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Kingdom of Saudi Arabia

HEALTHCARE OVERVIEW

Q2 2013

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Introduction

- As the delivery of healthcare in the MENA region and around the world continues to evolve, the real estate and operational needs of healthcare providers becomes increasingly complex. Trends and industry changes require investors and operators of healthcare facilities to make challenging decisions. Over the years, despite improvements in healthcare systems across the region, the sector still offers significant opportunities for investors / operators on the back of following factors:
 - High population growth rates. The MENA population increased from around 100 million in 1950 to 500 million in 2010. Current projections anticipate the population will further increase to 800 million by 2050, with approximately 33 percent under the age of 15.
 - Poor government provision of both volume and quality. Due to the income divide in the region, the expenditure on healthcare is half of the equivalent in Europe and the US.
 - Introduction of compulsory health insurance (by a number of regional governments). After compulsory health insurance was introduced to Abu Dhabi, the revenues of most of the private hospitals doubled in one year.
 - High returns on healthcare investments. High quality, efficient private hospitals should achieve 20 percent net profit margins.
 - Heavy reliance on imported medicine and medical equipment. This increases the cost of establishing healthcare facilities, thus promoting PPP in Healthcare Sector. There are a number of medical equipment suppliers either providing medical equipment on long-term leases, or even equity investment.
 - Continued growth of regional medical tourism. Most governments in the region are encouraging medical tourism, with Jordan, Lebanon and Dubai leading the way.
- With an estimated population of 29 million residents with an annual growth rate of 3.3%, the Saudi Arabian healthcare sector caters to a rapidly growing population and the concurrent increasing demand on the healthcare sector.
- The overall supply of healthcare facilities struggles to keep pace with the burgeoning population, a situation recognised by the Government who have recently introduced initiatives to encourage the private sector to match the shortfall and benefit from this potentially lucrative sector.
- The Healthcare sector in the Kingdom of Saudi Arabia is primarily managed by the Government through the Ministry of Health (MoH) and number of semi-public organisation who specifically operate hospitals and medical services for their employees. In addition, private sector operators are also playing a key role in providing quality healthcare services in the Kingdom.
- The Saudi Healthcare sector is structured to provide a basic platform of healthcare services to all, with specialised treatment facilities offered at some private and public hospitals.

Colliers International Healthcare Overview provides a brief snapshot of the key factors impacting the Saudi Healthcare sector and the future outlook.

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62 countries on
6 continents

United States: 140
Canada: 42
Latin America: 20
Asia Pacific: 195
EMEA: 85

- \$2.0 billion in revenue
- More than 13,500 employees
- 5,100 brokers
- \$71 billion in transaction volume across more than 78,000 sale and lease transactions
- 1.1 billion square feet under management

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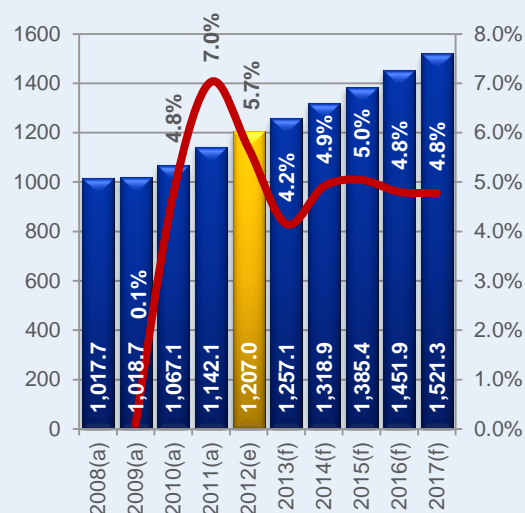
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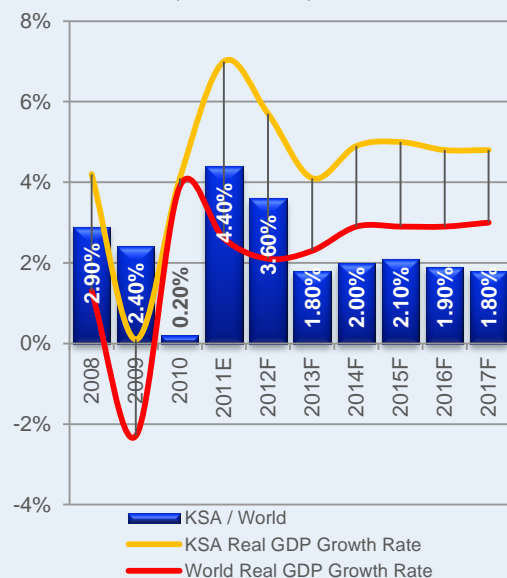
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Exhibit 1: KSA Real GDP Growth (SAR Billion)



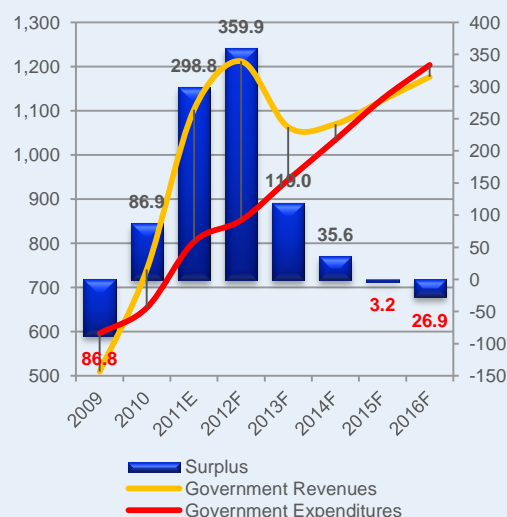
Source: Economist Intelligence Unit (EIU) 2012, Colliers International 2013

Exhibit 2: KSA vs. World Real GDP Growth Rate (2008-2017)



Source: Economist Intelligence Unit (EIU) 2012, Colliers International 2013

Exhibit 3: KSA Fiscal Performance 2009-2016 (SAR Billion)



Source: Economist Intelligence Unit (EIU) 2012, Colliers International 2013

1. Economic & Demographic Overview of the Kingdom of Saudi Arabia

1.1 ECONOMIC PERFORMANCE

- With 25% of the world's recoverable oil reserves and Real GDP of SAR 872 billion (nominal GDP of 1,613 billion) in 2010, KSA has by far the largest economy in the GCC region and is the world's largest producer of oil.
- Historically, the KSA economy has been highly dependent on exports from its hydrocarbon sector, accounting for more than 50% of the country's GDP.
- The government realises the risk of over-reliance on the oil sector and has started in the past few years, to invest substantial portions of its oil revenues to develop and upgrade public infrastructure and diversify the country's economic base to other non-oil sectors.
- Real GDP growth fell from 4.3% in 2008 to 0.1% in 2009, mainly due to the global economic downturn and falling oil prices. Despite the fall in real GDP growth in 2009, the Saudi economy remained resilient and regained its growth in 2010, a time when most of the developed economies of the world recorded negative or no growth (Refer to Exhibit 1).
- According to EIU estimates, the KSA economy is expected to significantly outperform the global economy over the next 5 years (Refer to Exhibit 2).
- Private consumption is expected to continue to expand, underpinned by robust national population growth and expansionary fiscal and monetary policies. On the other hand, government consumption will accelerate as the fiscal expansion continues.
- Record high oil prices in 2008 led to a record budget surplus of SAR 580 billion, as compared to the projected surplus of SAR 40 billion.
- However, in 2009, the fluctuations in the global oil markets caused KSA's fiscal balance to slip into deficit for the first time since 2004. The fiscal balance recorded a deficit of SAR 86 billion in 2009, approximately 10% of GDP, due to lower oil revenues and higher than budgeted government expenditure (Refer to Exhibit 3).
- Despite the fiscal deficit in 2009, the government continued with its commitment to further develop the country's infrastructure. The budgeted expenditure for 2010 was primarily focused on education, healthcare and infrastructure sectors.
- In conclusion, after an economic slowdown in 2009, the KSA market recovered from 2010 and the real GDP grew at a CAGR of 5.6% between 2009 and 2011, a figure which is expected to grow by a CAGR of 5.0% for 2012-2016.
- Global oil demand is expected to rise in 2013 as a result of continued growth in emerging markets, primarily Asia. This represents a positive indication for Saudi Arabia's economic growth, which is highly dependent on oil revenues.

