LR GLOBAL INDUSTRY INSIGHTS 2017

BANGLADESH PHARMACEUTICAL INDUSTRY

KEY TAKEAWAYS

- Local Pharma market in Bangladesh is poised to grow at a CAGR of 15% for the next five years, assuming that Nominal GDP grows at a rate 12.6% and per capita healthcare expenditure converges to neighboring countries.
- Greater affluence in the bottom-of-the-pyramid population and shift in disease profile are expected to drive the growth of healthcare expenditure in Bangladesh.
- Even though number of hospital beds increased by 36% since 2013, healthcare service delivery channels, particularly in the rural market, will have to be optimized further to widen the availability of medicines to different groups of customers.
- The industry has further growth opportunities in the international domain and has high possibility to emerge as the next 'thrust' sector after RMG.
- With backward integration, quality research facilities and skilled human resources; Bangladesh pharma industry can emerge as a world leader in producing off-patented generics medicine.

CONTEXT

Since the beginning of the decade, the pharma industry in Bangladesh has experienced double digit growth rate driven by large consumer base, improved health consciousness, and a supportive regulatory framework. The staggering growth phase of the industry remains far from over. As demographics shift, the industry also undergoes transformation to cater to the changing needs of the consumers. We undertook an exercise to assess the overall state of the industry. The objective of this paper is to elucidate the readers regarding the current trends, growth drivers and future prospect of the pharma industry in Bangladesh.

LR Global Research
research@lrglobalbd.com

Industry Size	Past 5 Year CAGR
USD 2.0 billion	13.5%

QUICK FACTS

POPULATION
163.2 million

GDP (PPP)
USD 4,204 per capita

HEALTHCARE EXPENDITURE
USD 88 per capita (2014)

DRUG PRODUCER
286 registered
220 operational

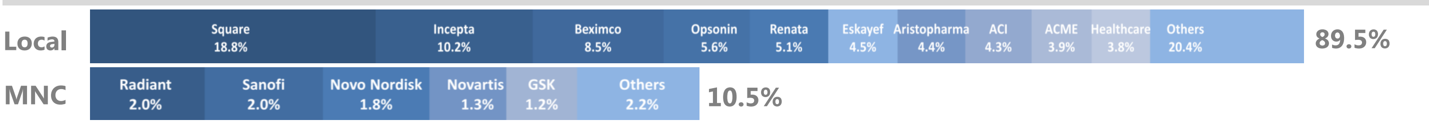
REGULATION
Drug Control Ordinance, 1982

LIFE EXPECTANCY
71.7 at birth (2015)

Pharma products in Bangladesh tend to experience fairly steady demand and are less sensitive to changes in the business cycle because of the nature of their usage. Based on Moving Annual Total value, annual sales of pharmaceutical products stood at BDT 156 billion in FY 2016 (IMS, 2016), representing roughly 0.9% the country's GDP. As one of the fastest growing manufacturing sectors in the country, pharma sector has recorded a CAGR of 13.5% in the past five years. Presently, the industry meets 98% of the local demand and exports to more than 125 countries. However, some complicated patented drugs, particularly in oncology, need to be imported.

Two effective policies have accelerated the growth of the sector. One was the Drug Control Ordinance 1982, which banned foreign companies from selling imported pharmaceutical products in Bangladesh. The other effective regulatory framework was TRIPS relaxation, which permitted Bangladesh to reverse engineer patented generic drugs. TRIPS relaxations for Bangladesh along with other LDCs were extended till December of 2032. In 1982, industry size was only BDT 1.7 billion which eventually grew ninety times by 2016.

EXHIBIT (1): Effective Policies Enabled Local Companies Capture Market Share



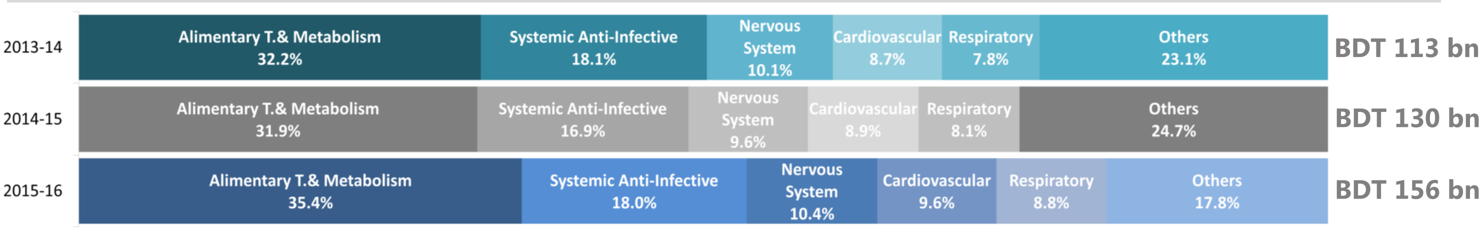
Source: IMS Health Report, 2016

NOTABLE TRENDS
Concentrated Market, Dominated by Local Players, Converging Growth Rate of Industry Leaders

