Challenges and Opportunities in Pharma: Perspective for an Emerging Middle East 2020

April 24th, 2015
Content

• **Pharma Market Landscape**
  – Global Pharma Market
  – Market Categories
  – Middle East Markets

• Major Challenges in Emerging Markets
  – Challenge
  – Recommendation

• Conclusion
Global pharmaceutical market is expected to grow at 4-6% CAGR to 2019

Global pharmaceutical market forecast in US$ 2015-2019

Contains Audited + Unaudited data. All CAGR calculations are 5 years
Source: IMS Health Market Prognosis, March 2015, at ex-manufacturer price levels
6 of the 21 pharmerging markets are located in Middle East & Africa

**Tier 1 & 2**
- China
- Brazil
- Russia
- India

**Tier 3**
- **Algeria**
- Argentina
- Colombia
- **Egypt**
- Indonesia
- Mexico
- **Nigeria**
- Pakistan
- Poland
- Romania
- **Saudi Arabia**
- South Africa
- Thailand
- **Turkey**
- Ukraine
- Venezuela
- Vietnam

Note: Pharmerging markets are defined as markets with incremental forecasted sales of $1.0bn and above in the next 5 years

Source: IMS Health Market Prognosis, March 2015
Turkey and Saudi Arabia were the largest markets in 2014

**Algeria**
- Market Value ($): 3.6Bn
- Past Growth (2009-14): 14%
- Future Growth (2014-19): 11%

**Turkey**
- Market Value ($): 7.3Bn
- Past Growth (2009-14): 3%
- Future Growth (2014-19): 5%

**Egypt**
- Market Value ($): 3.7Bn
- Past Growth (2009-14): 13%
- Future Growth (2014-19): 12%

**Nigeria**
- Market Value ($): 1.5Bn
- Past Growth (2009-14): 13%
- Future Growth (2014-18): 15%

**S. Africa**
- Market Value ($): 2.9Bn
- Past Growth (2009-14): 8%
- Future Growth (2014-19): 6%

**UAE**
- Market Value ($): 1.9Bn
- Past Growth (2009-14): 12%
- Future Growth (2014-19): 13%

**S. Arabia**
- Market Value ($): 5.6Bn
- Past Growth (2009-14): 12%
- Future Growth (2014-19): 10%

Source: IMS Health Market Prognosis, March 2015
In addition to emerging markets, next growth generators are concentrated in Middle East and Africa region.

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Asia Pac</td>
<td>Philippines</td>
<td>$3.1Bn</td>
<td>4.7%</td>
</tr>
<tr>
<td></td>
<td>Malaysia</td>
<td>$1.7Bn</td>
<td>6.6%</td>
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<tr>
<td></td>
<td>Bangladesh</td>
<td>$1.6Bn</td>
<td>9.2%</td>
</tr>
<tr>
<td>LatAm</td>
<td>Chile</td>
<td>$2.3Bn</td>
<td>7.0%</td>
</tr>
<tr>
<td></td>
<td>Peru</td>
<td>$1.4Bn</td>
<td>7.2%</td>
</tr>
<tr>
<td></td>
<td>Ecuador</td>
<td>$1.5Bn</td>
<td>6.8%</td>
</tr>
<tr>
<td>Central Asia</td>
<td>Kazakhstan</td>
<td>$2.3Bn</td>
<td>8.7%</td>
</tr>
<tr>
<td>Middle East</td>
<td>Iran</td>
<td>$1.8Bn</td>
<td>3.8%</td>
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<tr>
<td></td>
<td>U.A.E</td>
<td>$1.9Bn</td>
<td>13.2%</td>
</tr>
<tr>
<td></td>
<td>Lebanon</td>
<td>$0.7Bn</td>
<td>6.6%</td>
</tr>
<tr>
<td>Africa</td>
<td>Morocco</td>
<td>$1.3Bn</td>
<td>3.3%</td>
</tr>
<tr>
<td></td>
<td>Tunisia</td>
<td>$0.9Bn</td>
<td>8.2%</td>
</tr>
<tr>
<td></td>
<td>Ghana</td>
<td>$0.5Bn</td>
<td>11.3%</td>
</tr>
<tr>
<td></td>
<td>Kenya</td>
<td>$0.5Bn</td>
<td>6.9%</td>
</tr>
<tr>
<td></td>
<td>Ethiopia</td>
<td>$0.5Bn</td>
<td>9.6%</td>
</tr>
</tbody>
</table>

Note: The sales figures are preliminary results and may be updated in Market Prognosis to be published in May 2015.
Source: IMS Health Market Prognosis, March 2015
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Top 5 emerging markets challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launching new products well</td>
<td></td>
</tr>
<tr>
<td>Achieving market access and funding for your products through</td>
<td>public-private partnership programs</td>
</tr>
<tr>
<td>Aligning your portfolio for sustainable growth</td>
<td></td>
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<tr>
<td>Having the right local partners</td>
<td></td>
</tr>
<tr>
<td>Understanding the needs of emerging stakeholders via dynamic</td>
<td>stakeholder mapping</td>
</tr>
</tbody>
</table>

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Challenge: Launching new products well

Currently pharmerging markets make minor contribution to sales of new molecule launches...

