

An Update on Global Pharma and the Continuing Role of ROI

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Discussion Points

- Seismic shifts in the pharmaceutical market
- The scale of patent expiries
- Slowdown in developed markets
- The role of emerging markets
- The shift in product mix
- The shift in customer mix
- ROI a source of competitive advantage

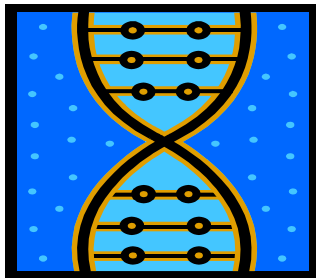
Four seismic shifts in the global pharmaceutical market



Demographic



Geographic

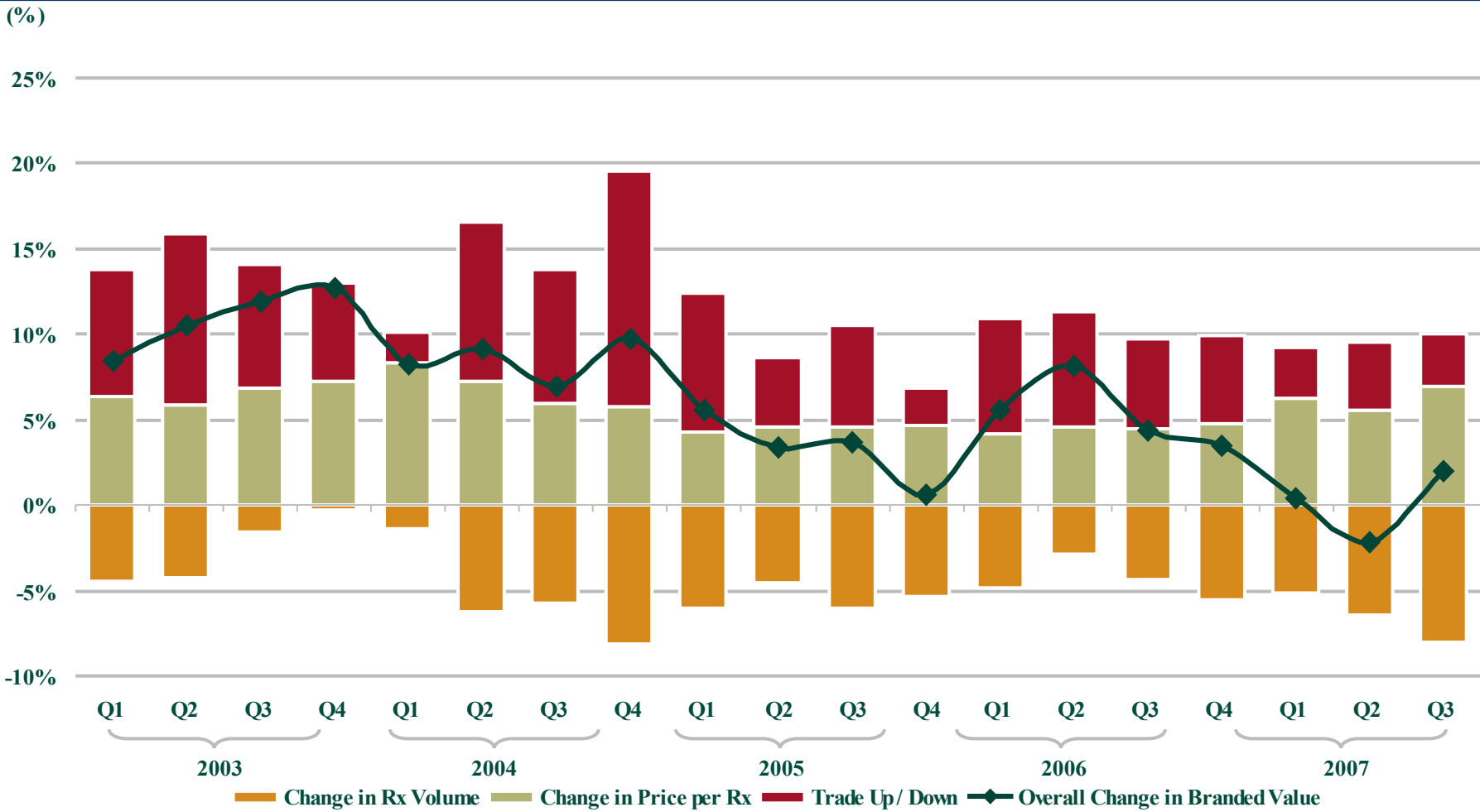


Technological



Expectational

US Branded Rx Volumes Still Down



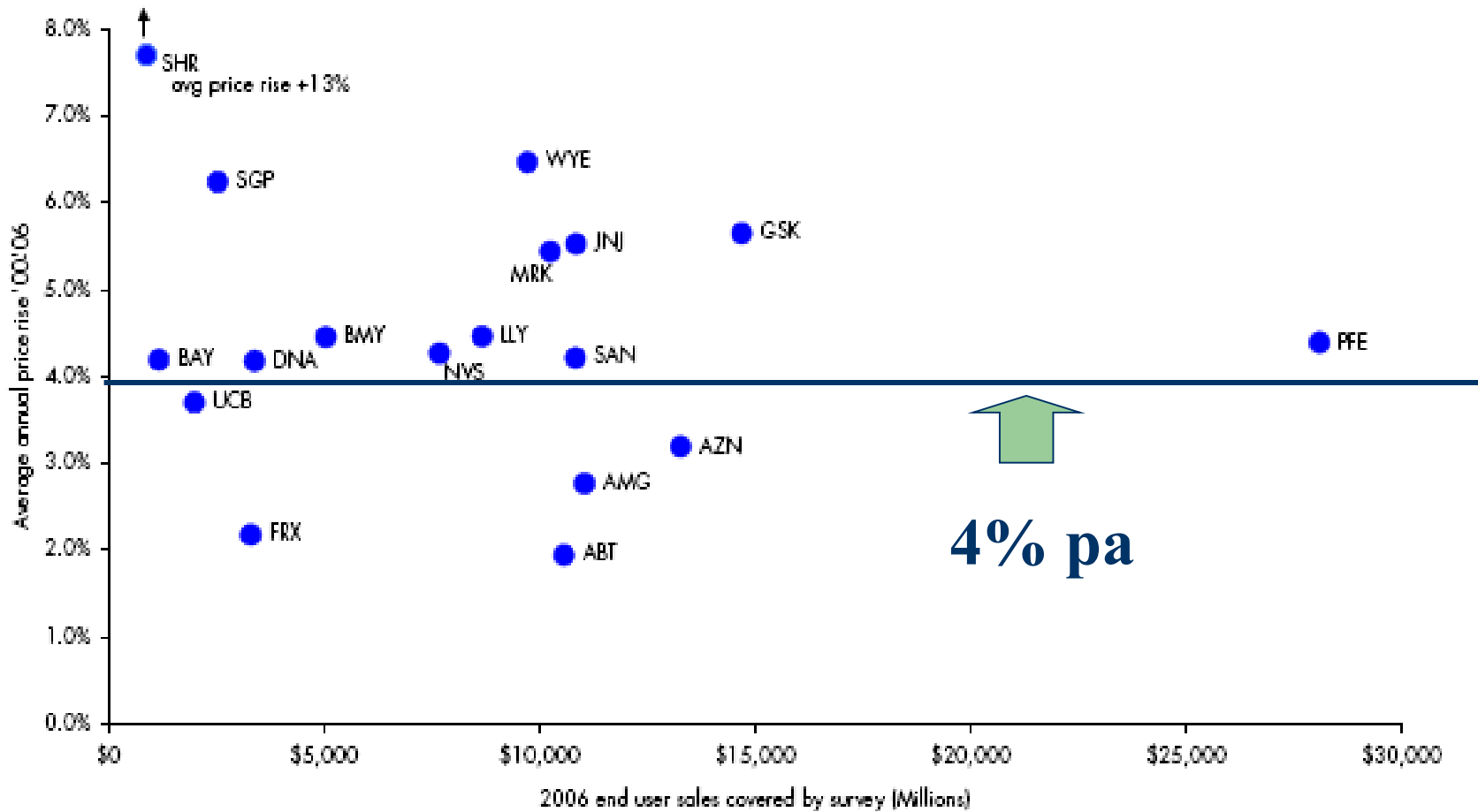
Source: IMS, Lehman Brothers Pharmaceutical Research



