

PHARMACEUTICAL SECTOR IN LEBANON

► 2018 FACTBOOK



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ALL YOU NEED TO KNOW ON LEBANON

Invest in Lebanon and enjoy the most hospitable MENA destination for business, culture and leisure with a Mediterranean climate, cosmopolitan lifestyle and a variety of touristic attractions and activities across breathtaking natural landscapes. Strategically located at the intersection of Europe, Asia and Africa, Lebanon can provide companies easy access to regional and global markets. Lebanon also boasts state-of-the-art health care services, internationally renowned for the quality medical centers and staff. A historic melting pot for multiple civilizations, Lebanon is a small, multilingual haven of culture and diversity that is worth the journey.

Lebanon, with its official non-interventionist stance toward private investments, offers one of the most liberal investment climates in the Middle East. The economic openness of the country is harnessed through the absence of legal restrictions on the entry or exit of many firms, encouraging free market competition and furthering the development of the private sector. Liberal trade and investment policies have allowed foreign direct investments to account for a considerable share of Lebanese GDP.



ECONOMIC PROFILE AND SYSTEM

GDP at current prices (estimated 2018): USD 56.7 Billion

GDP/Capita (estimated 2018): USD 12,453

Real GDP growth (estimated 2018): 1%

GDP composition by sector:

Real Estate: 15%

Education & Health Services: 14%

Commercial Trade: 13%

Mining, manufacturing and Utilities: 11%

Public Administration: 10%

Financial Services: 8%

Construction: 4%

Agriculture, Forestry & Fishing: 3%

Information & Communication: 3%

Others (including catering, transport...): 19%

Current Account balance: USD -12.13 Billion

Balance of Payments: USD -156 Million

Domestic credit to private sector: 102.8% of GDP

Corporate tax rate: 17%

Main Import Partners (2017): USA, Greece, Russia, Italy, Spain, Ukraine

Main Export Partners (2017): Turkey, Syria, KSA, Egypt, Kuwait, UAE, Iraq

FDI inflows (2017): USD 2.63 Billion

Airport passengers (2017): 8.24 Million

Source: International Monetary Fund (IMF), World Bank, Bank Audi, Central Administration for Statistics (CAS), Ministry of Economy and Trade, Lebanese Customs Administration

Note: Latest available figures in the time of publication.



SECTOR OVERVIEW

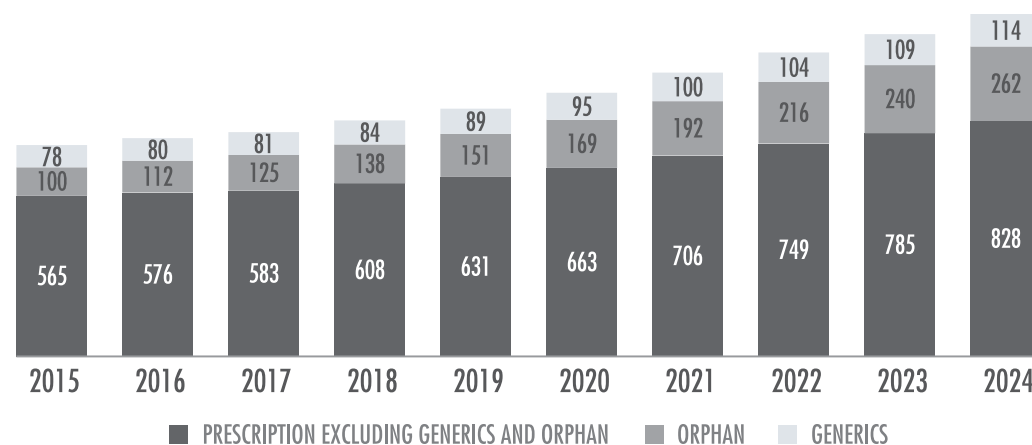
01. GLOBAL OVERVIEW

► The global prescription pharmaceutical drug sales market is expected to grow at a CAGR of 6.4% between 2018 and 2024, six times higher than the growth rate between 2011 and 2017 estimated at 1.2% (Figure 1).

