



# Multiples

**Health Care** Sector Report,  
Egypt 2015

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## 1. Introduction

This report aims to provide an overview of the healthcare sector in Egypt as well as highlight the existing investment potential in the sector. The report analyzes the market and the different stakeholders' involvement. It also outlines the sector's supply and demand drivers, the Egyptian government's future investment plans in the sector, the strengths and weaknesses of healthcare investments, and the relevant existing body of regulations and laws. Finally, the report presents recommendations for investing in the sector at hand.

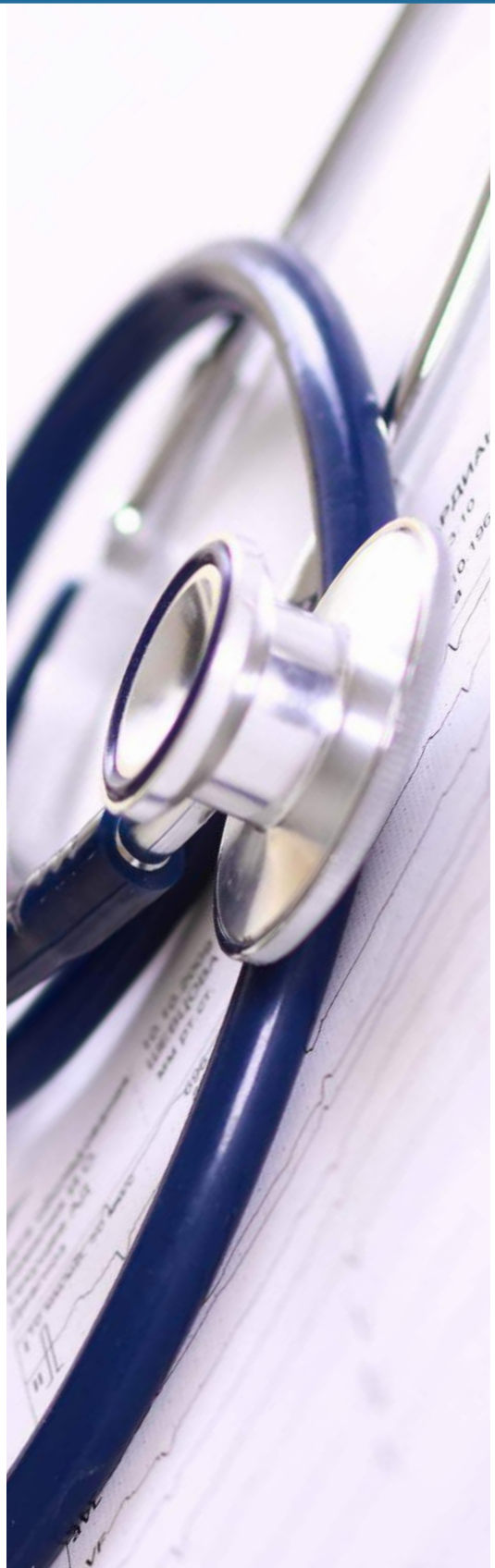
## 2. Sector Overview

### 2.1. Health Care Sector Size in Egypt

Egypt has one of the largest healthcare markets in the Middle East and North Africa (MENA) region. In addition, it has a long history in medical practice, and in recent years the country has achieved several improvements in health indicators and health care provisions.

Health care services are provided through two main categories - the public sector, and the private sector. The government is considered as the main provider of health care services in terms of capacity, expenditures, and the diversity of offered services.

Despite the advances that have been made in the basic public health, further expansion and greater investments from both the state and the private sector are still needed to address several challenges, such as the ageing infrastructure which is hindering the sector growth.

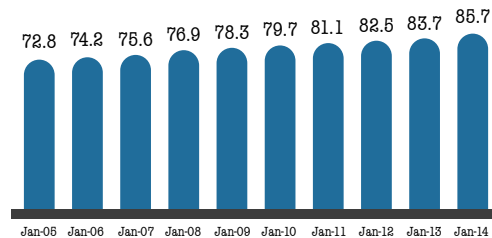


## 3. Demand and Supply

### 3.1. Demand Side

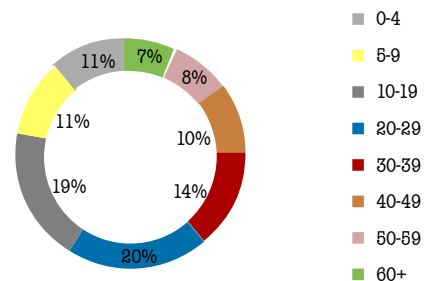
Egypt's large demographics is one of the main factors that affects healthcare demand.

