.02	1,411.19	1,523.15	1,637.24	1,748.63
Patented drug sales, LBPbn, % y-o-y	1.58	14.78	6.56	7.02	8.18	8.05	7.93	7.49	6.80
Patented drug sales, % of prescription sales	62.2	62.0	61.9	61.8	61.6	61.4	61.2	60.9	60.5
Patented drug sales, % of total sales	47.1	48.0	48.9	49.0	49.5	50.1	50.6	51.0	51.0

f = forecast. Source: UN Comtrade Database (DESA/UNSD), local news sources, domestic companies, BMI

Lebanon’s Generic Drug Market

For the time being, generic drugs are marginalized on the market. In 2015, spending on generic drugs totaled \$494M or only 30.3% of the total market and 38.2% of total prescription drug sales. In 2016, the generic drugs sector is expected to grow to \$539M and will register a compounded annual growth rate (CAGR) of 8.2% over the forecast period to reach \$734M in 2020. According to the Health Ministry and BMI, 21% of generic medicines are available and manufactured in Lebanon. In spite of this, consumer demand for generic drugs remains low for the time being. However, that is likely to change when awareness campaigns take full effect and when consumers realize that they could be saving significant amounts of money.

Table: Generic Drug Market Indicators, Historical Data And Forecasts (Lebanon 2012-2020)

	2012	2013	2014	2015	2016f	2017f	2018f	2019f	2020f
Generic drug sales, USDbn	0.37	0.43	0.46	0.49	0.54	0.59	0.64	0.68	0.73
Generic drug sales, USDbn, % y-o-y	2.65	15.65	6.60	7.66	9.14	8.92	8.05	7.30	7.70
Generic drug sales, LBPbn	560.12	649.16	693.16	746.19	813.17	885.67	964.12	1,048.97	1,140.73
Generic drug sales, LBPbn, % y-o-y	2.54	15.89	6.78	7.65	8.98	8.92	8.86	8.80	8.75
Generic drug sales, % of prescription sales	37.8	38.0	38.1	38.2	38.4	38.6	38.8	39.1	39.5
Generic drug sales, % of total sales	28.6	29.4	30.0	30.3	30.8	31.4	32.0	32.7	33.3

f = forecast. Source: UN Comtrade Database (DESA/UNSD), local news sources, domestic companies, BMI

Lebanon's OTC Market

According to BMI, Over the Counter medicines are largely under promoted in Lebanon and their share in the total market is expected to drastically decline for two main reasons: the first is the fact that prescription drugs are taking over most of the market and the second is the enforcement of stricter manufacturing and promotional requirements of herbal and nutritional products. Moreover, the Lebanese consumer is not one to seek self-medication but would rather consult a doctor and get a prescription instead.

In 2015, the spending on OTCs amounted to \$339M or 20.8% of the total market and will grow slightly to \$343M in 2016. Through 2020, the OTC market is expected to register a meager CAGR of 1% to reach \$346M in 2020 and will register only 15.7% of the total market.

The best-selling categories in the OTC segment are analgesics in first place and cough and cold treatments in second place. BMI notes that Lebanon has the capacity to produce most of the basic OTCs domestically but imports are still the consumers' favorites. Most Lebanese opt for the painkiller Panadol from GlaxoSmithKline instead of a local equivalent.

Table: Over-The-Counter (OTC) Medicine Market Indicators, Historical Data And Forecasts (Lebanon 2012-2020)

	2012	2013	2014	2015	2016f	2017f	2018f	2019f	2020f
OTC medicine sales, USDbn	0.32	0.33	0.32	0.34	0.34	0.35	0.34	0.34	0.35
OTC medicine sales, USDbn, % y-o-y	-6.10	4.91	-2.41	5.09	1.18	0.66	-0.48	-0.62	1.23
OTC medicine sales, LBPbn	474.11	498.41	487.23	511.99	517.27	520.70	522.07	526.11	537.76
OTC medicine sales, LBPbn, % y-o-y	-6.20	5.13	-2.24	5.08	1.03	0.66	0.26	0.77	2.21
Over-the-counter (OTC) medicine sales, % of total sales	24.2	22.6	21.1	20.8	19.6	18.5	17.3	16.4	15.7

f = forecast. Source: UN Comtrade Database (DESA/UNSD), local news sources, domestic companies, BMI

Market Summary

According to BMI, Lebanon's reliance on imports and lack of large-scale local pharmaceutical production is not in favor of the patient in terms of healthcare costs. The promotion of generic drugs should be developed further and the respect and protection of intellectual property rights ought to be established in order to attract foreign direct investment in the country. For now, multinationals are cautious given the local and surrounding political turmoil.

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