Growth will be mainly driven by increasing global income levels as well as increase in the supply of new innovative drugs on the market.



Figure 1: Worldwide Prescription Drug Sales, Billion USD | 2017



Note: Orphan drugs are drugs used for the treatment of rare diseases.

Source: Evaluate Pharma 2018

02. REGIONAL OVERVIEW

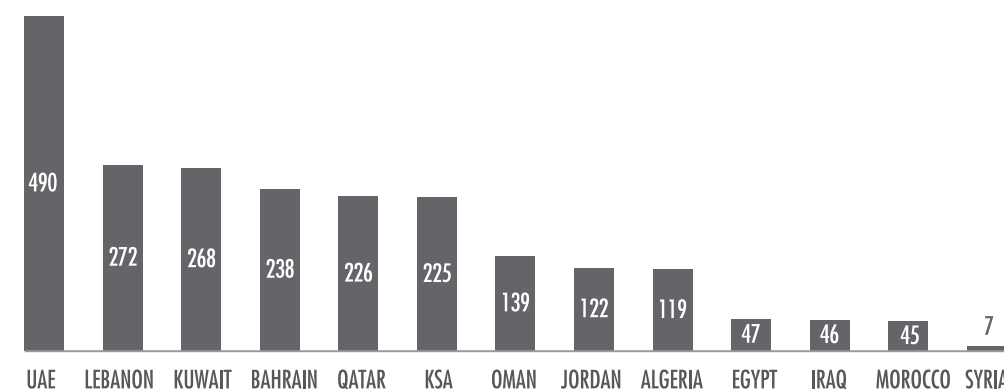
► The MENA pharmaceutical market was worth 36 billion USD in 2016 (or 2% of the global market) and is expected to reach a value of 50 billion USD by 2025¹.

The largest pharmaceutical markets in the MENA region by volume are in Saudi Arabia (7.16 billion USD), Algeria (4.64 billion USD) and Egypt (4.17 billion USD). However, UAE, Lebanon and Kuwait top the MENA countries in terms

of pharmaceuticals sales per capita (Figure 2) indicating strong potential for pharmaceutical production in these countries to address high demand.

In Lebanon and the GCC countries, the pharma sector is dominated by imported patented drugs with much less preference to generics due to cultural preferences for branded patented drugs.

Figure 2: Total Pharmaceutical Sales Per Capita in the Middle East, USD | 2014



Source: IFPMA "The Pharmaceutical Industry and Global Health, Facts and Figures", 2017

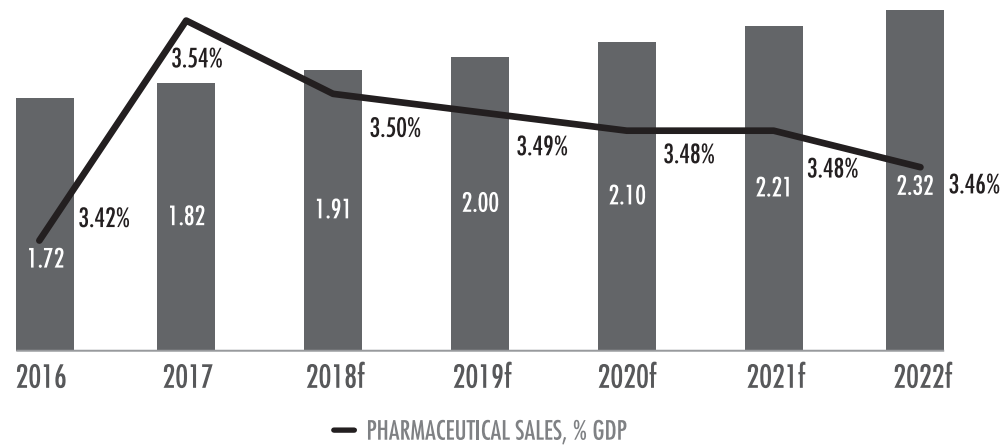
¹ www.thepharmaletter.com/article/pharmaceutical-market-in-mena-region-forecast-to-reach-50-billion-in-2025