Historical Population Sizes (In MM)



The majority of Egyptians belong to the younger age groups of the segments (20-39). Moreover, females are more likely to survive longer than males in the Egyptian society.

Proportion of age groups in Egypt



According to CAPMAS, the relative portion of income spent on healthcare services increases as one progresses up the income ladder. As shown in the figure below, at the top of the income ladder, 10.6% of expenditure is spent on healthcare.

Medical History

Are you being treated now?

Have you had any illness in the last 5 years

(Specify)

Medicine?

Are you taking?

Why?

How long?

Are you following?

No

Yes

Heart Disease

Cardiac Pacemaker

Heart Murmur

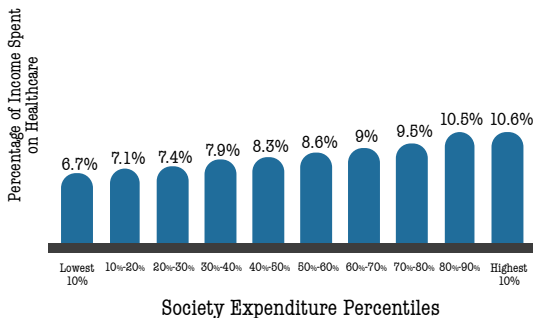
Angina

Frequently Tired

Anemia

Emphysema

Percentage of Income Spent on Healthcare



The average Egyptian family spends 9.2% of their income annually on healthcare at an average of 2,416 EGP. This amount is allocated between government focused and private sector spending, and is spent on medical equipment, out-patient clinics, and hospitalization services.

Urban governorates are found to have the highest spending rates at an average of 33,718 EGP annually.

Non-communicable diseases (NCDs) such as cancers, diabetes, obesity and chronic respiratory diseases have become more prevalent in recent years than communicable diseases – diseases that spread from one person to another or from an animal to a person through airborne viruses, bacteria, blood or bodily fluid.

These diseases are further illustrated in the table below.

Prevalent Diseases. Source: WHO (as of May 2013)

Persisting Communicable	Persisting non-Communicable	Prevalence of Non-Communicable Diseases	Common Types
Hepatitis B	Hypertension	26% of Egyptian Adults	
Hepatitis C (increasing)	Diabetes Mellitus	9% of Egyptian Adults	
	Cancer	110-120 cases /100,000 people	Breast, Liver, Bladder & Lymph Node
	Blindness	1% of population	

Non-communicable diseases are more prevalent in Egypt. Moreover, they are more costly to treat.

The incidence of diabetes has risen considerably in recent years. Currently, estimates of 16.5 million people in Egypt are diabetic, ranking the country ninth in the world in terms of diabetes prevalence.

Spending on the treatment of these non-communicable diseases and on healthcare is expected to increase in the future. On the other hand, there is a very high incidence of hepatitis B and C – leading causes of death. According to a study published in August 2010 in Proceedings of the National Academy of Sciences, 9.8% of the population is chronically infected with hepatitis C.

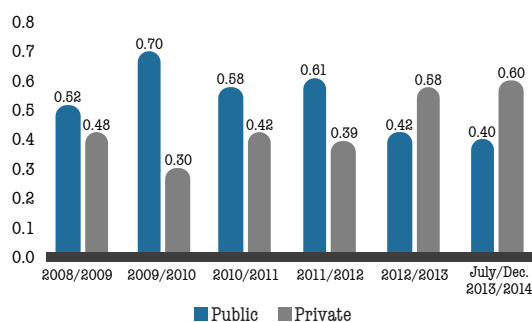
## 3.2. Supply Side

According to the Egyptian Ministry of Health, the number of government hospitals in 2011 was 643 with 98,319 beds, 19 general hospitals, 38 health insurance authority hospitals and 74 public university hospitals; whereas the number of private hospitals was 926 with 25,827 beds.

To further help develop the sector and enhance the provided services, the government planned to build and renovate a total of 70 hospitals during 2013 and 2014.

The healthcare sector attracted a reasonable amount of new investments during the period July/Dec 2012/2013 to July/Dec 2013/2014 even though investments in many other important sectors, like construction and building, information, wholesale and retail trade and real estate sectors, decreased during the same period.