• **Impact on Healthcare:** Overall the Saudi economy has been performing well which bodes well for the healthcare industry. Anticipated increases in oil prices and strong GDP growth forecasts will help to strengthen the market and encourage private sector investment in healthcare sector from both Saudi Nationals and Expatriates in the coming years. The following Section examines the healthcare sector of Saudi Arabia in more detail.

Exhibit 4: Arab World Income & Population Distribution

Country	Population (millions)	Per Capita Income (US\$)	Population (%)	GDP (%)
Bahrain	1,324	27,433	0.38%	0.08%
Kuwait	2,818	54,283	0.80%	4.91%
Oman	2,846	28,684	0.81%	2.62%
Qatar	1,840	88,314	0.53%	5.31%
Saudi Arabia	28,083	24,268	8.02%	21.89%
UAE	7,891	47,893	2.25%	12.14%
GCC	44,801	33,322	12.79%	46.95%
Algeria	35,980	5,920	10.27%	6.84%
Egypt	82,537	6,831	23.57%	18.11%
Iraq	32,665	3,864	9.33%	4.05%
Jordan	6,330	5,966	1.81%	1.21%
Lebanon	4,259	14,609	1.22%	2.00%
Libya	6,423	16,897	1.83%	3.49%
Morocco	32,273	4,952	9.22%	5.13%
Palestine	4,152	2,465	1.19%	0.33%
Sudan	44,632	2,325	12.74%	3.33%
Syria	20,766	5,252	5.93%	3.50%
Tunisia	10,594	9,351	3.03%	3.18%
Yemen	24,800	2,333	7.08%	1.86%
Others	305,412	5,407	87.21%	53.05%
Total	350,213	8,978	100.00%	100.00%

Source: Arab Human Development Report 2011 (UNDP)

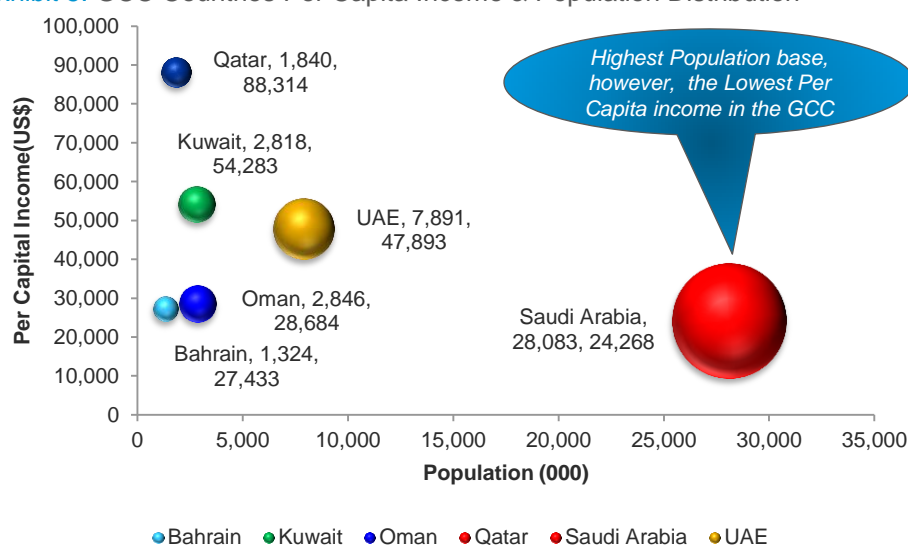
Exhibit 6: Existing & Projected Population of the KSA (Millions)

Source: CDSI 2011; Colliers International 2013

1. Economic & Demographic Overview of the Kingdom of Saudi Arabia (continued)

1.2. PER CAPITA INCOME

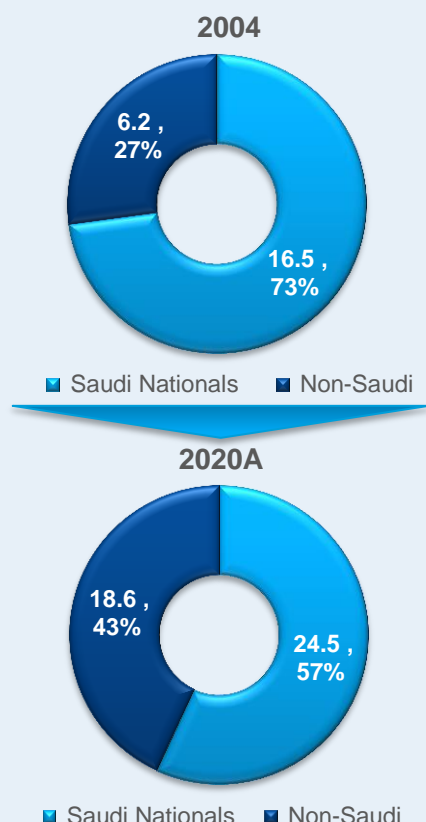
- The MENA region is categorised by two very diversified groups in terms of income and population. On one hand we have the Arabian Gulf (GCC) countries, which have some of the highest per capita levels in the world with small population bases. Conversely, there are the other Arab countries, some of which have undergone recent regime change, with large population bases, low GDP per capita and significant sections of the population living below the poverty line.
- The Kingdom of Saudi Arabia belongs to the first category having a population of approximately 28 million. It makes up only 8% of the total Arab World Population of 350 million. However, the per capita income in KSA (US\$ 24,268) is the 6th highest in the Arab Region. Compared to the remaining Arab countries, Qatar has the highest at US\$ 88,314 and Bahrain has the lowest at US\$ 1,777 (Refer to Exhibit 4).
- However within the GCC, KSA has the largest population base of 28 million (62.6% of total GCC population), compared to the per capita income of KSA (US\$ 24,268) which is the second lowest in the GCC with Bahrain having no natural resources and having the lowest per capita income of only US\$ 1,777 (Refer to Exhibit 5).

Exhibit 5: GCC Countries Per Capita Income & Population Distribution

Source: Arab Human Development Report 2011 (UNDP); Colliers International 2013

1.3 DEMOGRAPHIC ANALYSIS

- KSA has the largest and one of the fastest growing population in the GCC. According to the Central Department of Statistics and Information ("CDSI"), the KSA population at the end of 2011 stands at 28.4 millions, with the overall CAGR between 2004-2011 being 3.35%, and a CAGR of 2.32% for Saudi Nationals compared to 5.54% for Non-Saudi's.
- Colliers estimates that the expected population of the KSA in 2020 will be 38.6 million (Saudi Nationals 24 millions; Non-Saudi 14.6 millions). However, between 2007-2011 the overall CAGR was 4.30%, with the CAGR for Saudi Nationals was 2.63% compared to 8.44% for Non-Saudi's. Based on this growth rate the expected population of KSA will be 43.1 million (2020A) (Refer to Exhibit 6).
- The expanding population, coupled with rising average income, will continue to feed demand for infrastructure and services, particularly in energy, water, telecoms and technology, housing, health, education, and financial.