03. LOCAL OVERVIEW

Lebanon’s healthcare spending is forecasted to grow from 4.1 billion US\$ in 2017 to 5.1 billion US\$ in 2022. Pharmaceutical spending was estimated at 1.8 billion US\$ in 2018 and is expected to reach 2.3 billion US\$ in 2022 (Figure 3) or 395 US\$ per capita- still one of the highest in the region - and accounting for 45% of total healthcare expenditure.

The growth of the pharmaceutical market is driven by the rise of healthcare spending per capita, the growing purchasing power of the population and the general preference for imported patented drugs.

Figure 3: Lebanon Pharmaceutical Sales, Billion USD | 2016-2022



Source: BlomInvest Bank 2018

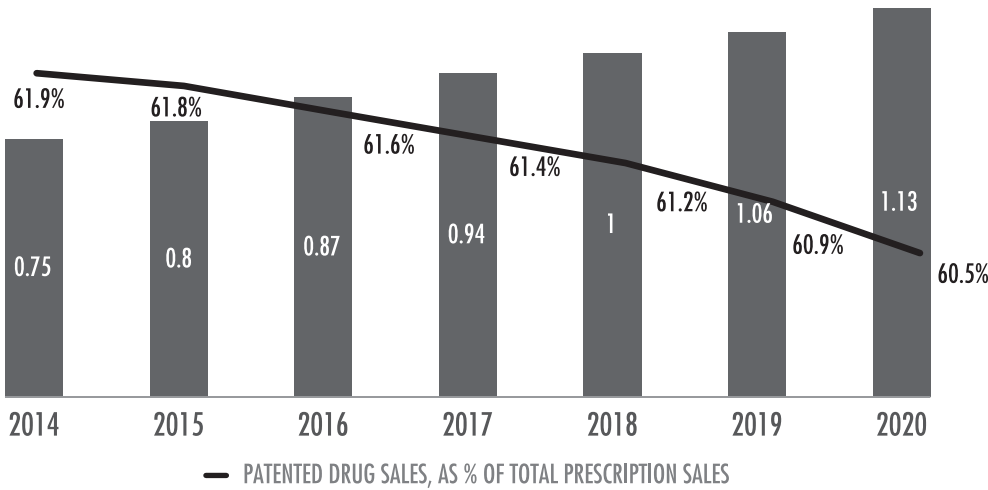


Patented drugs have the largest share of total pharmaceutical sales in Lebanon and accounted for around 61% of total prescription market in 2018 (Figure 4). Despite Government’s efforts to spread awareness on the use of generics as

substitute for patented drugs, BMI, a leading business research firm, expects the local market will continue to be dominated by the high-value patented drugs and will account for 60% of total prescription sales in 2020.