Big Pharma Still Relies on Price Inflation in US

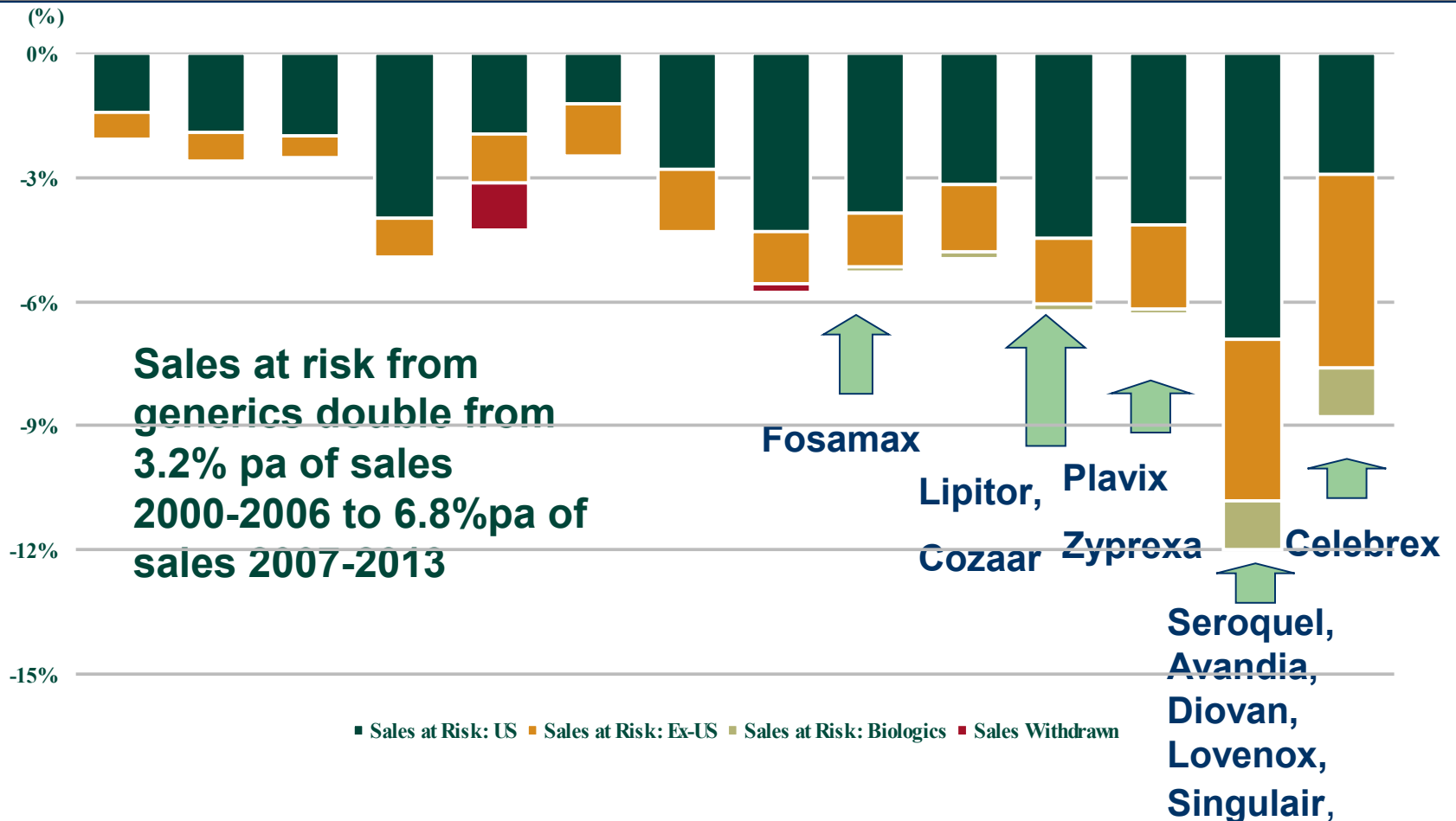


List Price inflation 2000-06 for major companies



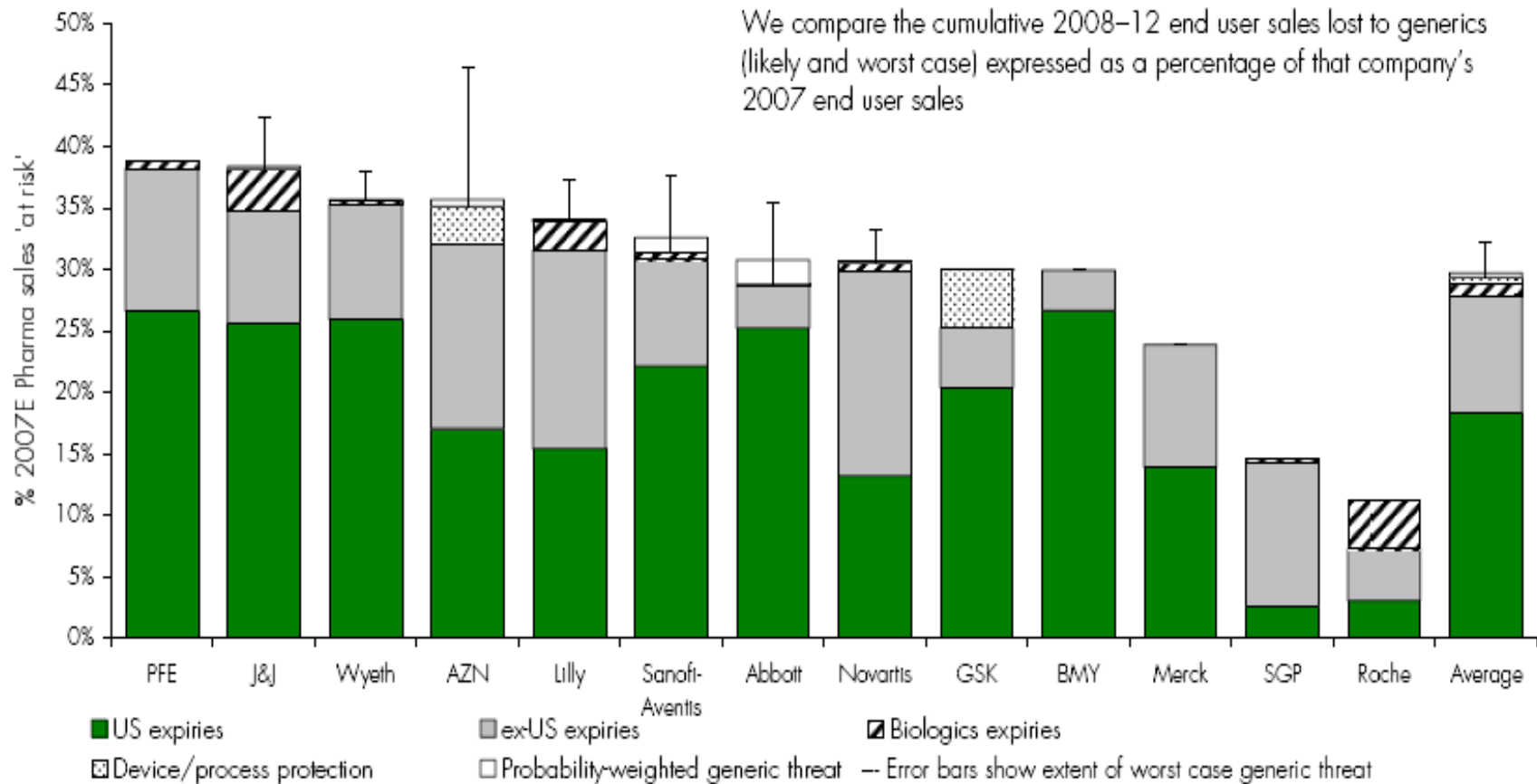
Source: First Data Bank, Company data,
Lehman Brothers Research