Exhibit 7: Saudi Nationals / Non-Saudi Population Distribution

Source: CDSI 2011; Colliers International 2013

The Raise of Generation X, Y & Z and its Impact on Healthcare Demand

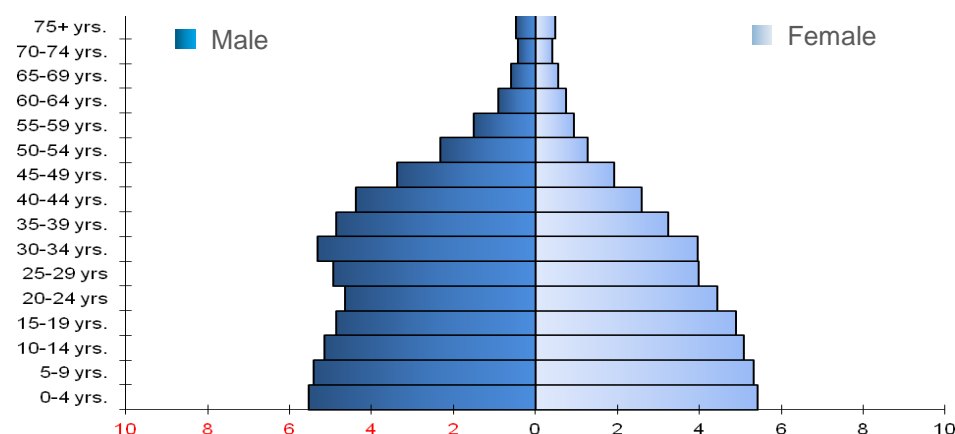
- Lifestyle diseases (also sometimes called diseases of longevity or diseases of civilization interchangeably) are diseases that appear to increase in frequency as countries become more industrialised and people live longer. They can include Alzheimer's disease, atherosclerosis, asthma, some kinds of cancer, chronic liver disease or cirrhosis, Chronic Obstructive Pulmonary Disease, Type 2 diabetes, heart disease, metabolic syndrome, chronic renal failure, osteoporosis, stroke, depression and obesity.
- Some analysts maintain a distinction between diseases of longevity and diseases of civilization. Certain diseases, such as diabetes, dental caries or asthma appear at greater rates in young populations living in the "western" way; their increased incidence is not related to age, so the terms cannot accurately be used interchangeably for all diseases.
- As a result of urbanisation and rising disposable income the majority of the GCC population including the KSA, have adopted a sedentary lifestyle characterised by an aversion to exercise and consumption of processed foods leading to increased chronic diseases (such as diabetes, coronary problems and other obesity-related illnesses) previously uncommon to the region. For example, in recent years the rate of diabetes-related illnesses have witnessed an unprecedented increase in the GCC which is expected to increase from 1.5 million cases in 2000 to 4.5 million by 2030.

Source: Wikipedia 2012; Colliers International 2013

1. Economic & Demographic Overview of the Kingdom of Saudi Arabia (continued)

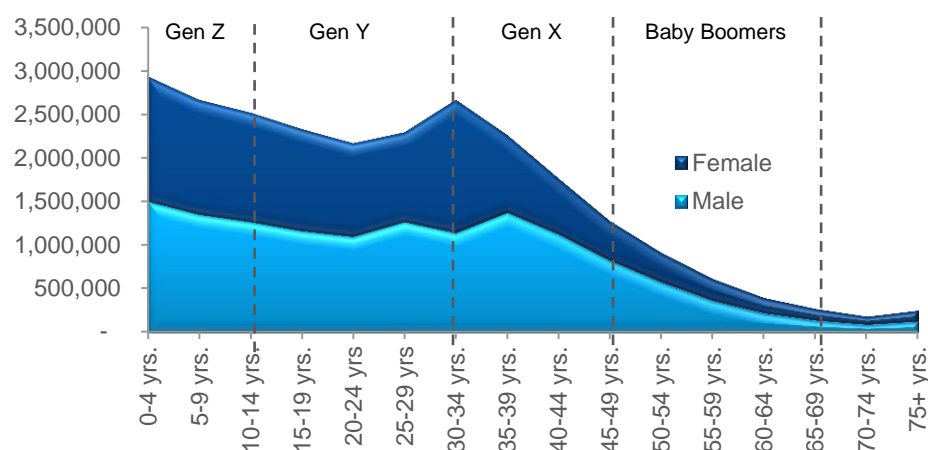
1.3 DEMOGRAPHIC ANALYSIS

- One of the major consequences of the projected population growth is that the percentage of Saudi Nationals as a percentage of the total population is expected to decrease substantially if the current disparity in population growth rates between Saudi Nationals and Non-Saudi continues.
- In 2004 the Saudi Nationals were 73% of the total population, however, if the population increases with an overall CAGR of 4.30% (CAGR for Saudi Nationals 2.63%; CARG for Non-Saudi 8.44%) the total expected population of KSA will be 41.3 million in 2020, with the percentage of Saudi Nationals decreasing from 73% in 2004 to only 57% in 2020 (Refer to Exhibit 7).
- Males in Saudi Arabia constitute 55% of the total population, the majority of which belong to the 30-34 years of age category, a category between Generation X (1965-1980) and Generation Y (1981 and 2000). The population below the age of 34 years accounts for close to 60% of the total population in the Kingdom (Refer to Exhibit 8).
- The rapidly growing young population is one of the key factors driving demand for the real estate/healthcare sectors and the reduction in the average family household size.

Exhibit 8: Age - Gender Distribution of KSA Population

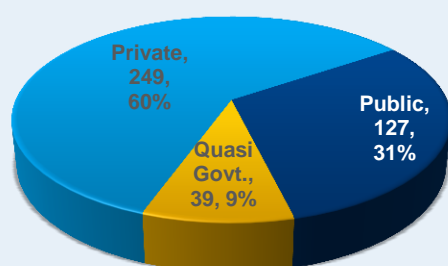
Source: Ministry of Health; Colliers International 2013

- Moreover as the profile of the KSA population will change from Baby Boomers to Generation X, Y & Z, the need for healthcare services, both in terms of disease pattern, as well as, type of healthcare services provided is also expected to change dramatically (Refer to Exhibit 9).

Exhibit 9: Demographic Structure of Saudi Arabia

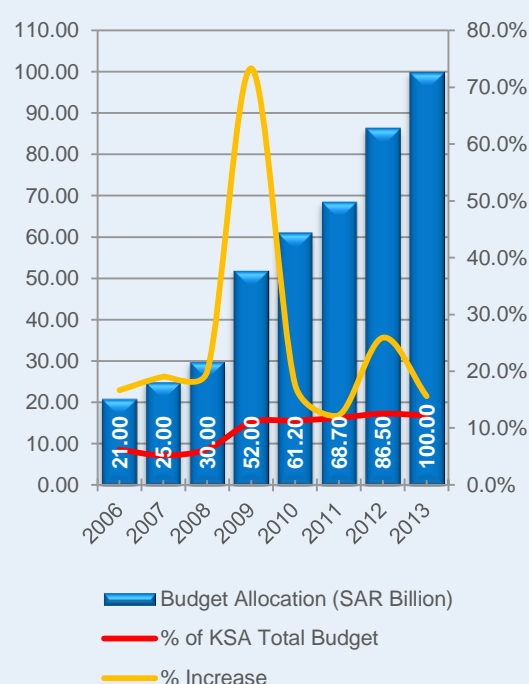
Source: Ministry of Health; Colliers International 2013