Figure 4: Lebanon Patented Drug Market Indicators, Billion USD | 2014-2020

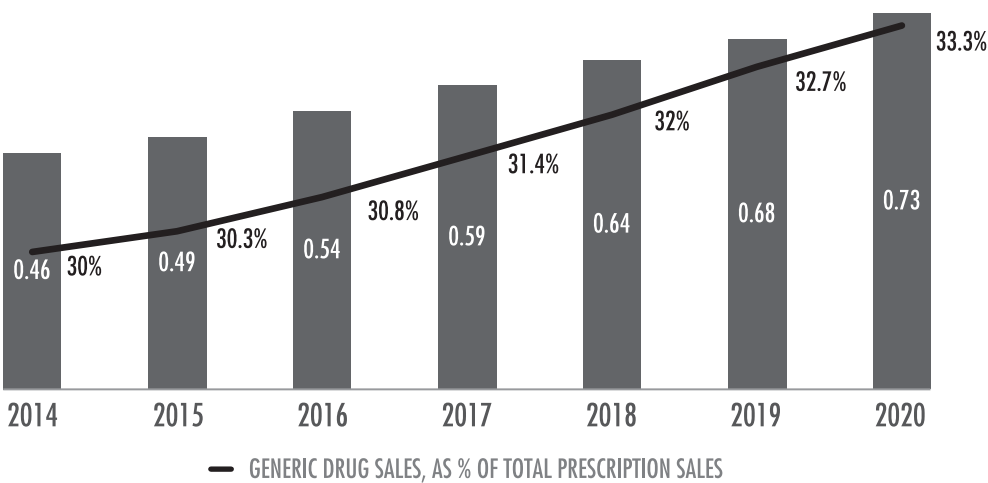


Source: BlomInvest Bank 2016

► In Lebanon, 21% of the **generic drugs** are manufactured in Lebanon although the sub-sector remains performing below its potential with 32% share of the total prescription drugs market (Figure 5).

The sector is expected to grow at a CAGR of 8.2% over the 2016-2020 period² due to regulatory changes and more initiatives by the Ministry of Health to boost the sector's growth.

Figure 5: Lebanon Generic Drug Market Indicators, Billion USD | 2014-2020



Source: BlomInvest Bank 2016

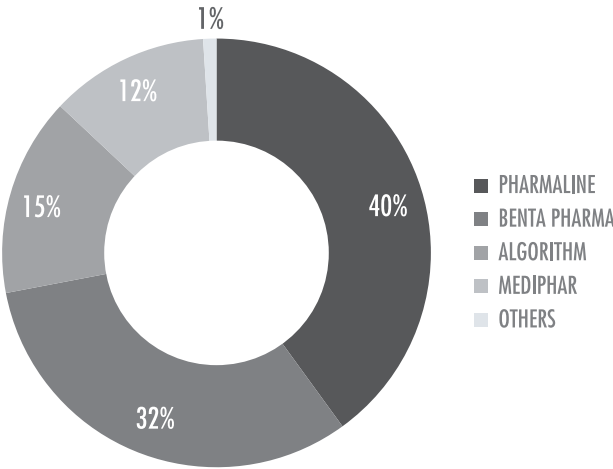
► Spending on over-the-counter pharmaceuticals (OTCs) accounted for 20.8% of total drug market in 2015, with a value of USD 339 million³. The most bought OTCs are analgesics (painkillers), followed by cough and cold treatments. Given the Lebanese Government's enforcement of stricter manufacturing and promotional guidelines regarding OTC drugs especially for herbal and nutritional products, this is expected to lead to a slowdown in the growth of this sub-sector estimated at a CAGR of 1% by 2020⁴.

The pharmaceutical market currently comprises more than 1,100 foreign and local providers of which 11 are local manufacturing facilities⁵ altogether forming a well-established pharmaceutical ecosystem in the country.

Manufacturers mostly produce their own off-patent branded generics, but equally produce patented drugs under license for multinational companies. These local producers constitute in total only 11% of the pharma market in Lebanon.

► According to 2017 estimates, Pharmaline has the biggest share of the local market accounting for around 40%, followed by Benta Pharma (32%), and Algorithm (15%) (figure 6).

Figure 6: Distribution of Market Share by Companies in Lebanon's Pharmaceutical Industry, % | 2018



Source: BlomInvest Bank 2018

► Local manufacturing players in Lebanon have a diversified portfolio of products ranging from basic low-value products to more technologically advanced and complex products that are intensive in Research and Development. Arwan and Benta Pharma in Lebanon produce biosimilar products or biological

drugs which namely require very advanced biotechnology and facilities. In turn, Alfa Labs and Serum products manufacture a more industrial product, known as "serum" (or IV solutions), while Pharma M strictly manufactures food supplements.