Patent Expiries are the Key Drivers of Slowdown



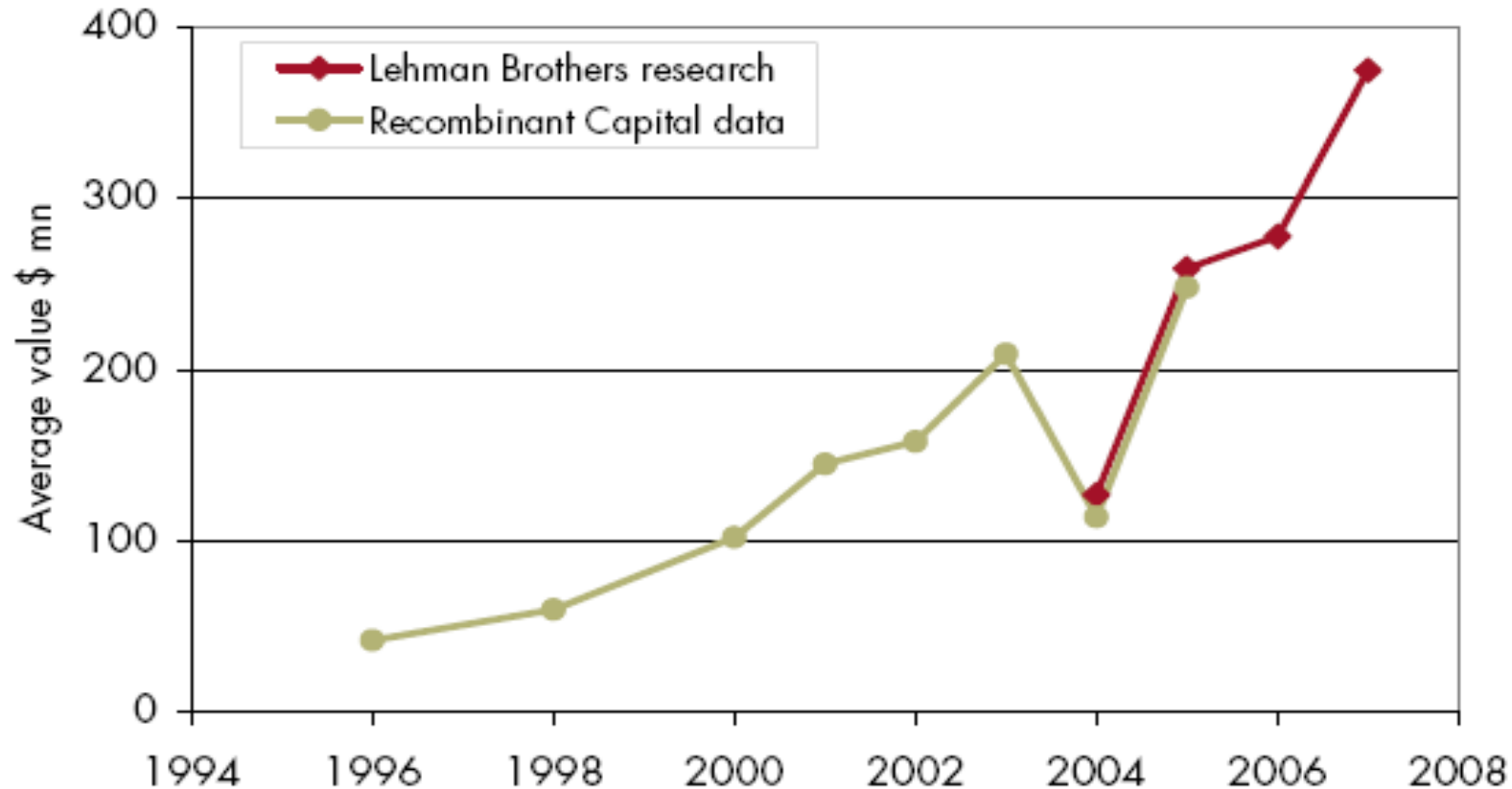
Source: Lehman Brothers Pharmaceutical Research

Sales at Risk from Generics 2008-12E as % of 2007E Sales



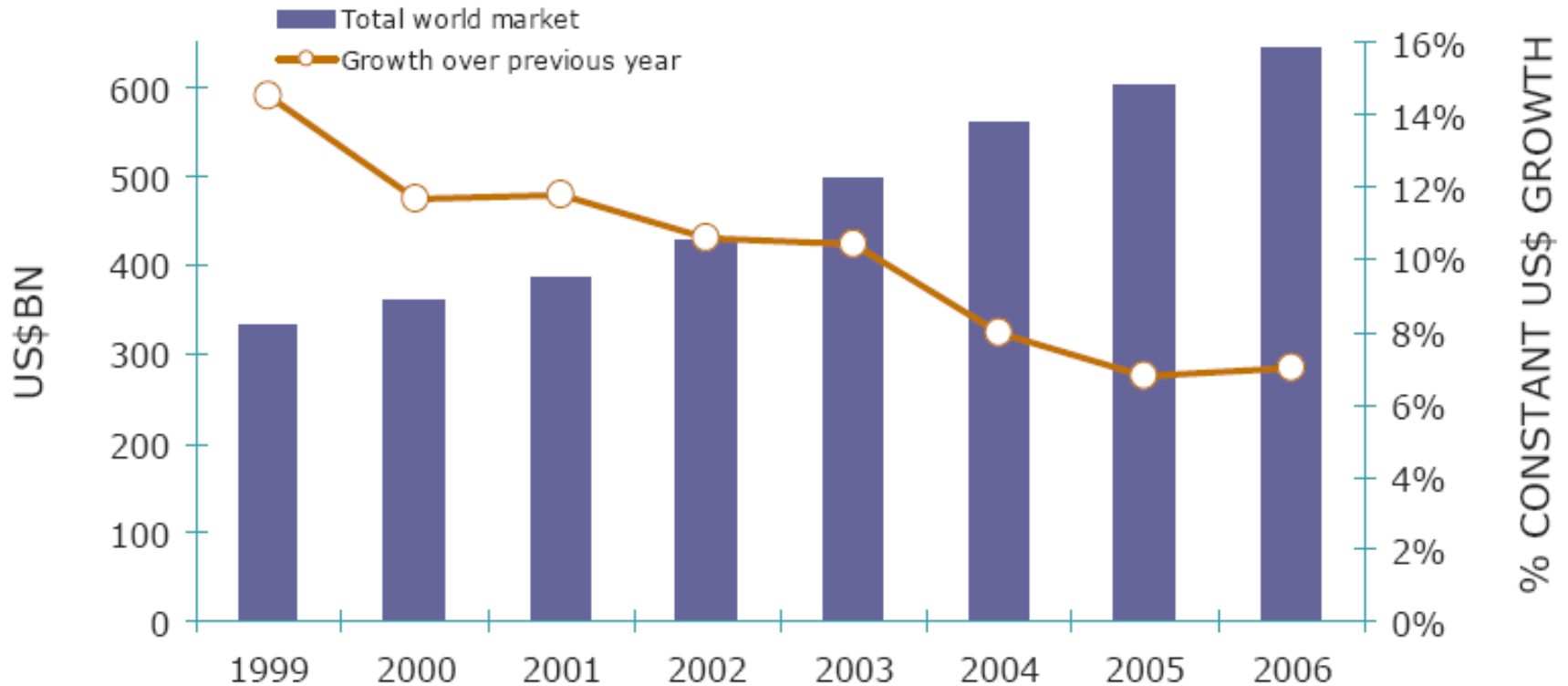
Source: Lehman Brothers Pharmaceutical Research

Average Value of Licensing Deals Now Close to \$400m



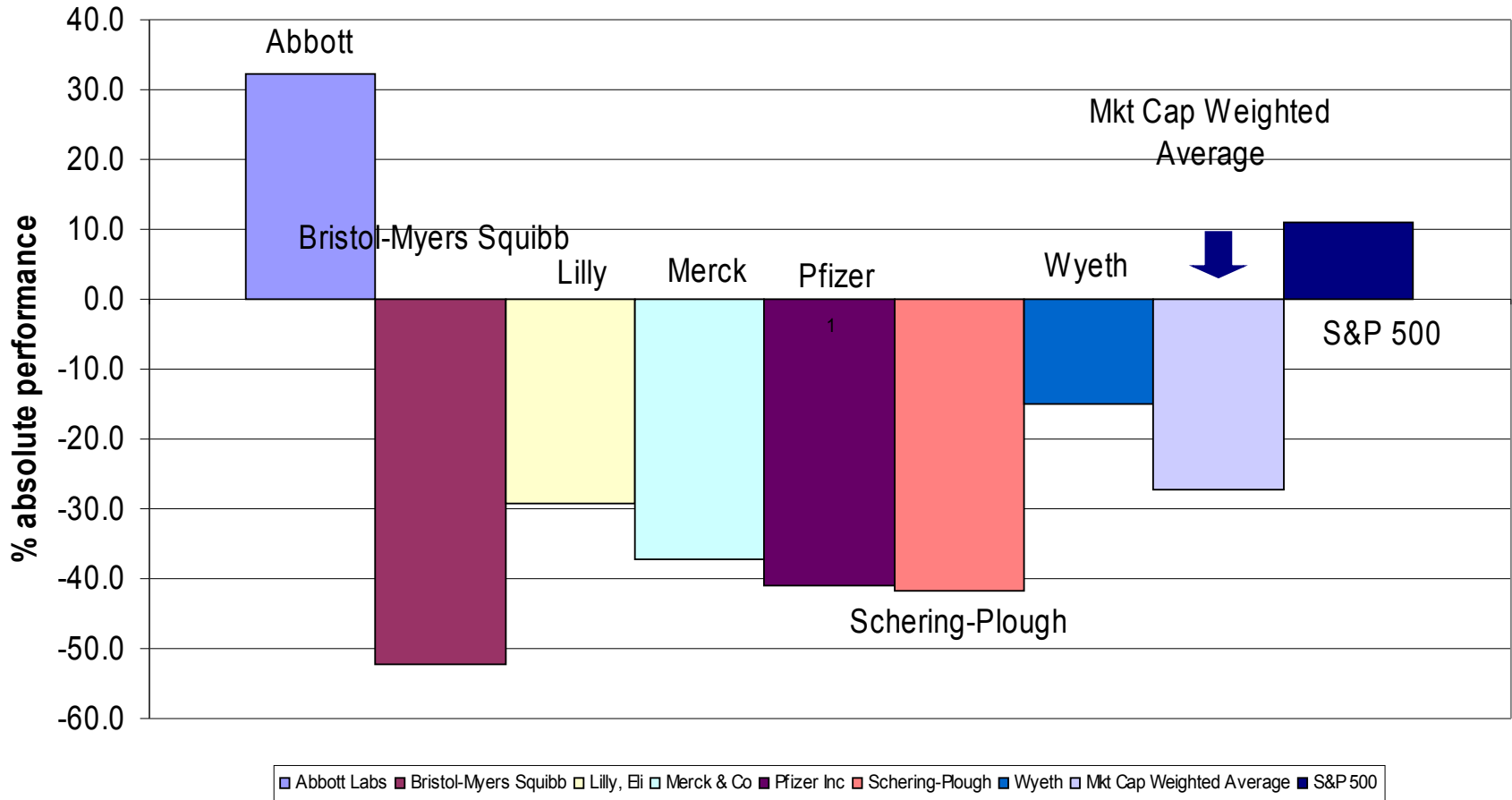
Source: Recombinant Capital, Lehman Brothers research. 2007 figures reflect data to 30 August