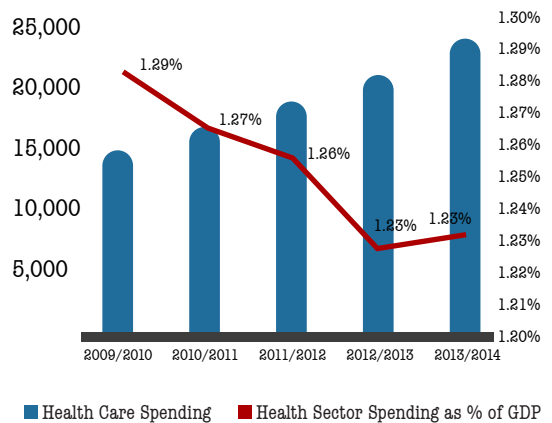
Implemented Investments in Health Care Sector



According to the World Bank, government spending on healthcare as a percentage of total spending on the sector is also indicative; it was 40.7%, 39.4%, 41.3% and 39.0% in 2009, 2010, 2011 and 2012 respectively.



Health Sector Share of GDP at Factor Cost



Though the amount spent on healthcare by the government has increased, the share of healthcare spending as a percentage of GDP has been decreasing over time.

Moreover, the amount spent on healthcare as a percentage of the total government spending remains far below the averages of international governments. This is further highlighted in the table below.

	Egypt	World Average
Health spending as a % of GDP	5	10.5
Per capita total spending on health (PPP int. USD)	289	1027
Per capita government spending on health (PPP int. USD)	108	NA
Doctors, per 10,000 population	28.3	NA

Source: Central Bank of Egypt

However, the new constitution addresses that the government has to significantly increase its spending on healthcare over the next three years. Accordingly, the amount spent by the government on healthcare in 2014/2015 is expected to increase reaching 5.4% of GDP.

It is worth noting that healthcare is a defensive sector which attracted many private investors due to its stability and hedging against the market downturn, while the government was facing a mounting budget deficit which limited its spending on the sector.

However, the sector faces several challenges including the intense pressure faced by the government to increase wages and salaries of workers and professionals to avoid brain drain and immigration to GCC as well as workers strikes.

The sector also has old infrastructure as more than 200 hospitals and 3,800 clinics require complete renovation.

Accordingly, the government seeks boosting private investments and involvement in healthcare.

Some large private holding companies have already expanded in the Egyptian healthcare market like Saudi-Egyptian and Andalusia group. It is worth mentioning that Andalusia group is supported by the International Financial Corporation (IFC); this represents engagement from international financial institutions which are another mean of encouraging private-sector investment in healthcare.

Private equity has been active in acquiring stakes in different hospitals. This highlights the interest in the industry. Moreover, it opens the door for a wave of mergers & acquisitions. The table below illustrates the latest key private equity transactions in Egypt:

Fund Name	Target Company	Industry
Intaj Capital II	Ochidia Pharmaceutical Industries	Pharmaceuticals Distributors
Infrastructure and Growth Capital Fund	Al Borg Laboratories	Medical and Diagnostic Laboratories
Gulf Capital Equity Partners II	Technoholding Group	Medical and Diagnostic Laboratories
EuroMena Fund II	Al-Oyoun Al-Dawali Hospital	Specialized Hospitals
Egyptian Direct Investment Fund Limited	Al Borg Laboratories	Medical and Diagnostic Laboratories



### 3.3. Comparative Analysis: Egypt, Germany and Turkey

The table below compares Egypt, Germany & Turkey. These specific countries were chosen as a benchmark as they have large population sizes. Moreover, Germany is one of the leading world nations while Turkey is one of the emerging countries which witnessed major developments in the last decade.

	Egypt	Turkey	Germany
Total Expenditure on health per capita (Intl \$*)	282	965	4,129
Total Expenditure on health as % of GDP	~5	6.7	11.3
Out of pocket expenditure as percentage of total health expenditure	72	35	25
Physician density /1000 population	2.83	3.8	5.1
Hospital bed density	1.7	2.41	8.17
Age Structure	32.70%	26.60%	13.30%
0-14 Years: Male	13,725,282	10,707,793	5,569,390
Female	13,112,157	10,226,999	5,232,245
15-64 Years:	62.80%	67.10%	66.10%
Male	26,187,921	2,674,133	27,227,487
Female	25,353,947	2,616,757	26,617,915
>65 Years	4.50%	6.30%	20.60%
Male	1,669,313	2,259,422	7,217,163
Female	2,031,016	2,687,245	9,557,634

Figures show that Egypt is lagging behind Turkey and Germany in terms of total expenditure on health per capita, out of pocket expenditure and total expenditure on health per GDP.

On the other hand, the large young Egyptian population shows that the large market is promising for the foreseeable future. The government also has plans to enhance the healthcare sector. However, the degree to which these plans are to be fulfilled is doubtful for two main reasons. First, there is a lack of economic and political stability in Egypt over the last three years. Second, the bureaucracy embedded in the Egyptian institutional system represents obstacles to the completion of the projects in-progress from one side.

