



ARAB HEALTH

the official magazine of the Arab Health Exhibition

THE BEST JUST GOT BETTER

ARAB HEALTH EXHIBITION AND CONGRESS

28-31 JANUARY 2013

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ARAB HEALTH 2013

WE'LL SEE YOU THERE!



Did you know that in the UAE, chronic lifestyle diseases and injuries cause almost 90% of all deaths? It's not news to anyone that the health of the population in the Middle East is in dire straits with obesity and diabetes levels amongst the highest in the world, and that the lack of healthcare professionals and specialised hospitals/clinics are creating a precarious situation for this rapidly growing population. How are these lifestyle diseases affecting the healthcare market? What can be done to stop this galloping trend? Arab Health Exhibition & Congress 2013 is promising to play its role in facilitating the meeting between suppliers and users in this rapidly changing healthcare market, as well as offering further education and the opportunity to earn CME credits from one of the conferences.

Leaders in Healthcare is the flagship conference that concludes the Arab Health event on January 31st and the chairman, Steven Thompson CEO of Johns Hopkins Medicine International, will be addressing the delegates on leadership. Should it be lead by a physician or a non-physician? What are the attributes of a successful leader? Mr Thompson has written the article on page 36 on the subject and discusses management vs. mentorship in the healthcare setting.

New for this year, and to reflect the situation in the region at the moment, the Diabetes Conference promises two days of updates in guidelines, treatment and management, as well as the opportunity to discuss the challenges and lifestyle choices. Dr Mario Skugor of the Cleveland Clinic is speaking at the conference and he's sharing his thoughts on the burden of type 2 diabetes in the Middle East in his article on page 56.

Arab Health is such an experience for all involved; exhibitors, visitors and delegates and we're working hard to make sure that you have the best possible outcome from your visit. So, put the date in your diary: 28-31 January 2013. I look forward to seeing you there!

Elin Boyd
Acting Editor

Cover:
The Dubai International Convention and Exhibition Centre is home to Arab Health



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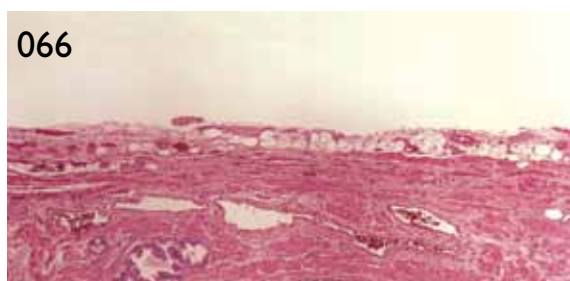
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Investing in healthcare in the Middle East should be an attractive proposition. The region has a rapidly growing but also steadily ageing population, a level of healthcare supply lower than most developed markets (expressed as the number of beds, doctors and nurses per population or % of GDP), high and increasing incomes driving demand for better healthcare (that is currently often met by travelling abroad for treatment), and governments increasing budget allocations to healthcare. In addition, there is a high prevalence of lifestyle related diseases such as diabetes, obesity, hypertension and cardiovascular disease in the population that have reached alarming proportions and hence put a high burden on the healthcare system, which has witnessed double-digit growth rates from year to year, relatively unaffected by economic crises. The majority of healthcare is still provided by the governments, which soon will no longer be able to shoulder it alone and therefore encourage private investment.

So although healthcare in the region should be an obvious investment choice, when looking at it more closely the picture

gets more complicated. Healthcare is one of only very few sectors where the consumer of a service, the patient, in the majority of cases is not the payer and does not make purchase decisions based on price and in fact is often not even aware of it. Also, the quality of such services cannot easily be assessed or compared. It is a sector with heavy (and changing) regulations, with specified prices and barriers to entry. Governments in most cases act both as provider and payer of services and therefore private businesses at times find themselves competing against (semi-) governmental entities that are able to invest heavily based on longer-term strategies. Plus, although private investment is generally encouraged, in certain instances foreign investors are prohibited from investing in healthcare assets of a country. These factors can alter the market environment significantly from one where prices, products and services are determined by free market forces of supply and demand, and make it difficult for an investor to enjoy a stable and predictable environment with forward visibility to operate in. ➔

THE INVESTMENT LANDSCAPE

What makes an attractive investment opportunity for a private equity investor? These firms invest into 'private' (i.e. not publicly listed or government-owned) companies as 'equity' (i.e. not bank debt or loan) shareholders and partners. The companies need to have an existing operation and some financial track record on which they can base investment decisions. They therefore screen companies in the market for interesting opportunities to partner with. The majority of healthcare companies commonly found in the region falls into few categories: general hospitals, small clinics (general practice or specialty), pharmacies, pharmaceutical manufacturers, medical disposables manufacturers, distributors of medical equipment, labs, and diagnostic imaging.