Recent Stable Growth Rate Unlikely to be Sustained

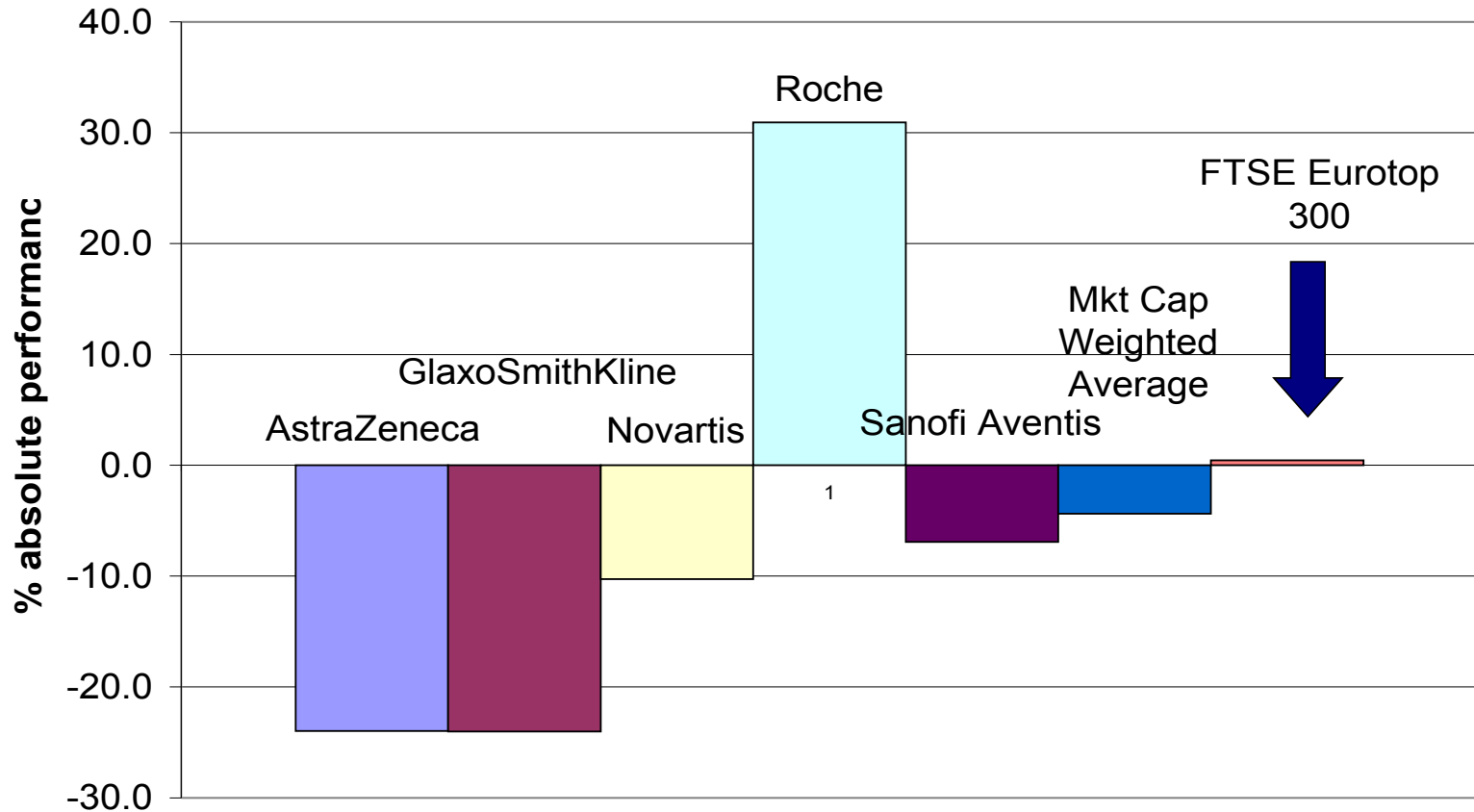


Source: IMS Health, IMS Market prognosis International, Feb 2007

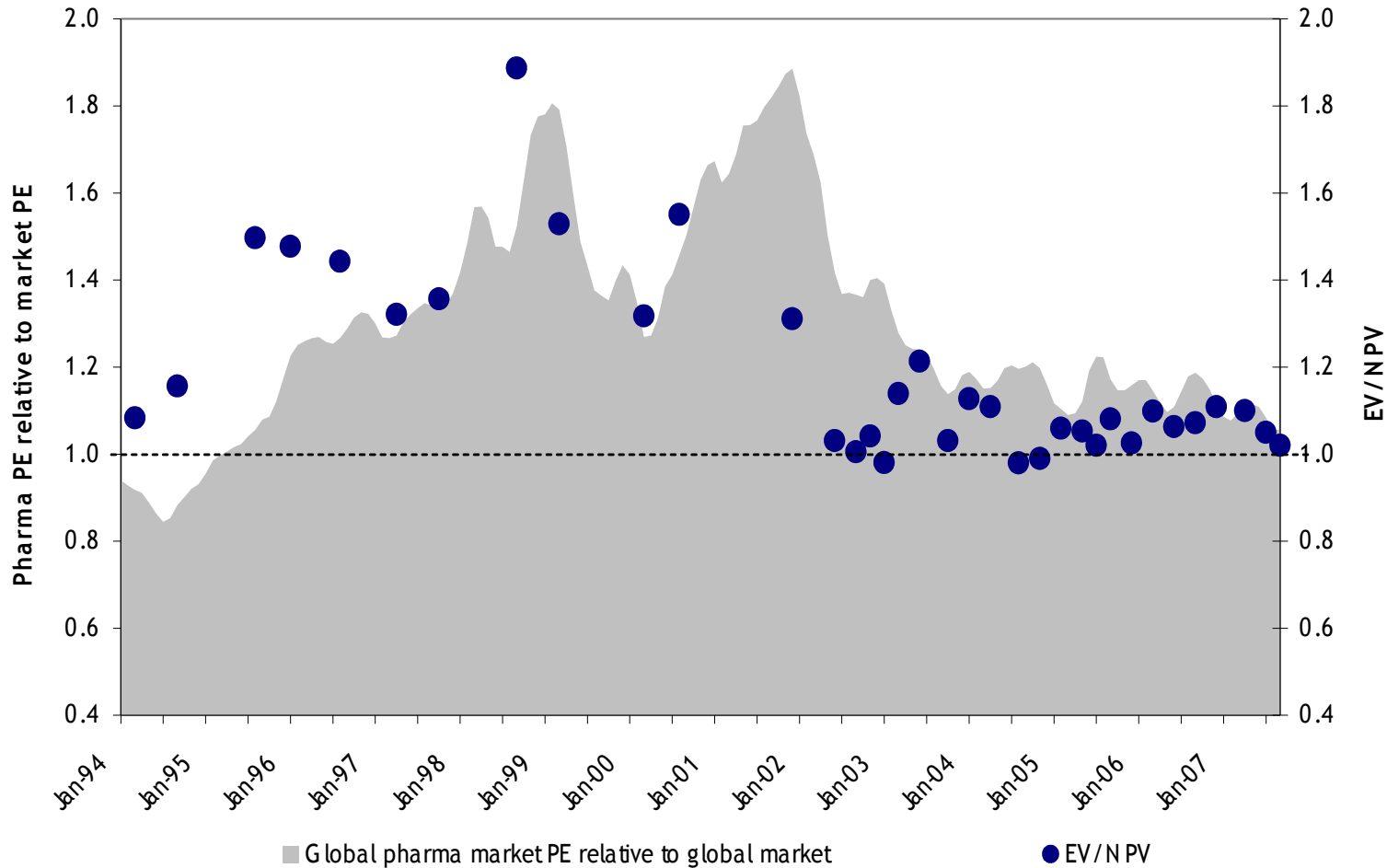
Dismal Share Price Moves Reflect Poor Industry Performance and Reputation



