

Pharmaceutical Industry Iran – current status, opportunities and threats



Photo by: Mahdiah Farahani

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In 2014 the Iranian pharmaceutical market was estimated at 2.35 billion USD and it is predicted to be at 3.31 billion USD in 2019, with a CAGR of 7.5 percent. High medicine consumption rates amongst Iranians have been recorded with every citizen using approximately 340 units on average per year (almost one medicine unit each day). This makes Iran the second largest consumer per capita in Asia and the 20th in the world.

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The Iranian pharmaceutical industry has a large domestic market and additionally now has numerous opportunities to collaborate on joint projects with key international players. One of the key threats to the industry in Iran is dependency on the imports of raw materials.

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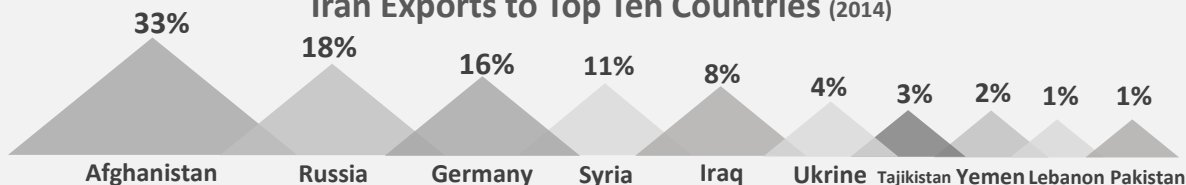
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Iran Pharmaceutical Industry at a Glance

Iran Exports to Top Ten Countries (2014)



159 million USD
Export (2014)

2.5 % (2013)

Added Value of Pharmaceutical Industry
to other Industries

2,35 billion USD
Sales (2013)

39.4
billion units of
Sales (2013)

5.4

**Pharmaceutical
Personnel**

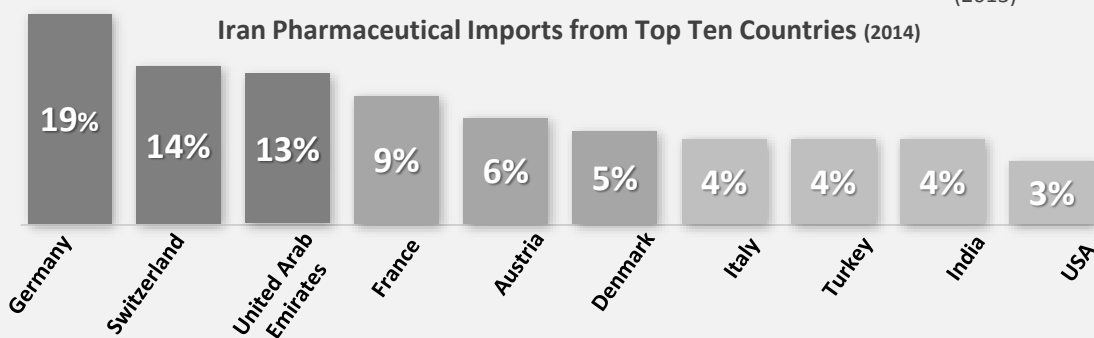
(per 10,000 population), [WHO, 2014]

1,535 million USD
Import (2014)

30 USD
per capita consumption
(2013)

505 units
per capita consumption
(2013)

Iran Pharmaceutical Imports from Top Ten Countries (2014)