Exhibit 10: Total Number of Hospitals in the KSA 2009



Source: Ministry of Health 2010, Colliers International 2013

Exhibit 11: Healthcare Budget in the KSA (SAR billion)



Source: Ministry of Health 2010, Colliers International 2013



2. Healthcare Sector Overview

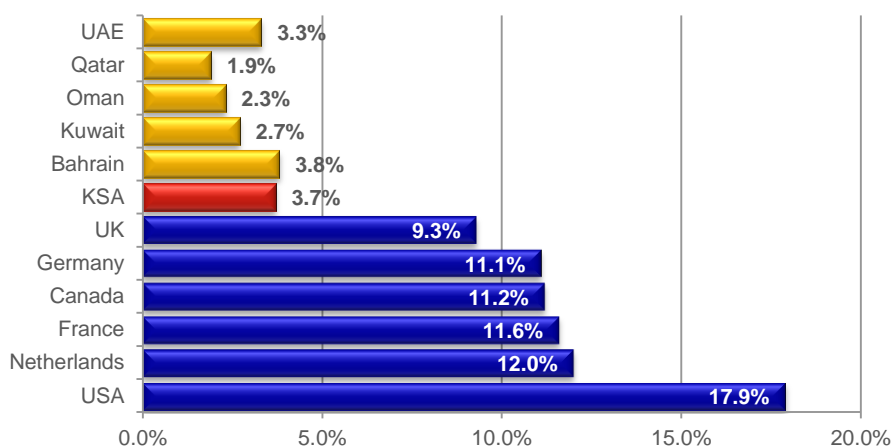
2.1 KEY PLAYERS

- **Ministry of Health ("MoH"):** Approximately 60% of all hospitals within the Kingdom are owned and operated by the MoH (Refer to Exhibit 10). These hospitals provide basic healthcare services, as well as, in certain cases, specialised facility centres.
- MoH facilities are increasingly being made available mostly to Saudi Nationals only with accessibility to expatriates in the majority of cases restricted to specialised treatments except in rural areas where private sector facilities are not present.
- MoH facilities are slowly becoming restricted only to Saudi Nationals, the 9.0 million expatriates (half of which are concentrated in Riyadh and Jeddah) within the Kingdom are being forced towards the private healthcare sector.
- **Other Governmental Organisations:** Health treatment in other government and quasi organisations is effectively free for employees, typical organisations would include The National Guard, Ministries of Defence and Aviation and the Royal Commission.
- **Private Sector:** Historically most of the outpatient treatments were provided by the private sector. However, increasingly inpatient treatments are also being provided by the private sector due to the high demand and the restrictions placed on entry to MoH facilities.
- With access increasingly limited to MoH hospitals, most of the expatriates seek treatments at the growing number of private hospitals.

2.2 BUDGET ALLOCATION

- Between 2006 and 2008 Saudi Arabia allocated approximately SAR 25.3 billion per annum with a cumulative amount of SAR 94 billion investment in the healthcare sector. However, in 2010 and 2013 there was a substantial increase in the healthcare budget which increased from SAR 30 billion (6.3% of total Government Budget) in 2008 to SAR 100 billion in 2013 (11% of total Government Budget) and to SAR 61.2 billion in 2010 (12.2% of total Government Budget). The cumulative allocation of SAR 368 billion between 2009-2013, SAR 73.7 billion per annum, compared to only SAR 23.5 billion between 2005-2008 (Refer to Exhibit 11).
- However, in terms of percentage spent on healthcare as a percentage of GDP, Saudi Arabia still is behind many developed nations in the world (Refer to Exhibit 12).
- KSA healthcare spending as percentage of GDP of 3.7% is one of the highest in the GCC, however, compared to some of the well developed countries, it is one-third or even one-fourth, compared to 9.3% of UK and 17.9% of USA.

Exhibit 12: Healthcare Spending as % of GDP



Source: UNDP 2012, Colliers International 2013

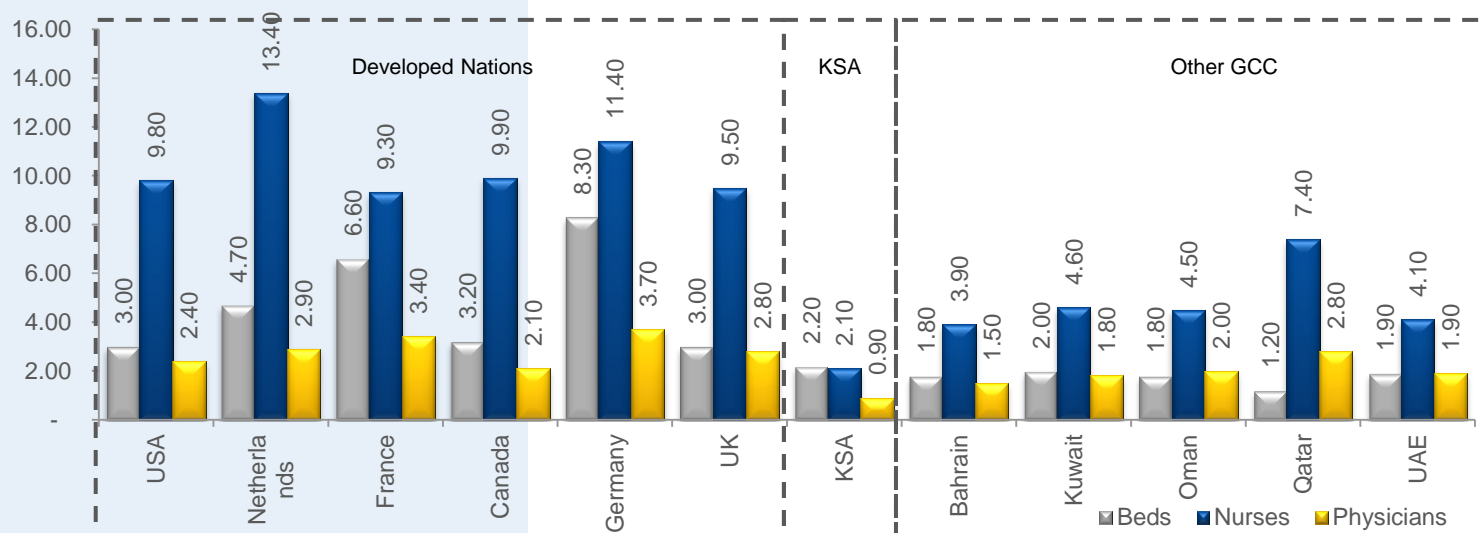


2. Healthcare Sector Overview (continued)

2.2 KEY HEALTHCARE INDICATORS

- Comparing the healthcare indicators of Saudi Arabia to other developed countries such as the US, UK and Germany demonstrates there is a shortage of doctors, nurses and beds in Saudi Arabia. The shortage is prevalent across all GCC countries, however, Saudi Arabia has the lowest number of beds, nurses and doctors per population even within the GCC (Refer to Exhibit 13).
- To address the rapidly increasing demand for health services, recognised as a crucial issue within the Government, the Government is developing five Integrated Medical Cities intended to offer high quality healthcare services for the populace of the Kingdom. These cities are expected to add 6,200 beds in the Kingdom.
- Out of SAR 100 billion allocated in the 2013 budget for healthcare, MoH is expected to spend SAR 15.1 billion to develop 22 new health projects throughout the country, which will include construction of 19 medical complexes, including hospitals and three healthcare facilities for mentally disabled and autistic children.