GROWTH DRIVERS
Shifting Disease Profile, Increasing Healthcare Spending, Growth in Health Service Delivery Channels

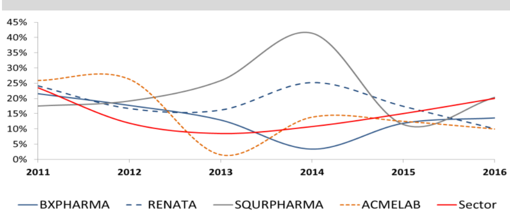
FINAL FRONTIER
Development of Backward Linkage and Human Resource to Establish Global Footprint

EXHIBIT (2): Market Share of Leading Therapeutic Segments



Source: IMS Health Report, 2016

EXHIBIT (3): Growth Rate of Market Leaders



Source: LR Global Research

EXHIBIT (4): Common Size Statement

	2014	2015	2016	2017E
Sales	100%	100%	100%	100%
GPM	44.5%	45.2%	47.5%	45.7%
OPEX	18.5%	18.6%	18.2%	18.4%
PBT	20.5%	21.4%	24.7%	22.2%
PAT	14.6%	16.1%	17.9%	16.2%

Source: LR Global Research

Local Dominance in a Highly Concentrated Market: As of June 2016, top five companies in the industry represented 48.2% of market share and the top ten represented 69.1%. The industry is dominated by the local players, which have state-of-the-art manufacturing facilities, countrywide distribution network and superior marketing team. Outrun by the local players, MNCs enjoy only 10.5% of the total market share. Focusing on some specialized products, Radian, Sanofi, and Novo Nordisk have become the market leaders among the foreign companies.

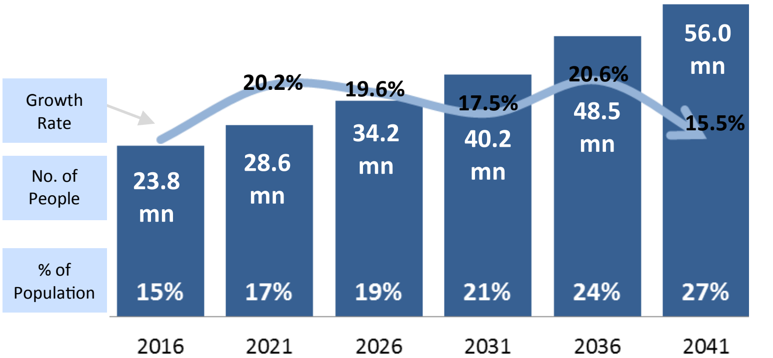
Market Leaders Converging to Industry Growth Rate: Although the industry maintained its growth pace in 2016, growth rate of the top players converged to industry average. However, Net Profit Margins of major companies increased due to two factors. One was operational efficiency, evident by two percentage point improvement in Gross Margin. The other factor was lower financial expense due to low interest rate environment.

Industry Sales driven by Generics: Bangladesh pharma market has been dominated by physician-driven branded generic products, particularly in three major therapeutic classes: Gastro-intestinal, Antibiotics and Antipyretics. As generics contribute to 90% of pharma products sold, price competiveness and distribution efforts are two main drivers for success of a product.

FOUR DRIVERS OF PHARMA GROWTH ENGINE

EPIDEMIOLOGICAL DRIVERS

EXHIBIT (5): Proportion of Population Aged over 50

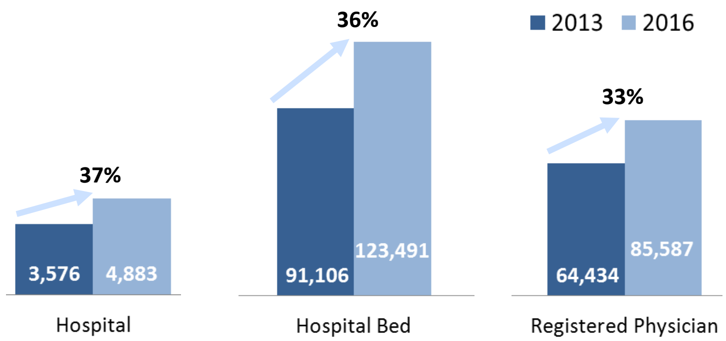


Source: BBS Population Projection, 2015

Shifting Disease Profile: Disease profile in Bangladesh is expected to change in two major ways: the rise of non-communicable diseases (NCD), and a gradual move from acute to chronic diseases. Aging population of Bangladesh is increasing, and by 2036, about 25% of Bangladeshi population will be over 50 years. Old people are more likely to be affected by four major categories of non-communicable diseases: cardiovascular disease, cancer, diabetes and chronic respiratory disease. Besides, increased health consciousness among mass people has reduced the proliferation of acute diseases while chronic diseases are expected to grow rapidly because of lifestyle changes and environmental factors.