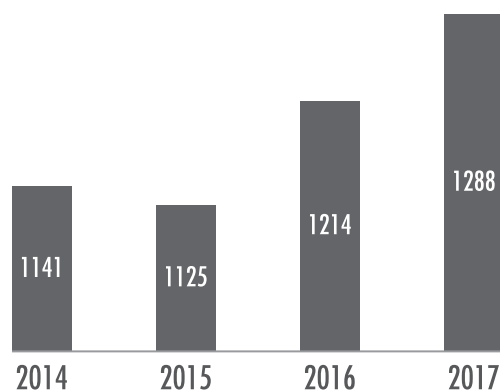
2,3,4, BMI, 2016
5, BlomInvest Bank, 2018

TRADE ACTIVITY

► Lebanon is a net pharmaceutical importer making it a price taker. In 2017, imports reached 1.3 billion US\$, up from 1.1 billion US\$ in 2014 (figure 7).

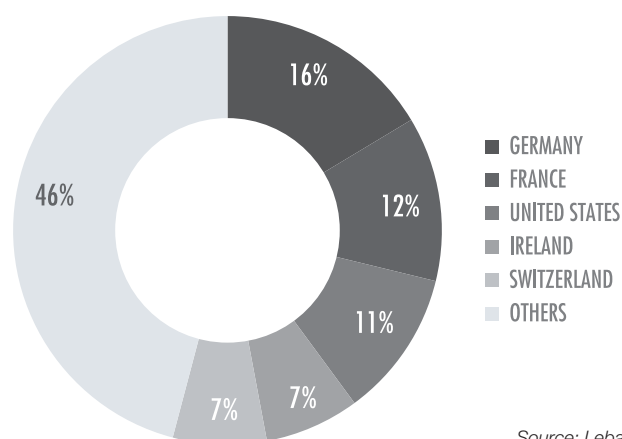
The main sources of import are Germany (16%), France (12%), USA (11%), Ireland (7%) and Switzerland (9%) (figure 8).

Figure 7: Lebanon's Pharmaceutical Imports, Million USD | 2014-2017



Source: Lebanese Customs

Figure 8: Top 5 Lebanon's Pharmaceutical Imports by Country of Origin, % | 2017



Source: Lebanese Customs

► While exports of pharmaceutical products are still small compared to imports, they have been growing at a much faster pace than imports reaching a CAGR of 11% between 2014 and 2017

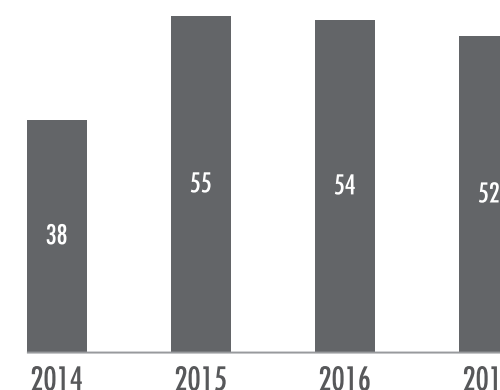
compared to a CAGR of only 4% for imports (figure 9). This indicates the strong potential of Lebanon to become a regional leader in pharmaceutical production and sales.

► The leading export destinations of Lebanese pharmaceutical products are Arab Countries mainly Iraq, receiving 23% of total Lebanese pharmaceutical exports followed by UAE (21%) and Kuwait (19%) (figure 10).

► The regional pharmaceutical market is very competitive and is becoming

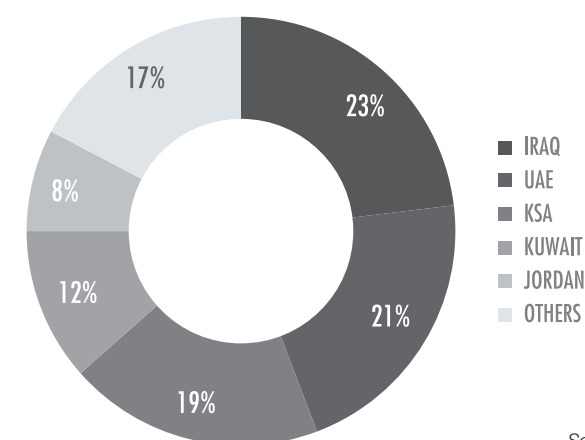
generics-oriented as the sub-sector accounts for 61% of total market pharma market in Egypt, 67% in Jordan and 68% in Morocco. The Governments of these countries are subsidizing local production and have put in place favorable policies to support and boost locally-based production, making Lebanon's access to these markets challenging.