Despite the several challenges, Egypt represents an emerging market due to the increasing demand. Moreover, healthcare is a stable defensive sector as it hedges against the market downturn.

## 4. Feeding Industries

### 4.1. Pharmaceutical Sector

The Egyptian pharmaceutical sector is the largest in the Middle East in accordance to growth capacity and expansion.

According to the General Authority of Foreign Investment (GAFI), investments in Egypt's pharmaceutical industry currently stand at 26 BN EGP, with the industry employing a total of 39,500 professional staff and production workers.

The Egyptian pharmaceutical market grew about 500% from 1995 to 2010. Moreover, the market grew by 11.5% from 2011 to 2012 and 11.7% from 2013 to 2014.

The ministry of investment announced the plan to build 76 new plants bringing the national total to 180 plants. This should help meet the ministry reach its target of 1 BN USD in exports by 2015.

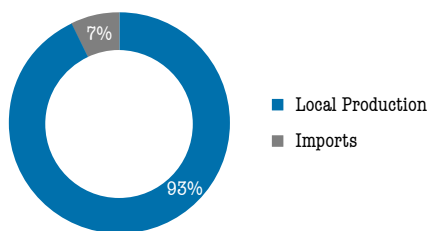
The Egyptian drug-manufacturing base accounts for 30% of the regional market, which makes it the largest in the MENA region. The Arab Union of Pharmaceutical Manufacturers estimates the total value of the pharmaceutical consumption in Egypt at 1.354 BN USD, which is the largest consumption value in the Arab world.

There are three types of pharmaceutical companies in Egypt - public companies, private Egyptian companies and multinational companies.

It is worth mentioning that HoldiPharma accounts for one-tenth of the market by value and two-thirds by volume.

Local production covers almost 93% of the market. The remaining 7% are imported drugs.

Local Production vs. Imports



Currently, Egypt has around 38 companies out of which 12 are state-owned through the Holding Company for Pharmaceuticals (HoldiPharma) which was set up in the 1990s. Moreover, there are 17 private-sector companies and 9 multinational companies.

The private Egyptian companies have the largest share of the market production amounting to 75% of the total production.

The Egyptian International Pharmaceuticals Industries Company (known as Eipico) is Egypt's largest private-sector pharmaceutical company, with a market share of 10-12%. Amoun Pharmaceuticals has a market share of 5.7%, and Pharco is another major domestic player.

Officials at the health ministry have expressed interest in securing investments from Indian companies in the pharmaceutical sector. However, the government will need to offer more lucrative terms and incentives to potential investors in the light of the current political instability.

Pharmaceutical production in 2011 was severely affected by strikes and higher raw materials costs causing many companies to shut-down.

The government makes the pharmaceutical sector operate on a cost plus formula. A cost plus formula is a cost-based method for setting the prices of goods where you add together the direct material cost, direct labor cost, overhead costs for a product, and a markup percentage (to create a profit margin) in order to derive the price of the product. Approved profit margins are 15% on essential drugs, 25% on non-essential drugs, and 40% on over the counter products. This formula, managed by the Ministry of Health and Population, guarantees positive returns for all companies operating in Egypt.

Despite all the efforts mentioned above, there is a strong need for suppliers in Egypt due to low penetration rates.

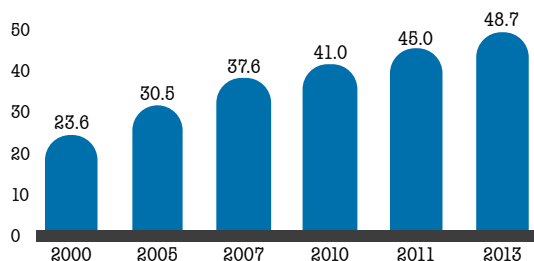
## 4.2. Medical Insurance Sector

Most of Egyptians fall under the public health insurance umbrella. There are two major insurance providers in Egypt, the Health Insurance Organization (HIO) and the Curative Care Organization (CCO). They are both under government supervision but with independent financing and administration.

The HIO covers people who are employed through deducting premiums from their salaries.

On the other hand the CCO operates in specific governorates through contracts with individuals, companies, and government agencies.

Number of Beneficiaries ( In MM)

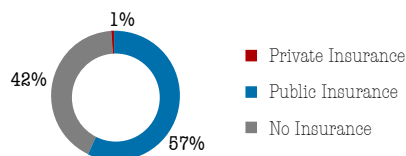


Despite the fact that 58% of Egyptians are covered by health insurance, most insurance covered by public sector companies and few private firms, insurance is not effective to low income quintiles. Moreover, almost 42% of Egyptians buy the medical service on their own.