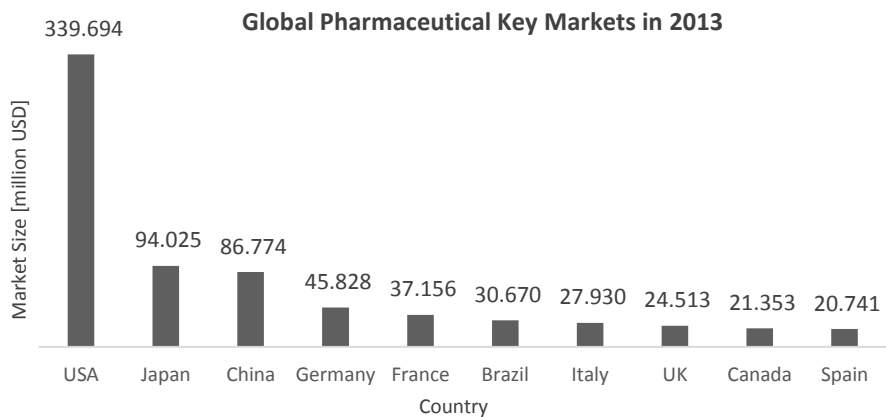


1. World Pharmaceutical Industry

The global pharmaceutical industry spends **141.6 billion USD** in R&D per year. Over 4.44 million people work in this industry with 91.3 billion USD in salaries in 2013.

The pharmaceutical industry is the 2nd most profitable in the world after the oil, gas and petrochemicals industry. It is considered a high-tech industry, heavily regulated and with large investments going towards R&D activities.

The pharmaceutical industry is considered a high-tech sector with the highest added-value per person employed, significantly greater than the average value for other high-tech and manufacturing industries. Furthermore, it is also the sector with the highest ratio of R&D investment to net sales, with a total expenditure of 141.6 billion USD in R&D per year. Over 4.44 million people work in this industry with 91.3 billion USD in salaries in 2013. Total investments by global pharmaceutical companies reached 70.7 billion USD in 2014, which is a 1.4% decrease compared to 2013. The top ten key worldwide pharmaceutical markets in 2013 are shown in the chart below.



Several key players are active in the global pharmaceutical industry. According to a 2015 ranking of the global top ten biotech and pharmaceutical companies based on revenue in billion USD, Johnson & Johnson ranks with a revenue of 16.3, Gilead Sciences with 12.1 and Merck with 11.9 - making up the top three.

Global top ten biotech and pharmaceutical companies revenue in billion USD



The pharmaceutical industry is a very strategic one, also for Iran. In the following the Iranian pharmaceutical industry will be analyzed.

2. Pharmaceutical Industry Iran

In Iran, 96% of the medicine is produced locally and only 4% is being imported. However, in terms of value, 55% of the market belongs to local producers and 45% to the import market.

In 2014 the Iranian pharmaceutical market was estimated at 2.35 billion USD and it is predicted to be at 3.31 billion USD in 2019, with a CAGR of 7.5 percent.

In term of medicine and medicaments, there are about 56 pharmaceutical companies in Iran, of which 36 are stock listed companies that are producing more than 90% of the products. Furthermore, there are 123 registered importers, 30 specialized distribution companies and 10,000 drugstores.

The industry can be divided into two main fields, namely production and import. 96% of the medicine is produced locally and only 4% is being imported. However, in terms of value, 55% of the market belongs to local producers and 45% to the import market. Key international players present in the Iranian market directly or indirectly include: Novartis, Roche, Boehringer Ingelheim, Sanofi, Glaxo Smithkline and Novo Nordisk.

High medicine consumption rates amongst Iranians have been recorded with every citizen using approximately 340 units on average per year (almost one medicine unit each day). This makes Iran the second largest consumer per capita in Asia and the 20th in the world. The average number of medicine per prescription of doctors internationally is 2 units, whereas in Iran it is at 3.5 units.

In 2014 more than 806 million USD worth of medical instruments were imported into Iran, while only 23.6 million USD was exported. Also, approximately 400-500 million USD worth of different medical instruments are produced locally, especially for dentistry and laboratories.

Key governmental bodies responsible for the development of the pharmaceutical and medical equipment industry of Iran include the Food and Drug Organization and the Ministry of Industry. In 2014 general policies for the health care sector of the country were announced in the form of 14 articles, which focus on the creation and development of required infrastructures in order to produce pharmaceutical raw materials and products.