Figure 9: Lebanon's Pharmaceutical Exports, Million USD | 2014-2017



Source: Lebanese Customs

Figure 10: Top 5 Lebanon's Pharmaceutical Exports Destinations, % | 2017



Source: Lebanese Customs

LEBANON'S COMPETITIVE ADVANTAGES

01. Talented and Affordable Human Capital Base

► Lebanon is ranked 18th worldwide for the Quality of its Higher Educational System, and 4th for the Quality of its Math and Science Education⁶. Through its developed STEM educational curricula, the country is able to supply a highly specialized labor pool for the pharmaceutical industries. Top universities offer advanced programs in chemistry and

pharmacy at both the undergraduate and graduate levels. The Lebanese American University equally offers a highly-selective and internationally accredited Doctorate in Pharmacy program. Around 3,000 students graduate yearly with a degree in Pharmacy and are recruited by local, regional and international pharmaceutical industries worldwide⁷.

02. Access to a Large and Fast-Growing Regional Market

► Thanks to GAFTA, Lebanon has direct access to the MENA pharmaceutical market, a market that is projected to grow at a CAGR of 8.5% (backed by a high population growth rate and rising

income levels) between 2015-2020, one of the highest rates in the world surpassing that of the US, the CIS region and China estimated at 7.6%, 7.3% and 6.9% respectively.

03. Well-Developed Healthcare Services

► Lebanon has one of the highest ratios of doctor to population in the world, hovering at 31 physicians per 10,000 individuals, in addition to the highest ratio of beds to population at 35 beds per 10,000⁸. pharmaceutical sales represented 3.4% of GDP in 2018 and 44% of total health expenditure⁹. The country's well-developed healthcare system, in particular its private hospitalization facilities, have

made of the country a hub for healthcare services in the Middle East and an important health tourism destination, and form a firm base for further market growth. 90% of Lebanon's hospitals and pharmacies are privately owned which is an added incentive for the prescription of high-value pharmaceuticals¹⁰.

04. Government Support

► The Government of Lebanon has put the pharmaceutical sector as a key priority sector to develop and support.

► IDAL offers tax breaks on **corporate income tax for up to 10 years**, as well as other incentives to local and foreign companies operating in the pharmaceutical sector and meeting specific investments requirements.

► Pharmaceutical manufacturing companies like other industries are eligible for a **50% exemption on tariff duties** at export. Machinery, equipment, spare parts and building material imported for the setting up of new industrial firms, are subject to only **2% custom duties**. Custom duties exemptions are applied to raw materials and semi-manufactured goods (total of over 2000 products).

► The Ministry of Health has enacted in recent years various policies to support the development of the pharma sector and created awareness campaigns on the use of generics instead of imported patented drugs. Moreover, the ministry has increased its monitoring and review of medicine prices to protect local production and make it competitive vis-a-vis foreign competition.

05. Availability of Financing

► Pharmaceutical companies in Lebanon benefit from subsidized loans and financial guarantees from KAFALAT, a

public-private financial institution that helps SMEs in Lebanon access financing at competitive rates.

06. Strong Lobby Group

► The Syndicate of Pharmaceutical Industries in Lebanon was founded in 2016 by the main players in the pharmaceutical industry in Lebanon.

The syndicate has ambitious targets to grow the sector and make Lebanon a regional leader in high-value pharmaceutical products.

6, Global Competitiveness Report 2017-2018

7, Ministry of Education

8, Ministry of Public Health

9, Blom Invest, 2018

10, BMI, 2018

INVESTMENT OPPORTUNITIES IN THE SECTOR

INVESTMENT OPPORTUNITIES

Multinational companies present in Lebanon who manufacture part of their products through local companies include: Janssen Cilag, Abbott, Pierre Fabre, Sanofi Aventis, GlaxoSmithKline, Eli Lilly, Merck and Co...