Exhibit 13: KSA Key Healthcare Indicators (per 1,000 people)

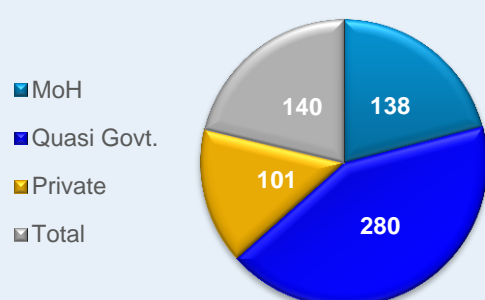


Source: World Development Indicators (2005-2011), Colliers International 2013

Exhibit 14: KSA Key Healthcare Indicators – Hospitals & Bed Capacity

Type	Hospital		Beds	
	No.	%	No.	%
MoH	249	60.0%	34,370	59.1%
Quasi Govt.	39	9.4%	10,939	18.8%
Private	127	30.6%	12,817	22.1%
Total	415	100.0%	58,126	100.0%

Exhibit 15: Beds Capacity / Hospital Type

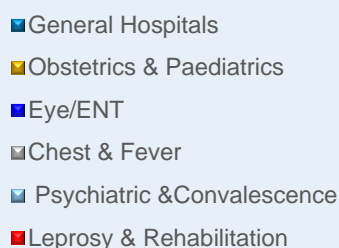
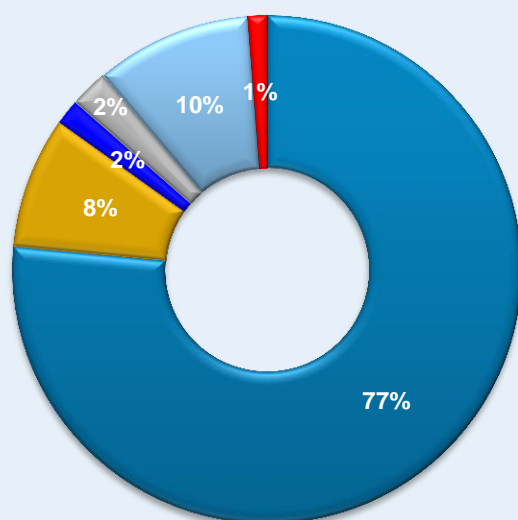


Source: Ministry of Health 2010, Colliers International 2013

2.3 HOSPITALS & BED CAPACITY

- There are currently over 415 hospitals, both within the public and private sectors providing various healthcare facilities and treatment throughout the Kingdom (Refer to Exhibit 14).
- A closer analysis of the bed capacity at hospitals in Saudi Arabia reveals that the total number of beds in KSA at the end of 2010 was 58,126 beds.
- The MoH has almost 60% hospitals in KSA and nearly 60% beds, with an average of 138 beds per hospital.
- However, the Quasi Government hospitals account for only 9.4% hospitals but have 18.8% beds, with an average of 280 beds per hospital.
- Whereas, the private sector hospitals account for only 30.6% hospitals but have only 22.1% beds, with an average of 101 beds per hospital.
- Overall, the average beds per hospital for all types of hospitals stands at 140 beds per hospital (Refer to Exhibit 15).

Exhibit 16: Breakdown of MoH Hospitals by Specialty in the KSA (2009)



Source: Ministry of Health 2010, Colliers International 2013

Exhibit 18: Inpatients / Outpatients Analysis

	MoH	Quasi Govt.	Private	Total
Total (inpatients / outpatients) - Millions				
Outpatients	66.0	25.5	39.7	131.2
Inpatients	1.7	0.5	0.9	3.0
Total	67.6	26.0	40.6	134.2
% Distribution (inpatients / outpatients)				
Outpatients	97.6%	98.0%	97.9%	97.7%
Inpatients	2.4%	2.0%	2.1%	2.3%
Total	100.0%	100.0%	100.0%	100.0%
% Distribution (Between Entities)				
Outpatients	50.3%	19.4%	30.3%	100.0%
Inpatients	54.4%	17.0%	28.6%	100.0%
Total	50.4%	19.4%	30.3%	100.0%

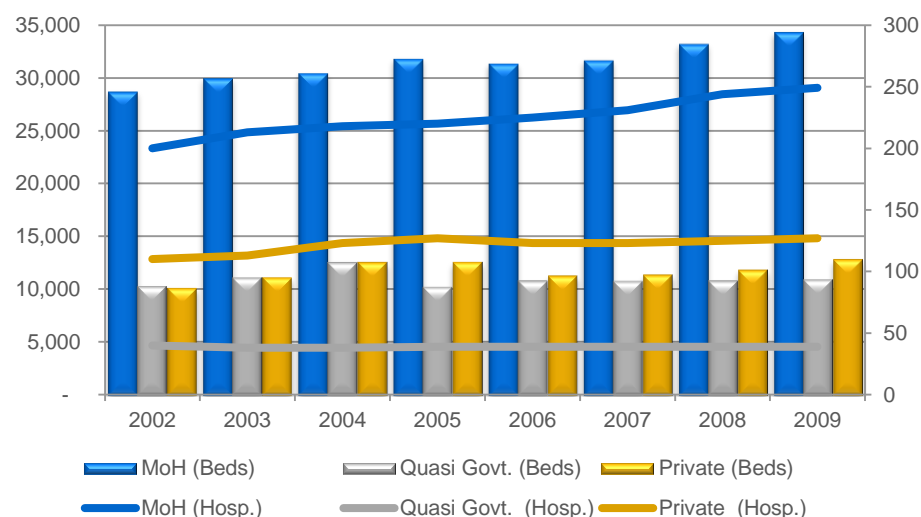
Source: Ministry of Health 2010, Colliers International 2013

2. Healthcare Sector Overview (continued)

2.3 HOSPITALS & BED CAPACITY (CONTINUED)

- An analysis of the bed capacity at hospitals in Saudi Arabia reveals that the total number of beds at MoH hospitals increased from 28,751 in 2002 to 34,370 in 2009.
- While the private sector and quasi government hospitals bed capacity increased from 10,133 and 10,300 in 2002 to 12,817 and 10,939 in 2009 respectively for the same period.
- The gradual increase in private hospital beds is also due to the influx of expatriate patients seeking medical treatment who previously had access to MoH hospitals.
- As shown in Exhibit 17, the total number of hospital beds in Saudi Arabia increased from 49,148 in 2002 to 58,126 beds in 2009, a CAGR of 2.4% over the seven year period and the total number of hospitals increased from 350 in 2002 to 415 in 2009, a CAGR of 2.5% during the same period.
- The bed capacity at MoH hospitals is by far the largest, accounting for 59% of cumulative hospital bed supply in Saudi Arabia. Other government health centres and private hospitals account for the remaining 41% of bed capacity at hospitals in KSA.

Exhibit 17: Growth of Hospital and Beds in KSA (2002-09)



Source: Ministry of Health 2010, Colliers International 2013

2.4 INPATIENTS AND OUTPATIENTS:

- The number of outpatients is considerably higher than in-patients. This is in line with the nature of outpatient treatments which are less than a day long with a high percentage of cases consisting only of consultations.
- Based on the latest data available, in 2009 in the Kingdom, of the total 134 million total patients almost 97.7% were outpatients (including clinic patients) compared with only 2.3% of the total patients as inpatients (Refer to Exhibit 18).
- The average rate of visits to healthcare centres and MoH hospitals per person per year was 2.6 visits per person per year. Whereas, the average rate of visits to all healthcare facilities (public, quasi government, private) per person per year was 5.2 visits per person per year.
- The average length of stay in the general hospitals was 3.8 days; 54.6 days in psychiatric hospitals and 3.1 days in Gynaecology and Obstetrics.
- The average bed occupancy rate in the general hospitals was 60.8%; 82.4% in the psychiatric; and 68% in gynaecology and obstetrics.