European Pharma Has Performed Better - But Still Badly



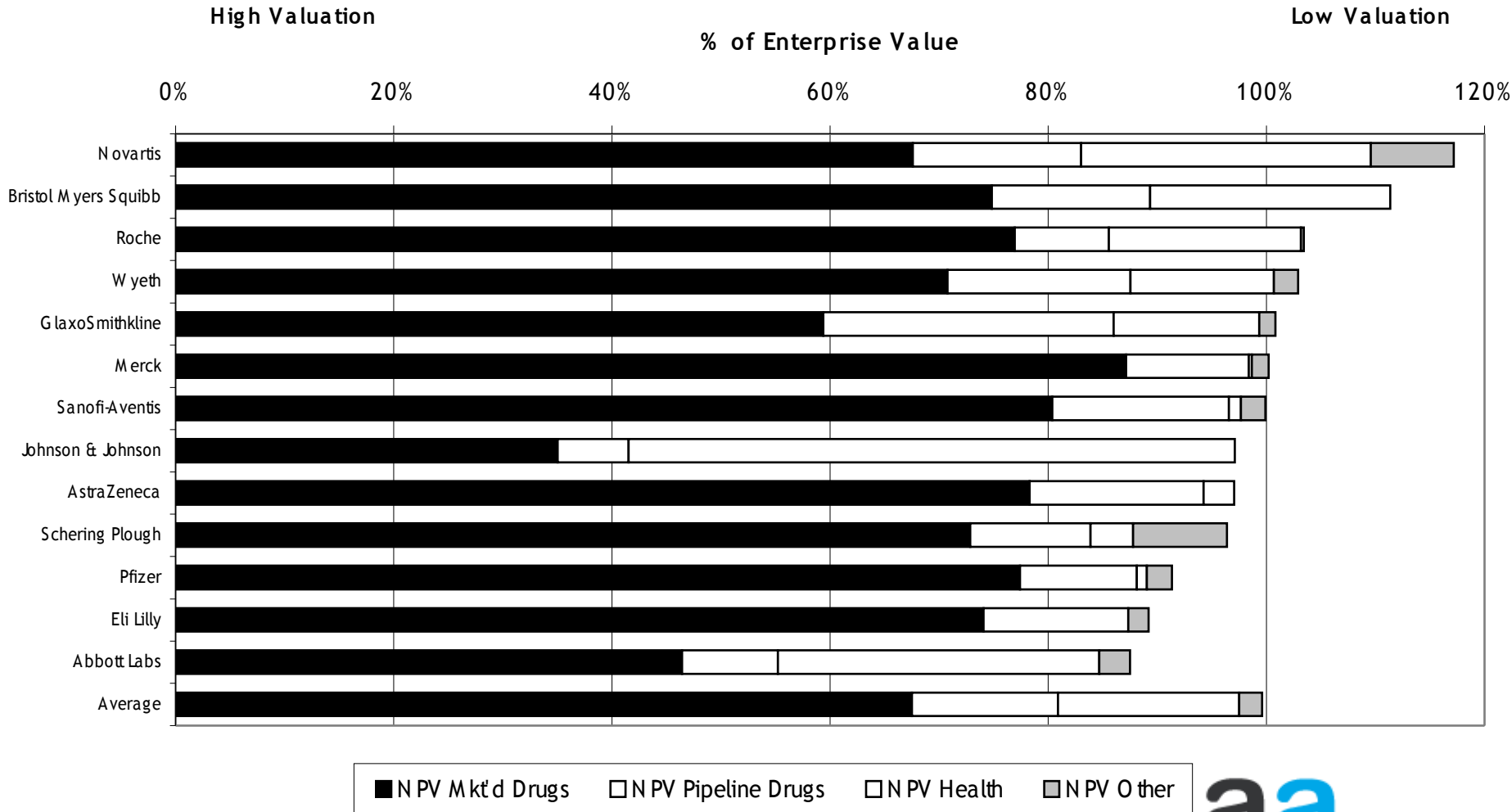
Big Pharma Sector is Cheap



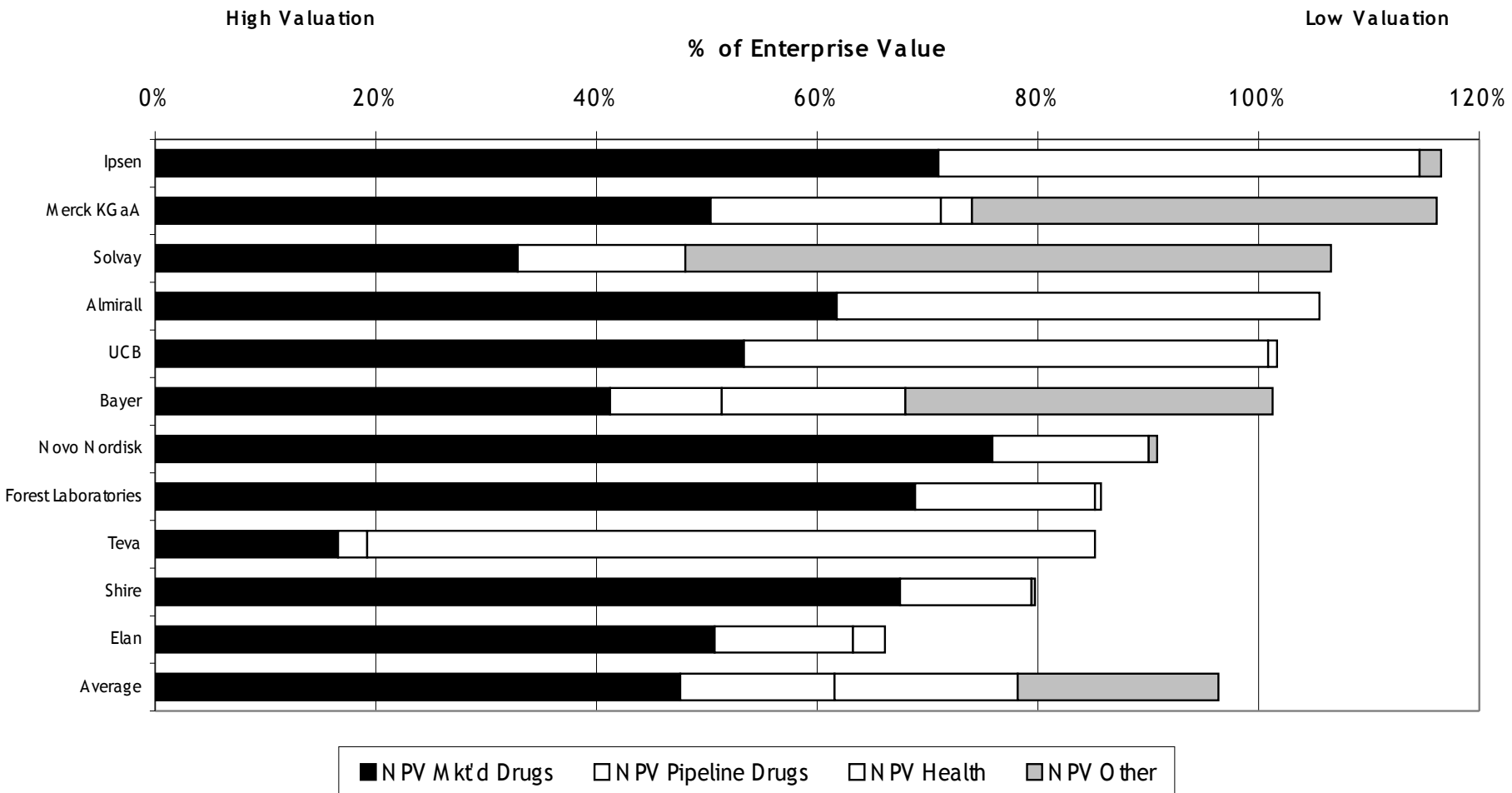
Source: Lehman Brothers PharmaPipelines



Most Companies Offer NPV At Or Above EV

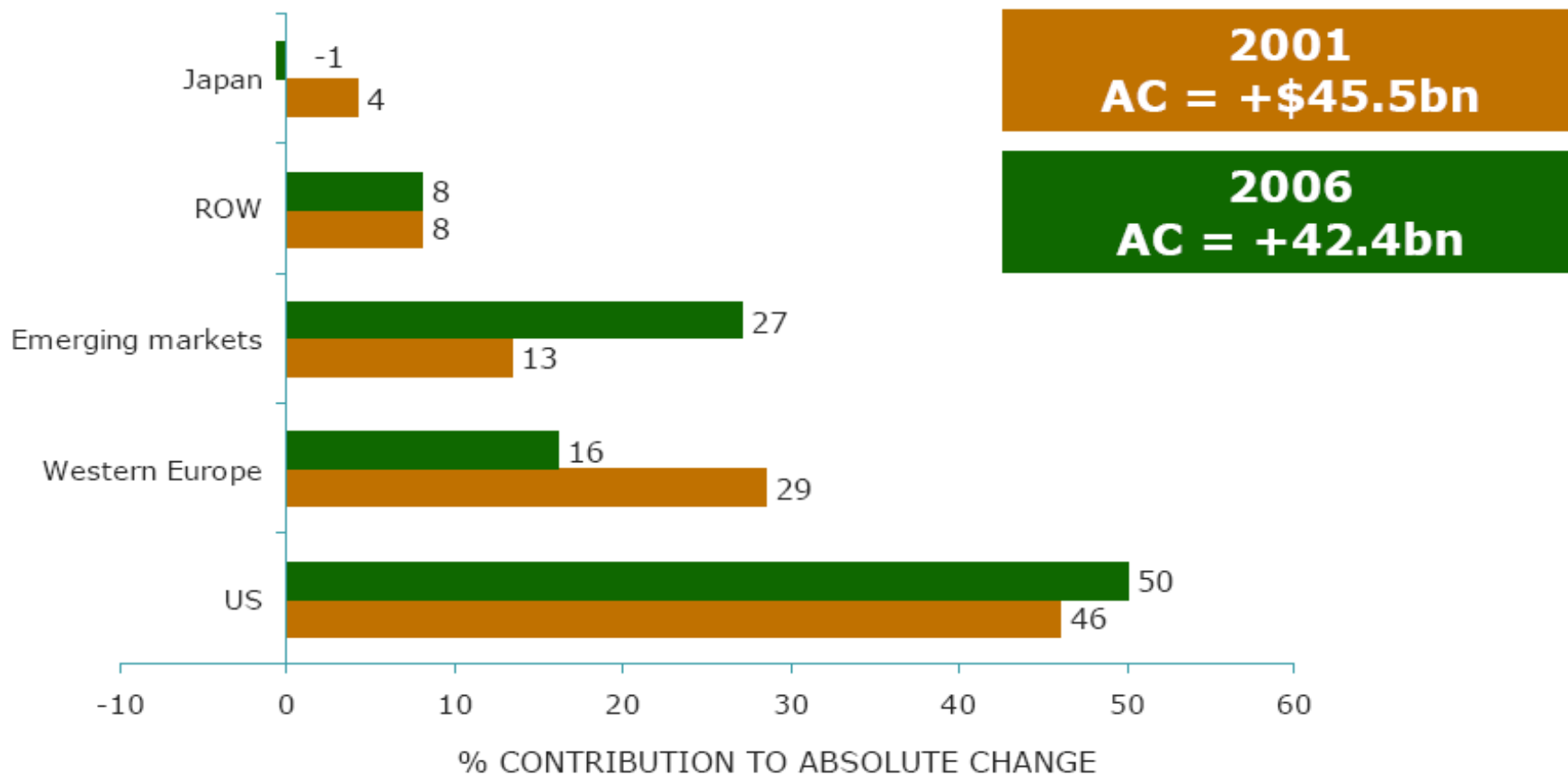


