

# Israel Pharmaceuticals and Healthcare Report Q3 2012

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## Abstracts

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**BMI View:** Israel's innovative pharmaceutical industry continues to emerge from its strong generic drugs heritage. While most multinationals do not have a direct discovery or manufacturing presence, we expect an increasing number to look to enter through tie-ups and acquisitions of innovative local start-up companies.

### Headline Expenditure Projections

**Pharmaceuticals:** ILS7.08bn (US\$1.98bn) in 2011 to ILS7.42bn (US\$1.93bn) in 2012; +4.8% in local currency terms and -2.5% in US dollar terms. Local currency forecast broadly unchanged from Q212.

**Healthcare:** ILS66.35bn (US\$18.54bn) in 2011 to ILS71.09bn (US\$18.47bn) in 2012; +7.1% in local currency terms and -0.4% in US dollar terms. Local currency forecast up slightly from Q212 due to a favourable public healthcare policy environment.

**Medical devices:** ILS3.86bn (US\$1.08bn) in 2011 to ILS4.05bn (US\$1.05bn) in 2011; +4.7% in local currency terms and -2.7% in US dollar terms. Local currency forecast unchanged from Q212.

**Risk/Reward Rating:** In our latest regional Pharmaceutical Risk/Reward Ratings (RRRs), Israel ranks third out of the 30 markets surveyed in Middle East and Africa (MEA). This is up from sixth in Q212. Risks will continue to be elevated mostly due to Israel's lacking intellectual property (IP) laws, though pressure from the US has led to the country agreeing to reform some of the worst aspects of its IP legislation.

## Key Trends And Developments:

Teva's Q112 results were at first glance strong, as revenues and profits both saw reasonable growth, considering the recent acquisitions of Cephalon and Taiyo. However, they were below expectations and the company's share price fell as a result. Organic growth remains relatively low and the company is still dependent on Copaxone (glatiramer acetate) and recent acquisitions for growth. The incoming CEO, Jeremy Levin, has indicated that Teva's strategic direction is to move away from acquisitions and the company will spend some time reappraising itself and consolidating existing revenue gains. BMI has been highlighting this as a necessary strategy for the company for some time.

April 2012 saw a flurry of investment activity in Israel's life science industry, with a focus on healthcare companies carrying out original research and development. Highlights included Irish company Covidien purchasing Israeli medical device company Oridion Systems for US\$346mn and Merck KGaA's subsidiary Merck Serono has announced it will invest US\$10mn in a new drug development incubator at the Inter-Lab facility in Yavne

**BMI Economic View:** The most recent Bank Hapoalim Purchasing Managers' Index (PMI), which measures activity in the manufacturing sector, has reinforced our view that Israel will avoid a sharp economic slowdown this year. The index hit an eleven-month high of 53.2 in April, up from 36.3 in January, breaking the 50 level that separates contraction from expansion for the first time since October 2011. The uptick since the beginning of the year suggests while economic growth remains sluggish, fears of a sharp downturn this year are overblown, as supportive monetary and fiscal policy continue to feed through to the economy. We stick to our forecast for real GDP growth to slow to 3.2% in 2012, down from 4.8% in 2011, although risks remain to the downside.

**BMI Political View:** Since the toppling of the regime of Hosni Mubarak last year, we have repeatedly highlighted the risk of a significant cooling of relations between Egypt and Israel, with Israel providing a new Egyptian government with a convenient target to drum up public support. The decision by Egypt's gas company to cancel its supply deal with Israel seven years into a 20-year agreement is the clearest signal yet that Egypt's new administration is likely to take a harder line against Israel than the Mubarak regime. While we continue to expect the government to retain the 1979 peace treaty, Israel will nevertheless find itself more isolated in the region.

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