



October 4, 2019

Contact Information

Research Analyst: Sara Hadchiti

sarah.hadchiti@blominvestbank.com

Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

Research Department

Tel: +961 1 991 784

I. Pharmaceutical Industry

Prior to Lebanon's civil war (1975-1990), Lebanon had one of the strongest pharmaceutical industries in the region. However, surrounding markets have developed their capacities to the extent that they have now overtaken Lebanon. Moreover, the shutdown of the central laboratory for drug testing in 2007 has pushed companies to test drugs in developed markets, such as the US and Western European states.

Lebanon's pharmaceutical overall market size is considered to be small by regional - as well as global - standards, with a population of around 6M. Lebanon's pharmaceutical market is calculated to have been worth LBP 2.91trn (USD1.93B) in 2018, accounting for 3.3% of the country's GDP and 44% of total healthcare expenditure. This translates into per capita spending of USD281 - substantially higher than regional spending for Arab Gulf Levant countries. Most of the market is accounted for by prescription medicines, which represents 83% of the total value.

However, per capita consumption is one of the highest in the region. According to Fitch Solutions' estimates, pharmaceutical sales are forecast to rise by an annual 5.18% from \$1.93B in 2018 to \$2.03B in 2019. By 2023, Fitch forecast total medicines consumption to amount to \$2.57B which corresponds to a compound annual growth rate (CAGR) of 6%. Fitch projects per capita pharmaceutical spending to increase from \$281 in 2018 to \$438 by 2023, still one of the highest in the region.

The market will grow significantly in the long run. However, the low purchasing power and regulatory environment will limit the growth in the short term. In fact, the extension is mainly due to the increase in healthcare expenditure, coupled with population and socioeconomic expansion and modernization of the healthcare industry. Moreover, the economic situation improvement in the long term will boost the public and government spending capacity. Nevertheless, the government's attitude towards intellectual property rights is negatively affecting the market. In details, insufficient legislation and tax enforcement are having a negative impact on foreign direct investment, with many international operators content to negotiate licensing agreements with local drug makers, rather than invest in direct manufacturing.

PHARMACEUTICAL SALES, HISTORICAL DATA AND FORECASTS (LEBANON 2015-2023)

Indicator	2015	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
Pharmaceutical sales, USDbn	1.635	1.721	1.820	1.927	2.032	2.146	2.277	2.419	2.568

Source: fitchsolutions

The total expenditure on pharmaceuticals, including prescription and over-the-counter medicines is estimated to increase to USD3.54B by 2028 which equates to a CAGR of 6.3%. The report details major reasons why the healthcare and pharmaceutical spending in Lebanon are high. First, 90% of Lebanon's hospitals and pharmacies are privately owned and that motivates prescription of high-value pharmaceuticals. Second, the lack of consolidation among Lebanon's 50+ pharmaceutical importers and the presence of fixed mark-ups prevent any competitive pricing and the realization of economies of scale. Third, Lebanon is heavily reliant on imported pharmaceuticals and is therefore a price-taker in that regard.

Indicator	2015	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
USDbn									
Pharmaceutical sales, % of GDP	3.27	3.37	3.42	3.35	3.35	3.39	3.44	3.50	3.54
Pharmaceutical sales, % of health expenditure	42.3	43.4	43.6	43.9	44.2	44.1	44.1	43.9	43.5

f = Fitch Solutions forecast. Source: UN Comtrade Database DESA/UNSD, domestic companies, local news sources, Fitch Solutions
 Source: fitchsolutions

1. Pharmaceutical Trade Forecast

According to the Lebanese customs "Pharmaceutical products" (6.66% of total imported chemicals) grew by an annual 3.2% to \$1.33B in 2018 while their volume shred by 2.39% y-o-y. Germany, France and USA were respectively the largest suppliers of chemical products to Lebanon, grasping shares of 14.28%, 11.09%, and 9.13%, respectively. FitchSolutions estimates a growth of 3.6% in 2019 to reach \$1.35B and a compound annual growth rate (CAGR) 5.3% in dollar terms through 2023. In details, import growth will be shaped by demand on the one hand for both modern, patented medicines, and on the other hand for more generic products, in line with cost containment. However, the difficulty of receiving generic drugs from key players in Israel and Jordan as a result of the ongoing Syrian civil war, can limit the growth in imports.

As for the Pharmaceutical exports, it reached a value of USD56M in 2018. The report forecasts a yearly exports increase of 4.4% in 2019 and a local and US currency CAGR of 5.6% through to 2023, yielding a value of USD73M. Despite the health minister's efforts on expanding production, forecast for Lebanon's pharmaceutical trade to 2023 maintains a moderate outlook for export growth. First, there are few local producers and each operates under full capacity. Second, high demand for imports is also driven by the fact that patients know more the brand names of imported medicines rather than those of Lebanese origin. In fact, importers and traders of medicines into Lebanon have more aggressive marketing campaigns aimed at doctors, pharmacists and crucially, the public. In this context government's intervention remains crucial in order to improve local pharmaceutical industry. In details, one way possible way is to remove tariffs on active pharmaceutical ingredients and restrict the flow of generic medicines that can be made domestically.