Even Mid-cap Pharma Looks Cheap



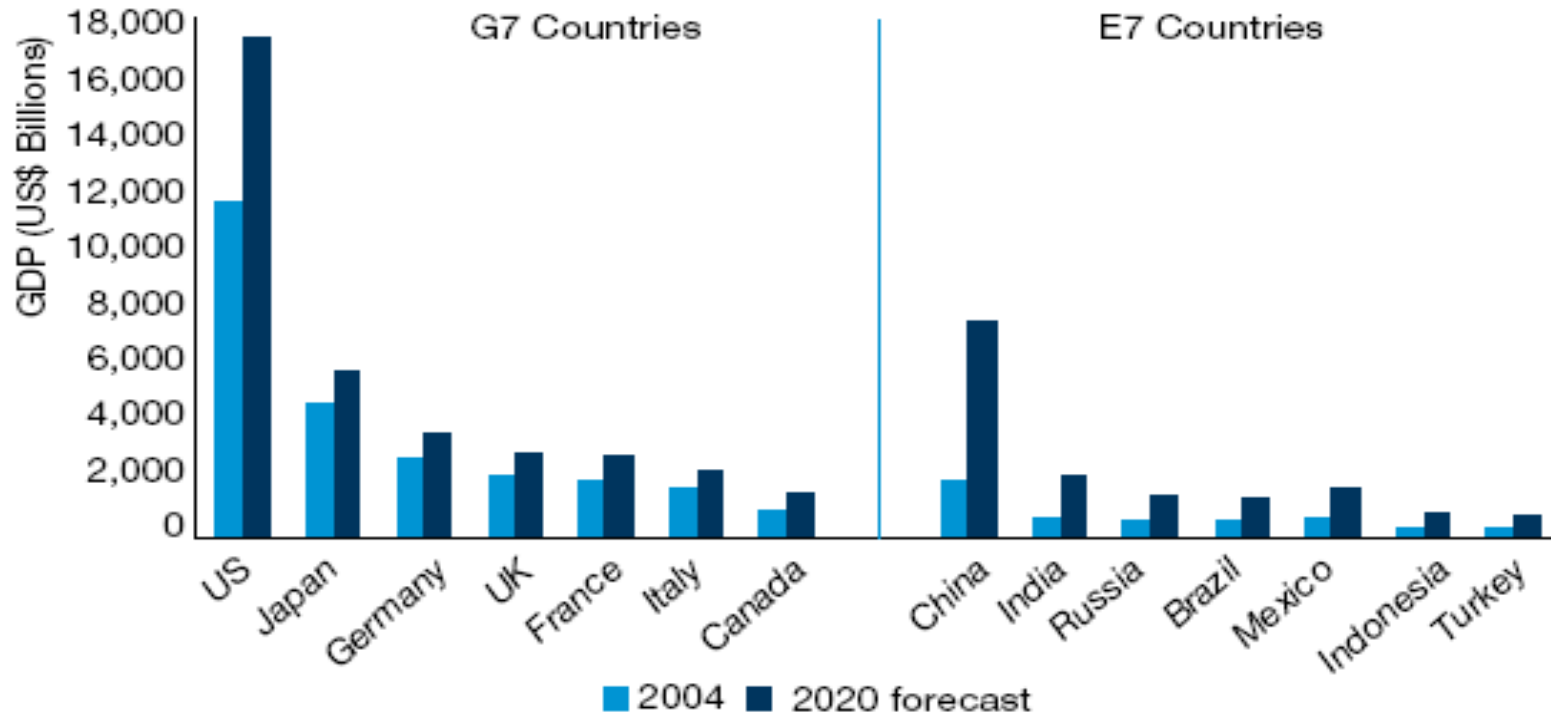
Source: Lehman Brothers PharmaPipelines

Emerging Markets May Drive Growth



Source: IMS Health, IMS Market prognosis International, Feb 2007

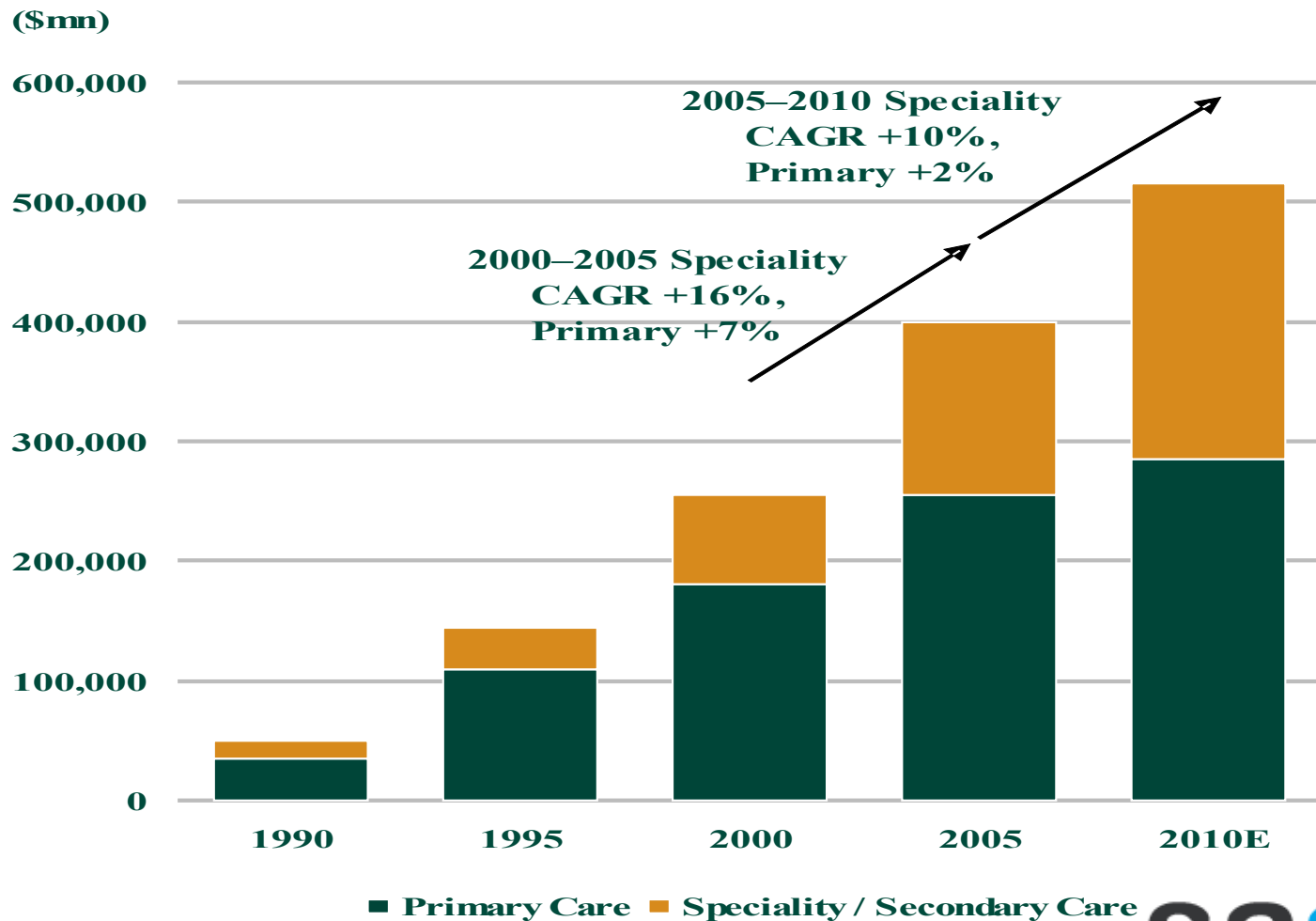
E7 GDP as % of G7 GDP Could Rise From 20% to 43% by 2020