... but this needs to change as it gets harder to sustain high sales in later stages of product lifecycle in pharmerging markets

Source: IMS Health Thought Leadership

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Recommendation: Launch plan should be tailored based on stakeholder needs

Launch earlier in pharmerging markets
- There is a clear trend in large pharmerging markets for earlier launch of new drugs
- Requires focus from corporate headquarters to incorporate these countries in clinical trials and prioritise regulatory submission resources

Don’t underestimate the potential for innovative launches
- Innovative drugs, especially differentiated ones, can gain high shares faster in emerging markets than developed ones
- Achieving the products’ potential requires adequate investment

Plan to maximize the 6-month launch window
- As in developed markets, few products overcome their launch trends
- Effective launch readiness activities should start at least 18 months ahead of launch

Address the complexities
- Affordability and routes to access must be built into price strategy and launch plans
- Local channel strategy
- The need to develop the market well ahead of product launch
Challenge: Achieving market access and funding for products through public-private partnerships

Willingness and ability to pay matrix

<table>
<thead>
<tr>
<th>Preference niche</th>
<th>Sweet spot</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Maintain price, adopt strategies <strong>to improve willingness to pay</strong></td>
<td>• Maximize current position with marketing, sales and key account relationships</td>
</tr>
<tr>
<td>• Need major product or strategy rethink</td>
<td>• Protect your market</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Price niche</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Maintain high price for only very small population</td>
</tr>
<tr>
<td>• Drop price or enable other financial assistance <strong>to improve ability to pay</strong></td>
</tr>
</tbody>
</table>
Recommendation: Public authorities become more open to PPPs to move patients to “Sweet spot” of the matrix

**Potential PPPs in Access to Medicine:**
- Organize public awareness campaigns
- Increase screening or improve diagnosis
- Train healthcare professionals for better disease management

**Potential PPPs in Pricing:**
- Invest in local manufacturing to benefit from ease in market access
- Apply tiered pricing, discounted prices at large purchases by public payers
- Negotiate innovative tendering agreements (e.g. additional services, bundled services)
Challenge:
Aligning your portfolio for sustainable growth

**Portfolio objectives**

**Build franchises**

- Gain promotion efficiencies through scale
- Gain promotion efficiencies through product franchises
- Build on core competencies
- Get cash out of non-strategic products

**Pick winners**

- Participate in the fastest-growing therapy areas
- Avoid over-spending on product acquisitions
- Focus efforts on important launches

Balance all these priorities...
...and do it in a changing environment
Recommendation: More and more of our clients are searching for in-licensing to round out the portfolio

Analyse high potential therapy areas and check presence

Prioritise portfolio based on key KPIs such as sales, profit, growth

Identify gaps and potential strategies to have strong portfolio

Compete against Competition

Invest against Competition

Selectively Invest

Invest to Win

High Profit Drivers

Revenue & Profit Drivers

Reduce Harvest

Low Profit Drivers

Low Revenue Drivers

High Sales

Inlicensing agreements?

or

Local acquisition?

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Challenge: Having the right local partners

Many strong distributors exist in these countries with rewarding partnerships:

- For example, partnering with SPIMACO, Snafi/Cialis overtook Viagra in sales within two years of launch in Saudi Arabia

Weak partners exist too, breaking partnerships can have bad consequences such as:

- Punitive exit clauses
- Stopping supply during the termination period, killing product sales
- Creating a generic version of your drug, sometimes regardless of protection
- Making significant loss

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Recommendation: Establish good relationships, mitigate risks, conduct in-depth partner due-diligence

New Partners: *Do your diligence to get it right the first time*

- Select the partners carefully in the first place
- Spend time on personal relationships
- Establish good contracts
  - Terms
  - Each partner’s commitments
  - Exit clause
  - Site of arbitration

Existing Partners: *Fix relationship with existing partners if there are problems*

- Assess the impact of breaking ties vs. continuing a poor partnership
- Acquire your partners
- Sell the products to the partners
- Supplement capabilities (e.g. CSO)
- Bring in another partner to provide competition
- Divest / pull out
Challenge: Understanding the needs of emerging stakeholders via dynamic stakeholder mapping

New stakeholders emerge as a result of internal or external changes

**Internal:**
- New distribution channels due to:
  - Corporate merger
  - Local acquisition
  - Product launch
- Increasing exposure to regulatory bodies due to:
  - Product launch

**External:**
- Change in regulatory or reimbursement environment
  - Additional steps in registration & approval processes
  - New pricing and reimbursement agreements
- Shift in procurement & purchasing
- Competitor actions
Recommendation: Design your organisation based on thorough analysis of stakeholders

Channel Strategy
- Hospital Tenders
- MoH Tenders
- Pharmacy Chains
- Independent Pharmacies
- Specialist Distributors
- Private Insurance

Stakeholder Mapping

- Analyse channel distribution of portfolio to identify stakeholders
- Understand the needs that should be addressed based on importance of each stakeholder for specific product group
- Reassess human resources allocation in the light of additional effort that emerging stakeholders require

Organisation Design & Sales Force Sizing
Conclusion: Emerging markets require quick actions – ‘wait and see’ strategy usually do fail
Dr. Cem Baydar
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