ACCESSIBILITY DRIVERS

EXHIBIT (7): Growth in HC Service Delivery Channels

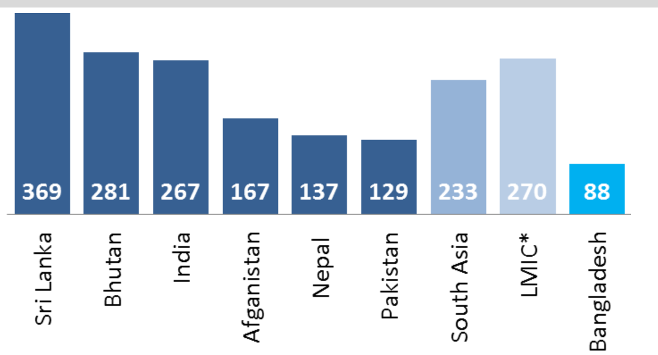


Source: BBS Statistical Yearbook, DGHS Annual Report

Growing Health Service Delivery Channels: Accessibility to drugs is likely to expand due to the fast growth of health service delivery channels focusing on NCDs. Apart from retail pharmacies, which will continue to be the major sales points, government and private-owned specialized hospitals are expected to emerge as important selling fronts for pharma products in future. Existing hospitals will also undergo major changes through medical infrastructure investment, and become instrumental in establishing pharma product brands. Geographically, the industry has immense room for growth in remote corners of the country, once modern medical facilities are made available to such places in full frequency.

PURCHASING POWER DRIVERS

EXHIBIT (6): Per Capita HC Spending in 2014 (PPP)

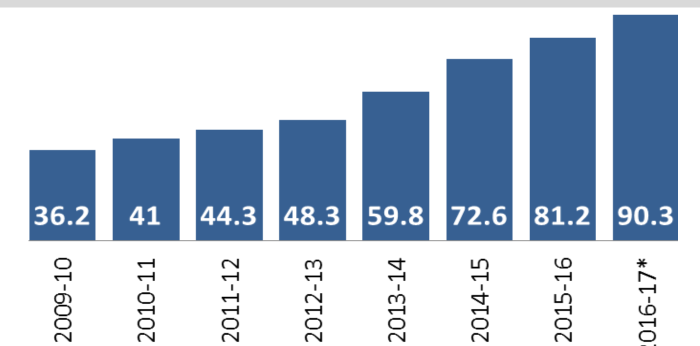


*Source: World Bank Database, *Lower-Middle Income Countries, All figures are in USD*

Increasing Healthcare Expenditure: Real GDP of Bangladesh has been forecasted to grow at a CAGR of 6.7% (World Bank, 2017) over next three years. Healthcare expenditure in Bangladesh is expected to grow at a rate higher than that of the nominal GDP. Healthcare expenditure as a proportion of GDP in Bangladesh is still lower than that of South Asia, India and Vietnam, implying further room for growth. Drug purchasing power is likely to rise with sustained growth in income as Bangladesh advances into the league of middle income countries. Yet, the biggest impact on growth of pharma sector will come from bottom-of-the-pyramid population, as more than 15 million people in Bangladesh are expected to rise above the poverty line by 2020.

EXPORT PROSPECT

EXHIBIT (9): Pharma Export from Bangladesh



*Source: Export Promotion Bureau of Bangladesh, *Annualized, Figures are in USD mn*

Potential Growth in Pharma Exports: Exports of pharma products registered a CAGR of 14.6% in FY11-FY16. In FY17, the industry is expected to record export receipts of USD 90.3 million. Continuous initiatives to register eligible products at an affordable price can make the USA and other developed market open up to Bangladesh-made drugs. Along with exporting off-patented generics in the USA and European market, Bangladesh can focus on less regulated emerging market as Bangladesh has both assembling and marketing capability to export oversees. All the pharma market leaders in Bangladesh have been focusing on exports. Beximco Pharma has already started exporting to the USA, and Square has announced to start a subsidiary in Kenya.

FUTURE OF PHARMA LOOKS EVEN MORE PROMISING

Growth in Consumer Healthcare: Increasing health awareness is expected to boost the demand for consumer healthcare products such as supplements. Two major players, Renata and Beximco, have already launched several products in this category and other players can be expected to explore this segment. Even though businesses in this segment will need to accept initial low profitability, consumer insights based innovation will help companies scale up in this segment.

Enhancing Market Share of Local Oncology Products: Although local players dominate in most of the categories of medicines, more than 90% of the oncology products in Bangladesh are imported. Some of the local players, such as Renata and Acme, are heavily investing in oncology products. Given the local companies can manufacture quality products at affordable price, oncology segment will emerge as an attractive growth segment in future.