Source: PricewaterhouseCoopers Macro Economic Consulting Group

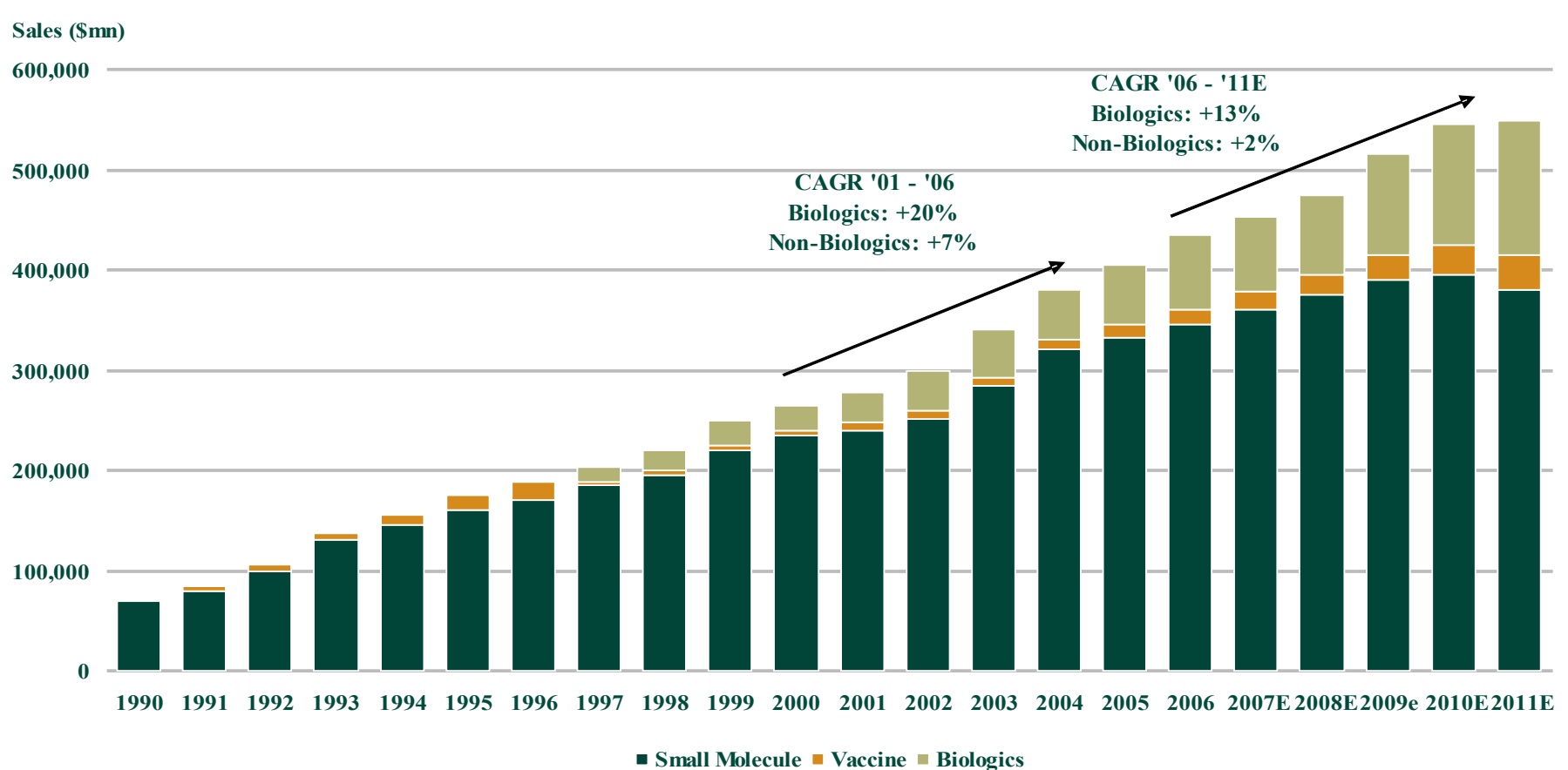
Notes: 2004 estimates based on World Bank World Development Indicators database (except China, which was adjusted for a later large data revision); 2020 projections based on our model

Specialty/Secondary Care is Key Driver of Growth



Source: Lehman Brothers
Pharmaceuticals Research

By 2011 Biologicals Estimated to be 29% of Total Sales and 37% of NPV



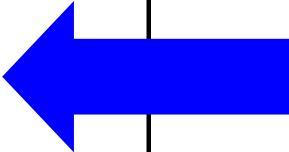
Source: Lehman Brothers PharmaPipelines estimates



Shift in Mix Will Drive Margins



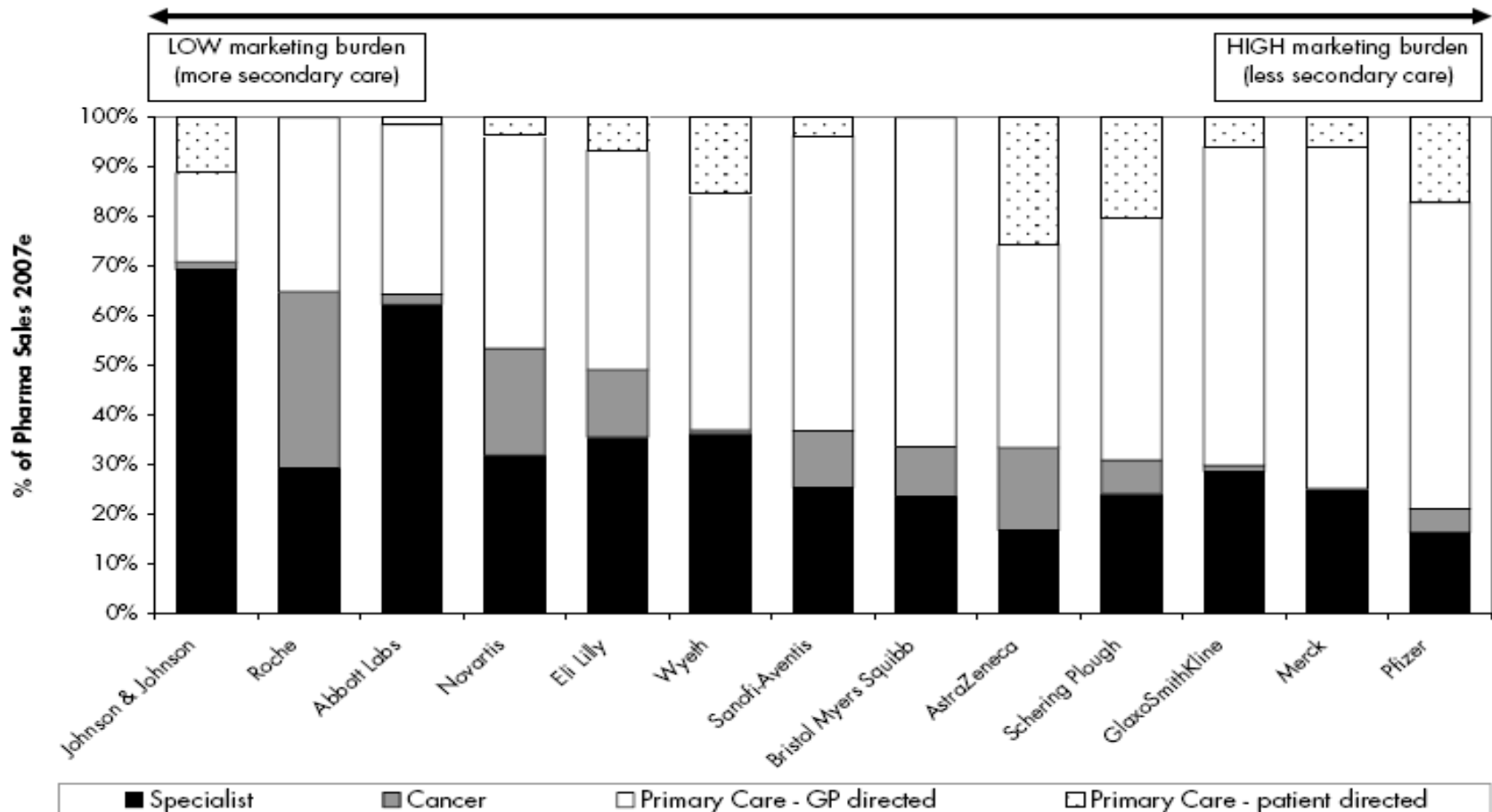
Sales	2007	2011	CAGR
Primary care	250	275	2%
Secondary/speciality care	150	220	10%
	400	495	5%
M&S spend as % of sales			
Primary Care	40%	40%	
Secondary/specialty care	22%	22%	
Blended rate	33.3%	32.0%	
Absolute \$ spent			
Primary care	100	110	2%
Secondary/specialty care	33	48.4	10%
Total	133	158.4	4%