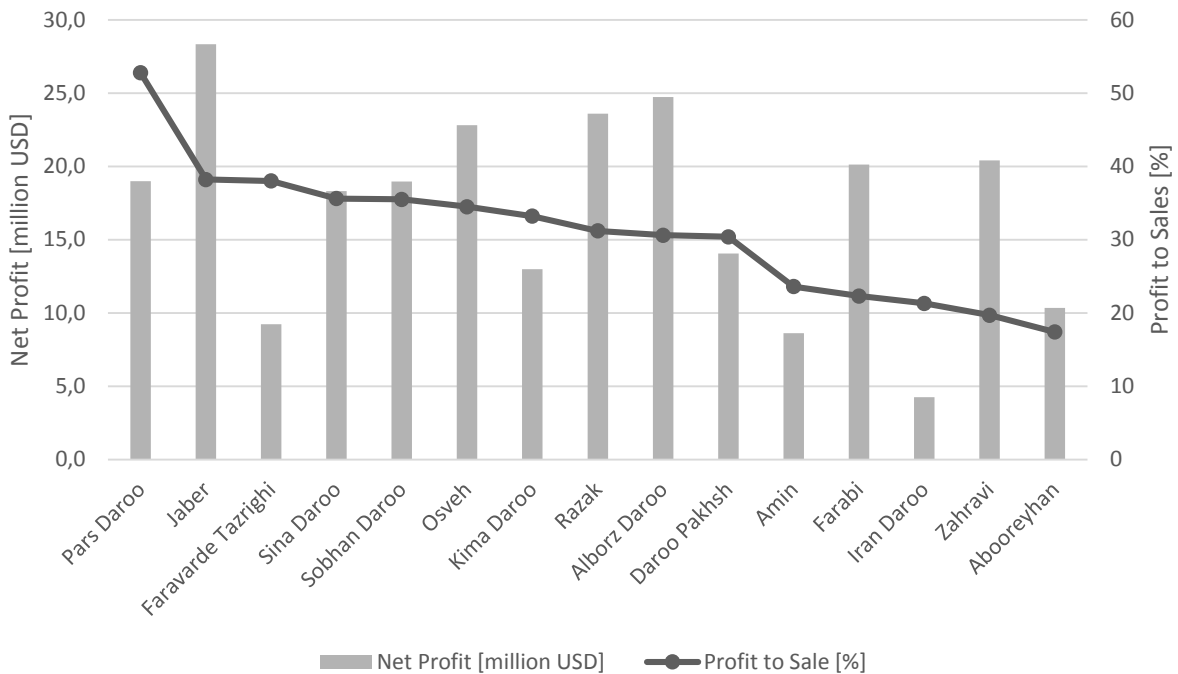
Photo by: Mahdiah Farahani

In Iran every citizen uses approx. 340 units of different medications on average per year. This makes Iran the second largest consumer per capita in Asia.

Key Players Iran

There are many successful stock listed pharmaceutical companies in Iran which are profitable. In the diagram below their net profit and profit ratio to sales amount are depicted.

Average ratio of benefit to sales of Iranian pharmaceutical companies in 2014 was approximately 31 percent. The highest ratio was achieved by *Pars Daroo* with 52.8 percent and the lowest by *Abooreyhan* with 17.4 percent.



Industry Profile at a Glance

- **Initiated:**
1946
- **Number of Active Companies:**
56
- **Total Production:**
50 billion units [2014]
- **Employment Share:**
0.5% of Manufacturing Sector
- **Rank in the World:**
15th
- **Added Value Share:**
1.7% of Manufacturing Sector
- **2025 Target Production Output:**
60 billion units