Between 1995 – 2010

- General government expenditure on health as a percentage of total expenditure on health (A) increased with a CAGR of only 1.26%.
- Whereas, the out-of-pocket expenditure as a percentage of private expenditure on health (B) decreased with a CAGR of 2.46%.
- Compared to that the private expenditure on health as a percentage of total expenditure on health (C) decreased with a CAGR of 1.69%.
- The biggest increase was in the private prepaid plans (health insurance) as a percentage of private expenditure on health (D) which increased with a CAGR of almost 11%.
- The general government expenditure on health as a percentage of total government expenditure (E) increased with a CAGR of 2.67%.
- Whereas, the total expenditure on health as a percentage of gross domestic product (F) increased with a CAGR of 2.50%.

**International Medical Insurance Plans and Emergency Evacuation:**

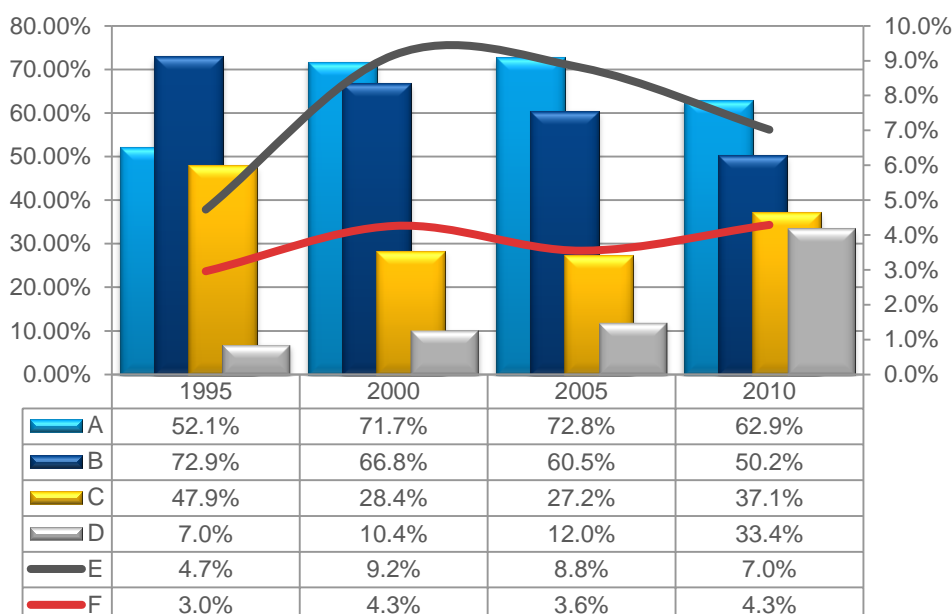
- Although Saudi Arabia boasts an extremely comprehensive hospital network, and provides the highest quality medical services in the Middle East, which in a few cases even compared to globally, most expatriate individuals (especially western expatriates) still opt for international medical insurance plans and emergency evacuation cover.
- International medical insurance plans allow the patient to choose which other countries they can go for treatment in case of emergency and complicated medical cases. The insurance premium varies based on medical coverage and geographical coverage in terms of countries. Most international policies are divided into two areas of cover Worldwide or Worldwide excluding North America (or excluding United States)
- The reason for such division is due to the fact that the United States is the most expensive country in the world for (private) medical treatment, so if North America is included the insurance premiums are substantially higher.

3. Overview of Health Insurance / Financing

3.1 MARKET OVERVIEW

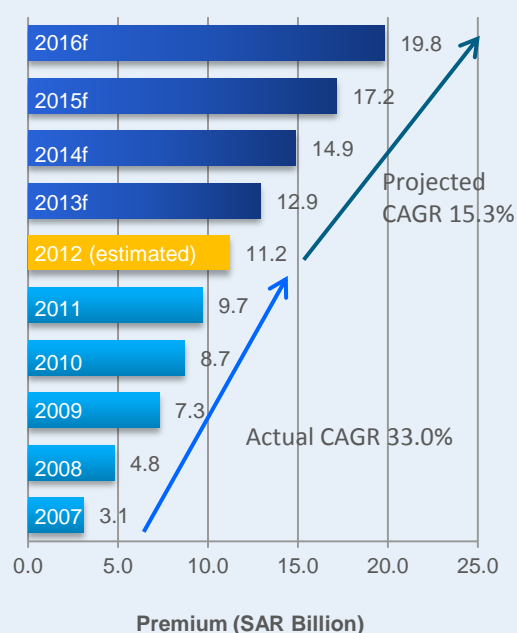
- In the last 15 years (1995-2010) there is a major change in public private expenditure on healthcare in Saudi Arabia.
- The healthcare financing in the Kingdom is dominated by government expenditure which has shown a gradual increase in the last 15 years. However, with a rapidly growing population, and a society with a high prevalence of lifestyle diseases such as diabetes, obesity and cardio-vascular diseases, in Saudi Arabia the healthcare financing is gradually changing where the share of private prepaid plans are rapidly increasing.
- The biggest change in healthcare financing in the last 15 years is the introduction of healthcare insurance which has increased from just 7% in 1995 to 33.4% by 2010. Consequently the out-of-pocket as a percentage of private expenditure on health has decreased from 72.9% in 1995 to 50.2% in 2010 (Refer to Exhibit 19).
- In the last few years the Saudi Arabian insurance industry remained one of the fastest growing insurance industries across the world with a growth rate of 33% between 2007 and 2011 on the back of introduction of compulsory insurance.
- With the introduction of universal healthcare insurance in the Kingdom, the out-of-pocket as a percentage of private expenditure on health is further expected to decrease.
- Saudis and public sector expats are eligible for a comprehensive package of benefits including, public health, preventive, diagnostic, and curative services and pharmaceuticals with few exclusions and no cost sharing. Most services including state of the art cardio-vascular procedures, organ transplants, and cancer treatments (including bone marrow transplants) are covered. Sponsors/employers are responsible for paying for an extensive package of services for private sector expatriates.
- The health insurance sector is expected to grow at a fast pace on the back of increasing involvement of private companies and the obligation for foreign nationals and foreign pilgrims to buy insurance covers. In addition, the most recent introduction of compulsory health insurance for private employees, irrespective of the size of the company they are working with, will further boost the health insurance market in the country.