GENERIC PRESCRIPTION DRUGS

Even though generic drugs penetration is currently low, sales are expected to pick-up at a rapid pace as the market is gaining traction particularly in the MENA market. The generics market is experiencing high growth rates in the GCC region where it was valued at around \$1.55 billion in 2016, following CAGR of 15% between 2009 and 2016¹¹.



HIGH-END NATURAL COSMETICS

Demand for natural and organic products is growing exponentially driven by increased awareness on health and wellness. Lebanon's cosmetics industry ranks amongst the top 5 Lebanese exports indicating its strong position and its potential to grow to address regional and global demand.



VITAMIN AND FOOD SUPPLEMENTS

The Middle East & Africa dietary supplement market is expected to register a CAGR of 8.2%, between 2018 and 2023¹² indicating large opportunities for pharmaceutical companies in Lebanon to tap into this fast-growing regional market. The growth of food supplements is mainly due to increased consumer awareness of health supplements and preventive medicine.



INVESTMENTS MEDIATED BY IDAL

Through its Investment Law No. 360, IDAL has provided fiscal incentives and other types of support to 6 projects in the pharmaceutical sector. Together, these projects have injected a value of **USD 114.7 million** to the local economy and generated **582 new jobs**.

ARWAN

A USD 35 Million investment project established in 2009 and located in Jadra (Mount Lebanon) for the development of biotechnology products. 90 new jobs were created as a result of this project.



UTRIX

Produces, sells and exports veterinary drugs with an investment size of USD 18.7 million. The project created 27 new jobs.



ALGORITHM

A USD 12.4 Million investment was completed in 2012 aiming at increasing the production capacity of Algorithm company which is located in Zouk Mosbeh (Mount Lebanon). 100 new jobs were created as a result of this expansion, which helped in introducing new pharmaceutical products to cater for growing demand in both the local and regional markets.



BENTA

A USD 30.5 Million expansion project by Benta Group in 2004 located in Dbayeh to supply the Lebanese and Middle Eastern markets with locally manufactured and packaged pharmaceutical products at competitive prices, while equally fulfilling the strictest and most stringent requirements set by the FDA. 189 new jobs were created as a result of this project.



¹¹ www.menaherald.com/en/business/healthcare/pharma-experts-discuss-gcc-155-billion-generics-market-abu-dhabi-event
¹² www.mordorintelligence.com/industry-reports/middle-east-and-africa-dietary-supplement-market

PHARMALINE

Pharmaline upgraded its plant building structure to cope with the GMP27 and the European standards. The building upgrade along with the acquisition of miscellaneous machines cost around USD 12.5 Million. The company currently produces over 140 generic products under various dosages and packaging and exports to countries throughout the Middle East, GCC, North Africa, Europe and Russia. Its expansion allowed the recruitment of 39 additional employees.



PHARMA M

PharmaM is a Lebanese pharmaceutical manufacturing company based in Oyoune, Brummana with an investment of USD 1.2 Million. The company specializes in the production, marketing, and sales of dietary supplements and herbal medicinal products. Pharma M is the only producer of science-based dietary supplements in Lebanon, and one of the few in the Arab Region. Pharma M exports its products in the Middle East, Europe and Africa. The project created around 17 new jobs.



USEFUL ADDRESSES & CONTACTS

Ministry of Ministry of Public Health
www.moph.gov.lb

Ministry of Industry
www.industry.gov.lb

Ministry of Economy and Trade
www.economy.gov.lb

Investment Development Authority
of Lebanon IDAL
www.investinlebanon.gov.lb

Syndicate of Lebanese Pharmacists
L'ordre des Pharmaciens du Liban
www.opl.org.lb

Syndicate of Hospitals in Lebanon
www.hospitals-synd.org.lb



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