Photo by: Mahdiah Farahani



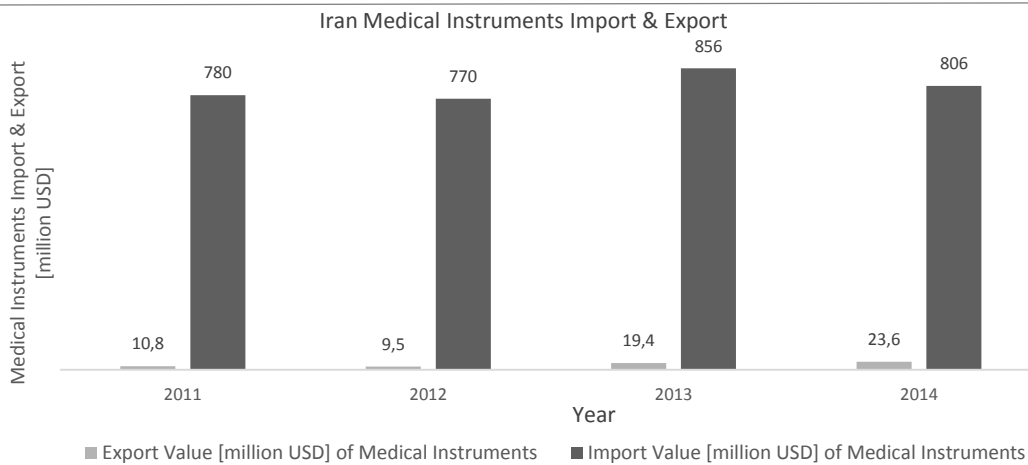
Main Barriers and Sanction Impacts

After sanctions have been lifted several German delegations have visited Iran, and both sides have declared genuine interest for German-Iranian co-operations in the field of medical equipment.

Active companies describe the main barriers in the industry as: High inflation rate, diminishing purchasing power and international sanctions. At the same time they see opportunity with a growing Iranian population that requires health services.

No direct sanctions were imposed on the medical industry of Iran, however, due to the fact that most of the international banks did not do transactions with the country anymore, the pharmaceutical industry was affected severely. Even cancer medicine became rare in Iran, leading to a black market with unreliable delivery and quality approval.

But nowadays after sanction relief, international competition can be expected, as well as more investments. It is worth mentioning that the high demand of the neighboring countries for drugs and medical equipment is another opportunity for Iranian manufacturers and exporters.




In 2014 more than 806 million USD worth of medical instruments were imported into Iran, while only 23.6 million USD worth were exported. During the four years from 2011 until 2014 Iranian exports of medical instruments have increased by more than 115 percent.

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Growth Potential

The Iranian pharmaceutical market has experienced a 30% increase in sales from 2009 to 2014, which is higher than the average in the region. The Middle-East as a whole has experienced a 8.6% increase, whilst CIS countries experienced a 10.5% average increase rate from 2009 to 2014.



In terms of population and consumption, Germany and Turkey can be considered as a benchmark for Iran. The former as a developed country and the latter as a developing country that is considered as a key competitor of Iran in the region.



Germany is the second largest European pharmaceutical market in terms of sales. In 2013 the pharmaceutical industry in Germany produced pharmaceuticals valued at 37 billion USD. This represents an increase of 4.8% compared to the year 2012. Domestic production is highly dependent on pricing and pharmaceutical drug imports, as well as export demand.



In 2012 Turkey's pharmaceutical market was the 6th largest market in Europe and 16th largest in the world in terms of sales. Pharmaceutical sales reached a stunning 12.5 billion USD, resulting in a CAGR of nearly 10% between 2003 and 2012. Currently there are 53 manufacturing facilities and approximately 300 entities operating in the sector throughout Turkey.

3. Industry SWOT Analysis

The Iranian pharmaceutical industry has a large domestic market and additionally now has numerous opportunities to collaborate on joint projects with key international players. One of the key threats to the industry in Iran is dependency on the imports of raw materials.