Increasing Propensity to Self-medicate: Shortage of physicians, proliferation of retail pharmacies and wider availability of medicines are expected to enhance self-medication of gastrointestinal, painkiller and antibiotic, propelling the growth of the industry.

Opportunities from Institutional Purchase: As evident from the examples of our peer economies, pharma purchase by the government and NGOs is likely to increase exponentially. Such expenditure is expected to raise patient awareness and enhance the growth of health service delivery channels across the country, boosting the overall growth of the industry.

REACHING THE POTENTIAL: CHALLENGES AHEAD

Development in Backward Linkage: As more than 90% of BDT 47 billion worth of raw materials are imported in Bangladesh, the industry is vulnerable to external shocks. To solve the issue, the government has started the process of constructing an API industrial park consisting of 42 plots on 200 acres of land in Munshiganj district (cost: USD 30 million). At least half of the companies that get plots in the API Park are expected to go into operation by 2018. This API plant can also open international API market to Bangladesh. With TRIPS waiver, the country can pull market share in the patented API market from major raw material supplying countries such as India and China.

Bioequivalence Lab and Clinical Research Facility: Bioequivalence labs and modern research facilities equipped with skilled scientists are necessary for capturing the global market. Currently, pharma companies in Bangladesh primarily use facilities in Malaysia and India for similar tests. To facilitate local pharma companies, a Canada -Bangladesh joint initiative, named Bangladesh Clinical Research Organization was proposed in 2015. The proposed lab would require USD 50 million to be built over four years. Such a facility can also help Bangladesh pharma industry enter the global healthcare research market, an industry expected to reach USD 45.2 billion by 2022.

Human Resource Development: Successful transformation of the local pharma companies will hinge upon the quality of the human resource in the industry. To ensure sustainable growth, the companies will have to recruit and train qualified pharmacists and conduct formal GMP training for top managerial employees . As the companies continue to grow, strong leadership team will drive innovation and enhance efficiency, unlocking the growth opportunities further.

Ensuring Quality of Medicine: DGDA, the regulatory body responsible for quality of drugs in Bangladesh, lags sufficient resources to encounter both low quality and counterfeit drugs. The legislator needs to be revamped, and able to implement internationally acceptable standards of quality, safety and performance to Bangladeshi pharma products.

GLOBAL PHARMA

TRIPS Waiver and LDC Status: Currently, 48 LDCs, including Bangladesh, are not obliged to enact legislation on product patent rights till 2032. Taking the fast growth of the economy into consideration, there is growing concern that the bonanza might end soon for Bangladesh. However, based on international standards and previous examples, we believe Bangladesh will continue to enjoy TRIPS benefits at least till 2025. Moreover, since partners are encouraged not to abruptly end LDC support, Bangladesh can enjoy limited TRIPS support even after that with some competent negotiations.

Global Generics Market: Patent cliff has passed its steepest point, and cost-conscious government and healthcare payers are increasingly endorsing generic drugs. Global generics were valued at USD 168 billion in 2013, and are expected to reach USD 380 billion by 2021, registering a 10.8% CAGR. The growth of global generics business will primarily be driven proliferation of chronic diseases, trend towards adopting universal healthcare and patent expiry in developed markets. Bangladesh can capitalize on these trends to penetrate the markets in the USA, Germany, France, UK, and Japan.

Emerging Pharma Market: Emerging market pharmaceutical spending stood at USD 249 billion in 2015, and is expected to reach USD 345-375 billion by 2020 (IMS, 2016), driven by escalation in per capita volume and spending, and government's strong commitment of wider access to healthcare. While most of emerging and LMIC drug markets are dominated by multinational pharma companies, Bangladeshi pharma companies have the capacity to penetrate these markets.

Bangladesh pharma industry has made tremendous strides over the last decade, and the domestic market has almost doubled during 2011-2016. If there is no major hindrance, one can reasonably expect this industry to grow at 15% for the next 5 years backed by solid fundamentals. In the long run, however, the industry is likely to enjoy a material shift from existing growth trajectory and grow at unprecedented pace. It would be unsurprising if the Bangladesh pharmaceutical industry takes a similar route of Indian pharmaceutical industry. Indian pharma exports were less than USD 600 million in 1995 that eventually grew 30 times in the next 20 years, and reached USD 16.9 billion in 2016, accounting for 46.7% of the industry turnover. Investing in and developing healthcare related infrastructure will play a crucial role for transformation of the industry, and sweeping changes throughout the value chain will enable the industry to penetrate global market. We believe that Bangladesh pharma industry has the potential to evolve as a world leader in producing high quality generic drugs, and become the next 'thrust' sector after RMG.