Exhibit 19: Health Expenditure Ratios – 1995-2010



Source: World Health Organization 2012; Colliers International 2013

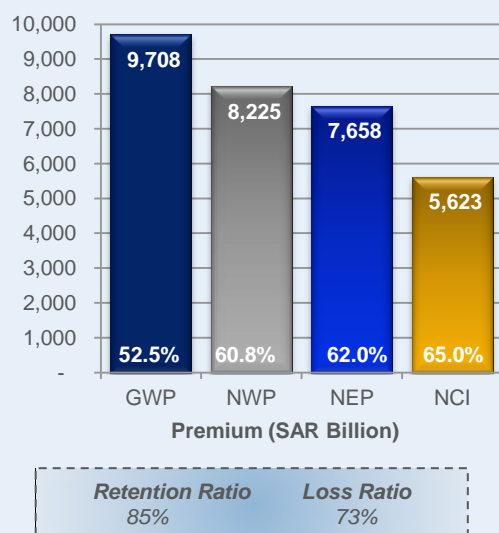
Exhibit 20: Healthcare Insurance Market Size



Source: Saudi Monetary Agency 2012; Colliers International 2013



Exhibit 21: Health Insurance Market Performance 2011



Source: Saudi Monetary Agency 2012; Colliers International 2013

3. Overview of Health Insurance / Financing (continued)

3.2 MARKET SIZE

- Following in the footsteps of other GCC countries, Saudi Arabia has also implemented mandatory health coverage for all expatriates. The resultant effect, essentially placing choice of provider into the hands of the individual, has increased the demand levels on the private sector. The Saudi Government is expected to implement a similar rule for Saudi Nationals which would further add to the increasing demand for private healthcare services.
- Backed by new regulations, the health insurance market in Saudi Arabia is expected to experience a healthy growth rate. The health insurance's Gross Written Premium (GWP) stood at around SAR 9.7 Billion (US\$ 2.59 Billion) in 2011. It is expected to reach SAR 19.8 Billion (US\$ 5.28 Billion) by the end of 2016, growing at a CAGR of around 15.3% during 2012-2016. (Refer to Exhibit 20).
- In terms of health insurance premiums, the market is dominated by three companies Tawuniya, Medgulf and Bupa who are estimated to capture over 60% of the total Gross Written Premium. This indicates a potential threat to healthcare providers, i.e. it restricts their bargaining power to set discount levels with the insurance companies. Concurrently this provides an opportunity to healthcare providers to reduce administration costs rather than having to deal with a myriad of differing forms and administration systems from a large number of insurance companies.
- Health insurance, which includes both compulsory and non-compulsory lines, accounted for 52.5% of the 2011 total market Gross Written Premiums (GWP) with SR 9.71 Billion in underwritten premiums (Refer to Exhibit 21).
- Health insurance accounted for 60.8% of the market's Net Written Premiums (NWP) as insurance companies retained SR 8.23 Billion of their Health insurance GWP, which represents a 85% Retention Ratio.
- Health insurance's Net Earned Premiums (NEP) registered SR 7.66 Billion.
- Health insurance's Net Claims Incurred (NCI) amounted to SR 5.62 Billion, which translates into a 73% Loss Ratio for the year 2011.

3.3 CONCLUSION

- With the introduction of compulsory health insurance, the Saudi health insurance sector is expected to grow in the near future as more and more private companies are now bound to provide medical insurance.
- Moreover, with the introduction of mandatory healthcare insurance for pilgrims performing Umra and Hajj, is also expected to boost the health insurance market.
- The recent introduction of compulsory health insurance for private companies to provide healthcare insurance to its employees irrespective of the size of the company is expected to further act as impetus to the health insurance market in Saudi Arabia.
- However, the expected growth is expected to slow down from a whopping CAGR of 33% between 2007-2011 to a more steady CAGR of around 15.3% during 2012-2016 due to maturing of the market.
- The increase in coverage on healthcare insurance is expected to have positive impact of healthcare sector in Saudi Arabia, especially, private healthcare sector / providers.



4. Porter Five Forces Analysis

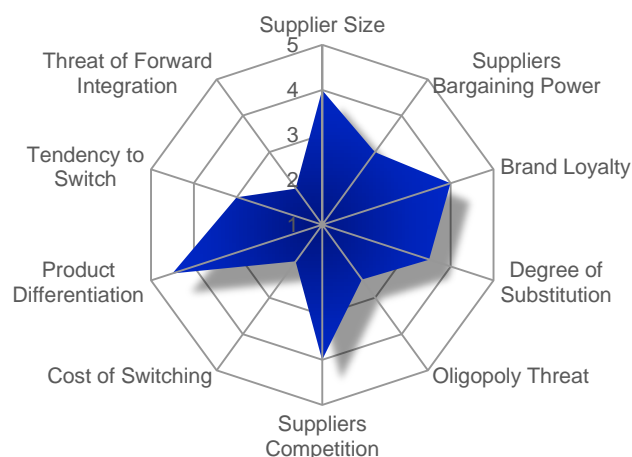
- The Porter Five Forces is a scientific business model to assess an industry as a whole and an analysis which will form the basis for a strategy development.
- Porter's five forces include - three forces from 'horizontal' competition: threat of substitute products, the threat of established rivals, and the threat of new entrants; and two forces from 'vertical' competition: the bargaining power of suppliers and the bargaining power of customers. With reference to the KSA Porter's Five forces analysis, our findings are presented below:

4.1 BARGAINING POWER OF SUPPLIERS



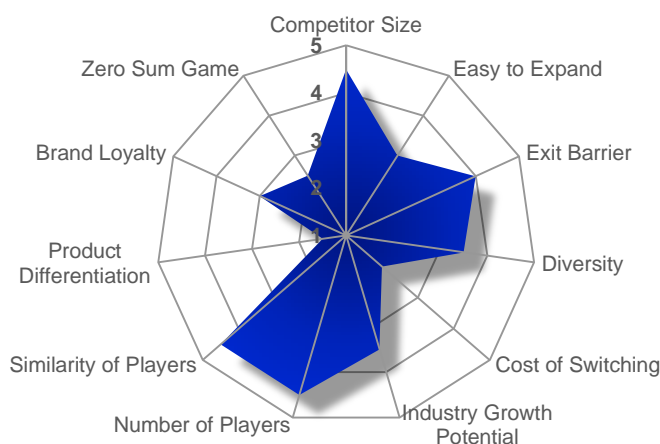
Source: Colliers International 2013

4.2 BARGAINING POWER OF CUSTOMERS



Source: Colliers International 2013

4.5 COMPETITIVE RIVALRY WITHIN THE INDUSTRY



Source: Colliers International 2013

4.3 THREAT OF NEW ENTRANT



Source: Colliers International 2013

4.4 THREAT OF SUBSTITUTE PRODUCTS



Source: Colliers International 2013

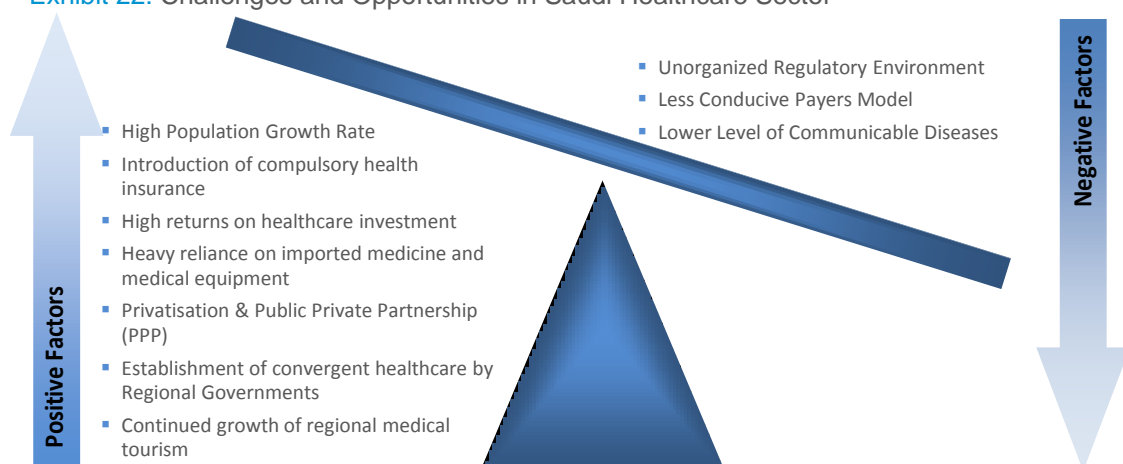
Key Observations

- **Market Structure:** The current healthcare sector in the KSA is dominated by insurance companies (25 companies listed on the Saudi Stock Exchange) and is hence driven by cost versus quality. Unless a set regulation is introduced to monitor pricing, healthcare access and quality of care in private hospitals (the sector) will continue to face lower profit margins and collection delays which will result in lower quality of care.
- **Urban / Rural Divide:** For the provision of healthcare services in the KSA, there appears to be concentration on key cities (Riyadh, Jeddah, Dammam and Khobar). The delivery of quality services is far weaker in the suburbs and other main cities in KSA. This creates an opportunity for the private sector, however, the dynamics and economics may not be very appealing.
- **Shortage of Hospital Beds:** The present shortage of beds which is growing with time, can be overcome by funding from the public sector to establish new hospitals both in Public and private sectors, as well as, improving and expanding existing facilities.
- **Lifestyle Related Disease:** There is a tremendous increase in lifestyle related diseases, such as diabetes, hypertension, obesity, heart (cardiovascular) and kidney (dialyses). Presently, the private sector plays an important role in providing care for these diseases, however, (the) government needs to take an active role in prevention through educating people and offering preventive services.
- **Shortage of Healthcare Resources:** One of the major costs for healthcare providers is spending on qualified medical staff. A large number of doctors, nurses, and paramedical staff in KSA migrate to Western Countries after a few years due to better opportunities and training facilities. In addition, the current Saudi regulations for recruitment and Saudisation continue to further increase the staff cost due to limited available resources. Government role is extremely important in establishing career focused educational institutions to increase the supply of local medical professionals and to drive qualified Saudi talent into jobs. Moreover, to overcome supply gap the Government needs to provide funding to private sector and improved employment regulations to be able to attract qualified resources from abroad.

5. Conclusion

- Urbanisation and changing lifestyle throughout the GCC and in the KSA has resulted in an increase in chronic diseases previously uncommon to the region, such as diabetes, coronary problems and other obesity-related illnesses.
- Whereas, in the last 20 years the region has experienced gradual decrease in mortality and an increase in the fertility rates, which are expected to gradually change the demographic structure of the region over the next 20 years.
- At the current population growth rate of approximately 5% per annum, the GCC's current population of 45 million is expected to double over the next two decades.
- For KSA, Colliers estimate that the expected population of the KSA in 2020 will be 38.6 million (Saudi Nationals 24 millions; Non-Saudi 14.6 millions). However, between 2007-2011 the overall CAGR was 4.30%, with the CAGR for Saudi Nationals was 2.63% compared to 8.44% for Non-Saudi. Based on this growth rate the expected population of KSA will be 43.1 million.
- In the next two decades, as the current young population of the GCC countries and especially the KSA will age, there is likely to be a sharp rise in healthcare demand as almost 80% of a person's healthcare requirements typically occur after the age of 40-50 years, especially in the case of the KSA due to an increase in lifestyle related diseases, such as diabetes, coronary problems and other obesity-related illnesses.
- Compared to these challenges, the healthcare indicators do not reflect the income level enjoyed by majority of the population in the region and in the KSA. This requires heavy investment over the medium to long-term. Both in public and private sector.
- With an estimated population of 29 million residents with an annual growth rate of 3.3%, the Saudi Arabian healthcare sector caters to a rapidly growing population and the concurrent increasing demand on the healthcare sector.
- Overall the supply of healthcare facilities struggles to keep pace with the burgeoning population, a situation recognised by the Government who have recently introduced initiatives to encourage the private sector to match the shortfall and benefit from this potentially lucrative sector.
- With the introduction of compulsory health insurance, the Saudi health insurance, and consequently healthcare sector, is expected to grow in the near future as more and more private companies are now bound to provide medical insurance.
- The GCC and KSA healthcare sector is going through a rapid change and most of the governments in the region are encouraging private sector investment in this sector, either direct investment or through Public Private Partnership (PPP).
- All these factors provides an opportunity for private healthcare operators and service providers to enter into a market which offers unlimited potential for growth.

Exhibit 22: Challenges and Opportunities in Saudi Healthcare Sector



Source: Colliers International 2013

COLLIERS HEALTHCARE SERVICES - SNAPSHOT

Feasibility Studies; Due Diligence; Investment Memorandums (IM)

- Conducted over 50 Feasibility Studies, Investment Memorandums & Due Diligence for ; new projects, Financing & Refinancing, & Merger & Acquisitions:
- Countries: UAE, KSA, Qatar, Egypt, and Ecuador
- Total Number of Beds (2010-2012): 5,000 plus
- Mixed Use Healthcare Parks (2010-2012): 5 with a total BUA of 5+ million sqft
- Total BUA of All Healthcare Projects (2010-2012): 10+ million sqft



Conducted Studies for the Following Specialities (2010-2012)

- General Hospital (20+ Hospitals)
- Maternity & Childcare (10+ Hospitals)
- Polyclinics (5+ Centres)
- Day-care Centre (5+ Centres)
- Trauma & Rehabilitation (5+ Hospitals)
- Cardiac (2 Hospitals)
- Paediatric (2 Hospitals)
- Oncology / Cancer (1 Hospital)
- Orthopaedic (1 Hospital)
- Medical College (1 Institution)
- Nursing College (1 Institution)

Land; Property; Business Valuation

- Conducted over 20 Hospital Valuations for ; end of year Audit, Financing & Refinancing, Merger & Acquisition:
- Countries: UAE, KSA, Qatar, Egypt, and Oman
- Total Number of Beds Valued (2010-2012): 1,200 plus beds
- Mixed Use Healthcare Parks (2010-2012): 5 with a total BUA of 5+ million sqft
- Total BUA of All Healthcare Projects Valued (2010-2012): 10+ million sqft

Operator Search & Selection and Contract Negotiation

- Countries: UAE, KSA, Qatar and Egypt
- Total Number of Beds (2010-2012): 1,000 plus
- Total BUA of All Healthcare Projects (2010-2012): 5+ million sqft

Key Projects:

- 300 bed Hospital in Riyadh
- 200 bed Hospital in Abu Dhabi
- 80 bed Hospital in Abu Dhabi
- 100 bed Hospital in Dubai
- 200 bed Hospital in Sharjah
- 100 bed Hospital in Fujairah
- 100 bed Hospital in Amman
- 2 Healthcare Parks in Jeddah
- 1 Healthcare Park in Riyadh
- 1 Healthcare Park in Cairo



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6 continents

United States: 140
Canada: 42
Latin America: 20
Asia Pacific: 195
EMEA: 85

- \$2.0 billion in revenue
- More than 13,500 employees
- 5,100 brokers
- \$71 billion in transaction volume across more than 78,000 sale and lease transactions
- 1.1 billion square feet under management

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- Market & Competitive Studies
- Highest & Best Use (HBU) Studies
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- Operator Search & Selection and Contract Negotiation
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- Performance Management and Industry Benchmark Surveys

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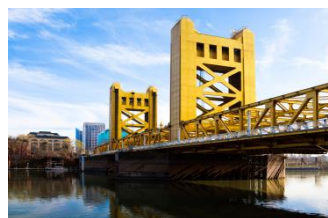
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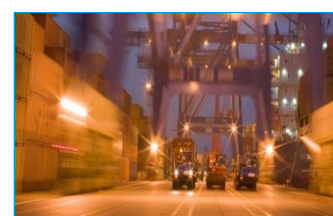
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