Strengths

- Proper infrastructure in place (e.g. good quality factories)
- International experience in production of medicine
- Good quality of the end products
- Diverse product range
- Competent workforce

Weaknesses

- Low efficiency rate of production throughout the industry
- Low capacity utilization rate in the industry
- Dependency on international market for producing the key medicines
- The investment in R&D compared to international benchmarks is low
- Lagging behind technologically during sanctions time

Opportunities

- Large domestic market
- Proximity to neighboring countries as new markets
- Potential to collaborate on joint projects with key international players
- Sanctions relief and better international conditions
- The new local health care system being a number one priority of the country
- Countries KPI's improvement based on international reports
- Special attention of the government to health care and strategy of prevention before curing
- Competitive price of the local products
- Presence of Iran Food Organization as a centralized decision making mechanism
- Private investment and the government supporting local production

Threats

- Competitive and strict market in Iran
- Being dependent on the imports of raw materials
- The possibility of international players entering into the market
- High interest rate
- Difficulty of importing / transferring high technology to the local market
- The presence of the black / shadow market in Iran
- The presence of some internal conflicts in local distribution networks
- Increase in the number of drugstores (overcapacity in distribution network)
- Preference of the consumers towards international pharmaceutical brands

4. Conclusion & Outlook



Most Iranian stock listed companies had a profitable year in 2014, with an average ratio of benefit to sale of approximately 31 percent.

This white paper gave a brief introduction to Iran's pharmaceutical market. Key figures and facts in regards to the industry include:

- In 2014 the Iranian pharmaceutical market was estimated at 2.35 billion USD
- It is predicted to be at 3.31 billion USD in 2019, with a CAGR of 7.5 percent
- There are about 56 pharmaceutical companies in Iran, of which 36 are stock listed companies
- 96% of the medicine is produced locally and only 4% is being imported
- However, in terms of value 55% of the market belongs to local producers and 45% to the import market
- High medicine consumption rates amongst Iranians have been recorded with every citizen using approximately 340 units on average per year
- The Iranian pharmaceutical market has experienced a 30% increase from 2009 to 2014 in sales, which is substantially higher than the regional average
- In 2014 more than 806 million USD worth of medical instruments were imported into Iran, while only 23.6 million USD worth were exported

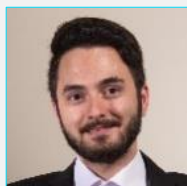
Furthermore, most of Iranian stock listed companies had a profitable year in 2014, with an average ratio of benefit to sale of approximately 31 percent. The highest ratio is for *Pars Daroo* with 52.8 percent and the lowest for *Abooreyhan* with 17.4 percent.

Active companies describe the main barriers in the industry as: High inflation rate, diminishing purchasing power and international sanctions. At the same time they see opportunity with a growing Iranian population that requires health services.

Considering Iran's strategic geopolitical positioning and thereby having access to extended neighboring market places amounting to approximately 400 million people that currently only have access to weak health systems, implies high potential for the industry and investors at large.

Concluding, the outlook for the years to come is positive for the Iranian pharmaceutical industry in general. Threats and barriers have to be taken into consideration carefully by local players and should be tackled smartly. International competition can be expected to increase substantially.

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ILIA Corporation is a management consulting firm in Iran

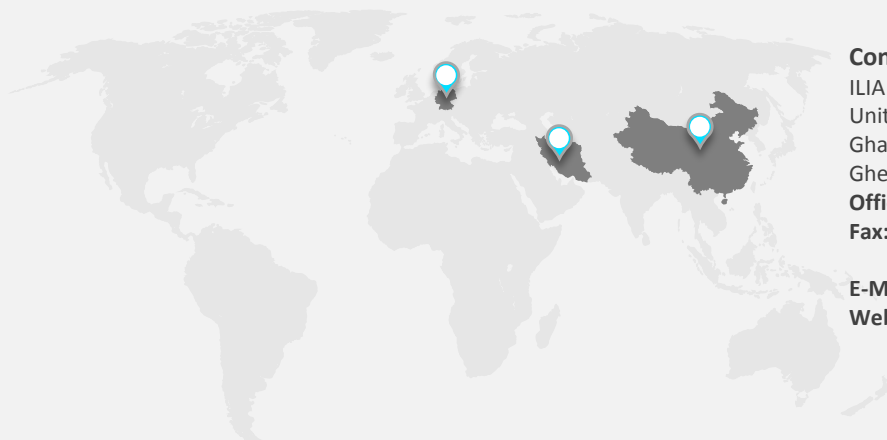
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