PHARMACEUTICAL TRADE DATA AND FORECASTS (LEBANON 2017-2023)

Indicator	2017	2018	2019f	2020f	2021f	2022f	2023f
Pharmaceutical exports, USDmn	50.44	55.86	58.43	61.54	65.11	69.05	73.28
Pharmaceutical exports, USDmn, % y-o-y	11.89	10.74	4.59	5.32	5.80	6.06	6.12
Pharmaceutical imports, USDmn	1,263.98	1,305.09	1,354.10	1,413.80	1,492.81	1,586.32	1,692.15
Pharmaceutical imports, USDmn, % y-o-y	6.16	3.25	3.76	4.41	5.59	6.26	6.67
Pharmaceutical trade balance, USDmn	-1,213.54	-1,249.23	-1,295.68	-1,352.26	-1,427.70	-1,517.26	-1,618.87

Source: fitchsolutions

2. Generic Drug Market Forecast

A “generic” is the product produced using the same active ingredient as the original, but not manufactured by the original mother company (often the MNCs listed in-text) who created the active ingredient’s molecule. Therefore, a ‘generic’ is an imitation of the “originator” produced using the same active ingredient but after the original patent has already expired.

In the long term, generic drug sales will outpace patented drugs as new prescription legislation is better understood. In 2018, spending on generic drugs in Lebanon was valued at USD617M, representing 32% of the total market and 39% of prescription spending. In 2019, the sector is expected to rise by 7.3% to a value of USD 664M. According to forecasts, generic drug sales will increase to USD 906M by 2023, with a CAGR of 8.0% in US dollar terms. By 2028, the sub-sector is expected to rise to a value of USD1.37B. Patent expiries, as well as the enforcement of government cost-containment measures, will also boost the prescription and consumption of these lower-value medicines.

3. Lebanon Innovative Pharmaceuticals Risk/Reward Index

“Innovative Pharmaceuticals Risk/Reward Index tool”, provides a globally comparative and numerically based assessment of a market’s attractiveness for companies looking to launch a high-value drug. The index is computed based on 4 factors: Industry Rewards, Country Rewards, Industry Risks and Country Risks. Accordingly, the report gives Lebanon a score 47.4 out of 100 in the Innovative Pharmaceuticals RRI. In fact, despite high per capita expenditure on medicines, prospects for innovative drug makers are weighed down by a range of market access barriers, a small population and elevated political risks.

Industry Rewards: Lebanon scores 55.8, above the regional average of 48.4

Country Rewards: Lebanon scores 47.0 with regional average of 46.5. Lebanon's population is quite small, limiting market growth and opportunities

Industry Risks: Below the regional average of 47.1, Lebanon scores 42.7. Domestic patent laws remain well short of international standards .

Country Risks: Pulled down by the country's high exposure to regional security risks, Lebanon's score of 25.6 falls well below the regional average of 40.1.

Source: fitchsolutions

II. Healthcare Market Forecast

The Lebanese healthcare sector has been under considerable pressure following the influx of refugees from neighboring Syria. Syrian refugees accounted for around 25% of Lebanon's population as of April 2017 and it was reported that more than one million were in desperate need of healthcare. Healthcare expenditure reached USD4.39B in 2018, representing 7.6% of Lebanon's GDP. In addition, Per capita spending on health was calculated at USD640; high by regional standards. Government healthcare expenditure constituted 51% of the total with the private sector holding the remaining 49% share. The market is forecast to grow by 4.5% in 2019, reaching USD4.59B. By 2023, spending on healthcare is expected to reach a value of USD5.90B, experiencing a local currency CAGR of 6.1% in US dollar terms.

According to the report, the market for medications takes up 44% of total health care expenditure. This is problematic since the national health insurance scheme has been suffering from a chronic deficit and since the population is ageing. The latter would imply lower contributions and higher expenditures. According to the report, government expenditure on healthcare is set to increase from \$2.25B in 2018 to \$4.86B by 2023. The strain that healthcare expenditures put on the national health insurance scheme leads FitchSolutions to believe that the government will venture into cost-containment measures over the long term.

Promoting the use of generic drugs can be an effective tool to alleviate the public health bill. The Lebanese population still perceives generic drugs as "inferior" to the patented version. Lebanese patients tend to seek medical advice straight from specialized doctors instead of visiting family doctors first; Fitch's report elaborates on this issue by mentioning that "Specialists, as opposed to primary-care providers, offer the drawback (in expenditure terms) of prescribing more advanced and expensive treatments, which might not be the most affordable or appropriate option".

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department Bab Idriss,
Weygand Str. POBOX 11-1540
Riad El Soloh Beirut 1107 2080
Lebanon

Sara Hadchiti, Research Analyst
sarah.hadchiti@blominvestbank.com

+961 1 991 784

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com

+961 1 991 782

research@blominvestbank.com

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.