Not all of those are necessarily an attractive investment for financial investors that focus on tenures that are medium-term in nature.

- General hospitals have a significant real estate component, need a high utilisation of their bed capacity, require large investments in equipment, are complex structures with a large number of difficult medical procedures, significant staffing needs, etc. Also they are often limited to one location and not easy to replicate
- Distributors don't own any intellectual property in the equipment

based patented drug manufacturing, electronic medical records, nurse training institutes, medical waste management services, or nursing homes for the elderly (for cultural reasons).

Another area that initially seems to be an obvious investment target is diabetes care. There is a large and growing demand in the region; out of the five countries worldwide with the highest prevalence of diabetes; four are in the Gulf region. And incidences keep growing fuelled by sedentary lifestyles and obesity. However, the majority of care is currently delivered by governments, and is spread across several medical disciplines, with little specialisation or centralisation (with some exceptions like the government-backed Imperial College London Diabetes Centre in Abu Dhabi). There are practically no private companies to invest in that specialise in diabetes treatment.

Much of the focus today is still on big hospitals, in particular on the building and the luxury of its rooms and suites, rather than its staffing and delivery of quality care. In order to deliver the most efficient and cost-effective healthcare the market does not need more large general hospitals. Investment will be more efficiently spent on smaller and specialised entities such as outpatient day-care surgery centres, local family clinics, and long-term and home

“THERE IS A LARGE AND GROWING DEMAND IN THE REGION; OUT OF THE FIVE COUNTRIES WORLDWIDE WITH THE HIGHEST PREVALENCE OF DIABETES; FOUR ARE IN THE GULF REGION”

they are selling, are dependent on the business practices and product quality of the producers and are at risk of losing their agency contracts, leaving them with little but a sales force

- Pharmacies often have competition on every street corner, are exposed to price regulation and on the wholesale level to currency fluctuations for imported drugs
- Medical equipment manufacturers in the region mostly only produce commodity-type medical disposables such as syringes, gloves, gowns, etc., which are exposed to increasing competition from China. Any more complex medical equipment is imported.

On top of that, there are only a limited number of sizeable opportunities of US\$25 million or more to invest in as the sector is fragmented. There are a few investment platforms, i.e. chains of healthcare providers with multiple assets or branches. Governments have historically been the provider of most healthcare in the region, except for businesses founded by individual doctors, like clinics, small hospitals and pharmacies (which for example in some countries, as per regulation, need to be owned by individual pharmacists).

INTERESTING INVESTMENT AREAS

Some interesting areas for investment do not commonly exist in the region, such as private local companies focused on weight management, production of higher-tech medical equipment, biotechnology, R&D-

care as 'step down facilities' to relieve the burden of hospital beds being occupied by long-term patients due to a lack of alternatives. Specialised tertiary care hospitals with a focus on certain medical specialties are also interesting. Such centres of excellence are required in the region and should be able to enjoy high patient volumes and margins. Finally, service businesses such as diagnostic imaging and labs tend to have more attractive characteristics for an investor: They have less complex business models with procedures that can be standardised, and are less capital intensive, less dependent on individual doctors, and easier to scale across a number of branches or locations.

However, a private equity investor can influence those investment decisions only to some extent. The initiative to set up such businesses should come from entrepreneurs, local family businesses and international companies entering the region via real operating entities and joint ventures. Private equity investors would like to particularly see entrepreneurs succeed in setting up these types of businesses. They could potentially receive the help of venture capital investors or business angels making such high-risk/high-return investments, which is however a business model that is not yet very institutionalised in the region. Although private equity investors would sometimes like to, they are usually unable to back a start-up company or a business idea, but would be happy to finance the business at a later stage with growth capital. 📌