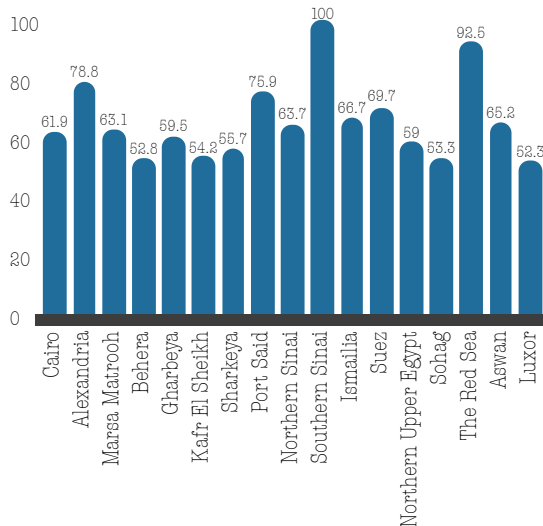


Percentages of Beneficiaries



Although Cairo and Alexandria are considered as the two most important cities in Egypt, the percentages of health insurance beneficiaries in these two governorates are high, unlike other governorates including Southern Sinai and the Red Sea.

Beneficiaries in each governorate (%)



Reforms to the current health insurance system have been made as the new draft of the health insurance law aims to address social justice through providing a more comprehensive system.

## 5. SWOT Analysis for Healthcare Sector in Egypt

### Strengths

- Largest healthcare market in the MENA region.
- Large and growing population.
- Stable inelastic demand.
- Appreciating hospital Assets.
- Low Salaries.
- Healthcare is a defensive sector which attracted many private investors due to its stability and hedging against the market downturn.

### Opportunities

- Large private holding companies have already expanded in the Egyptian healthcare market.
- Activity of private equity funds in acquiring stakes in hospitals industry.
- Growing pharmaceutical market; Double-digit growth rates that are higher than the international rate.
- Establishment of new firms that can act as distributors of medical equipment in Egypt and the region.
- Investment in the Egyptian health insurance sector to increase medical reimbursement rates allowing physicians to subscribe more, and to cover more citizens.

### Weaknesses

- Government limited its spending on the sector.
- Lack of professional nursing staff.
- High initial costs for investment.
- High land prices.
- Costly physicians' training sessions.
- Inefficiency, and quality of the human resources.
- Ageing infrastructure.
- Lack of accurate data about prevalence of different diseases in Egypt.
- The government issued a law requiring government approvals prior to selling hospitals. This is a major barrier to private equity investments in the sector.

### Threats

- Brain drain and immigration to GCC.
- Workers strikes due to the low salaries offered.
- Role of the MOHP as a provider and not as a regulator.
- Political instability.
- Bureaucracy and difficulty to register new healthcare centers or new medicines.

## 6. Policies and Regulations

In order to establish a new hospital in the health care sector, a license from the ministry of health, and accreditation by independent authorities for quality assurance are needed.

The Egyptian government is underway of developing a law under the supervision of Egyptian Financial Supervisory Authority (EFSA) that would encourage global health companies to enter the Egyptian Market. This should enhance competitiveness in the Egyptian healthcare provision sector and, ultimately, improve the health services offered to Egyptians. The law would constitute of a senior advisory committee with representatives of EFSA and the Ministry of Health as a well as other representatives of the healthcare sector. The committee would set the regulations and rules for all healthcare institutions in dealing with other medical bodies in the Egyptian Market.

The government has lately issued a law requiring government approvals for selling hospitals. This mechanism can be viewed as a concern to private equity investments in the sector.





## 7. Future Outlook

Despite the challenges companies face in the Egyptian healthcare market, it is a good option for investment if exploited wisely.

Healthcare is a defensive sector attracting many private investors due to its stability and hedging against the market downturn.

The sector has stable inelastic demand as well as a large and growing population.

Investors should consider the following when investing in the healthcare sector:

- Diversifying investments in various areas of the Egyptian economy in relation to the provision of healthcare, e.g. medical infrastructure, pharmaceuticals.
- Investing in the Egyptian health insurance sector to increase medical reimbursement rates allowing physicians to subscribe more costly and effective medicine; increasing pharmaceutical companies' revenues.
- Investing in research conducted by companies and hospitals to provide more accurate medical data for pharmaceutical companies to be able to direct its medications properly towards the Egyptian market.
- Consolidating the sector through opening the door for a wave of mergers and acquisitions.
- Applying for debt financing whether through a bank or a leasing company to finance different healthcare investments, as the sector is attractive and defensive hedging market downturns.

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