**1.3%
margin gain
just
through mix
shift**

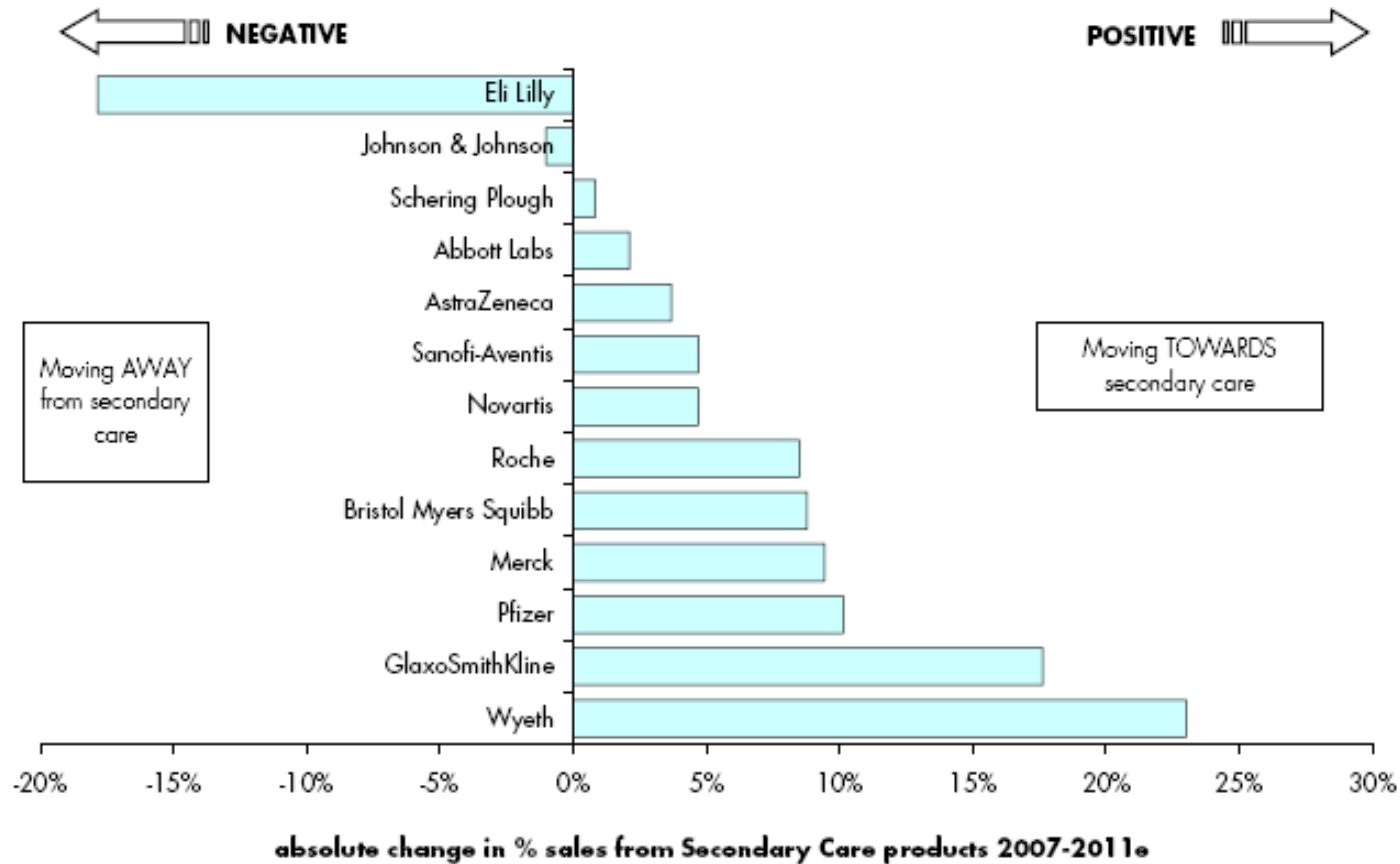
Source: Lehman Brothers and Stewart Adkins Advisors Ltd estimates

Product Mix Obviously Impacts Sales and Marketing Mix



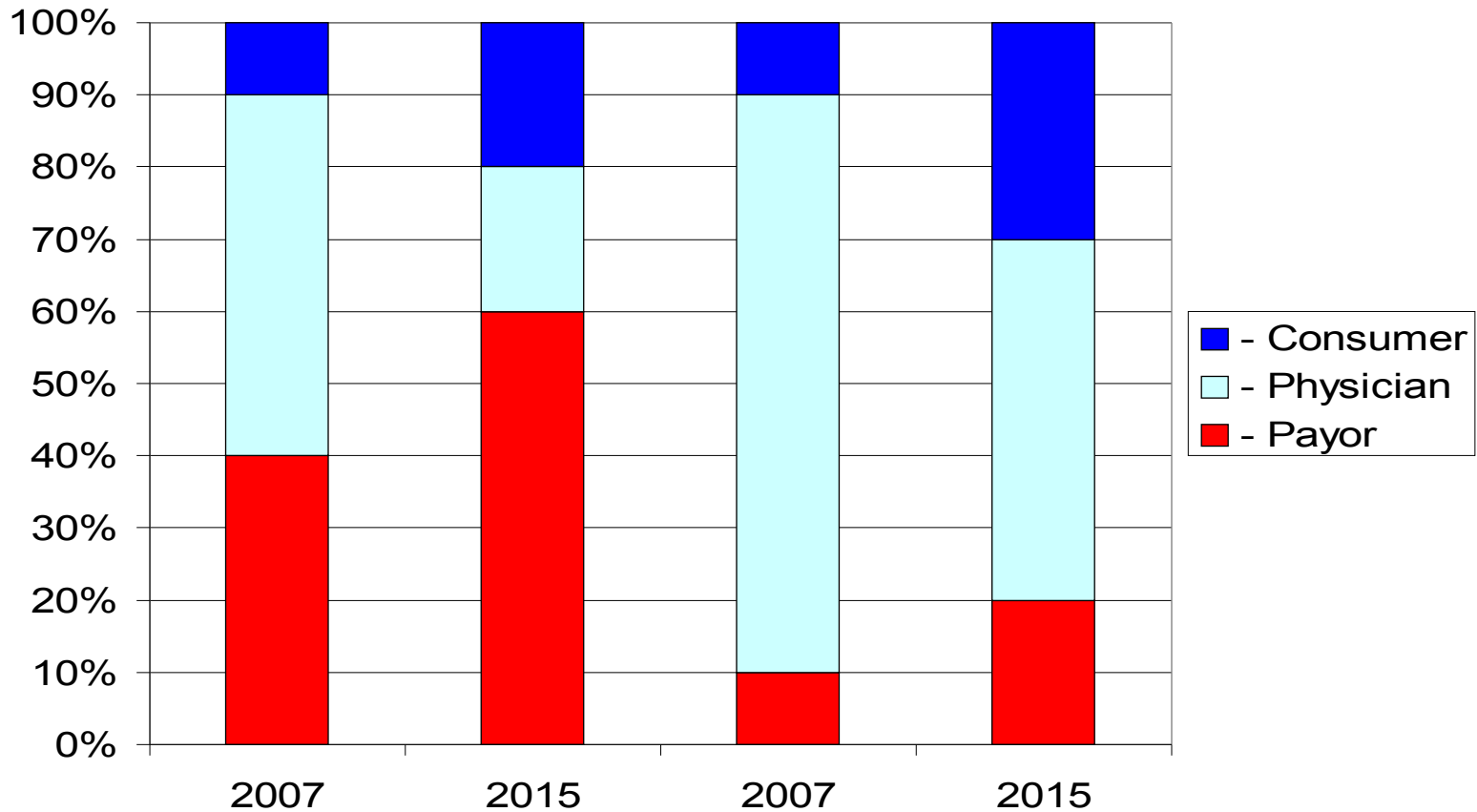
Source: Lehman Brothers PharmaPipelines estimates

Most Companies' Product Mix is Shifting to Specialty/Secondary Care



Source: Lehman Brothers Pharma Pipelines analysts

Changing Influence of Customers

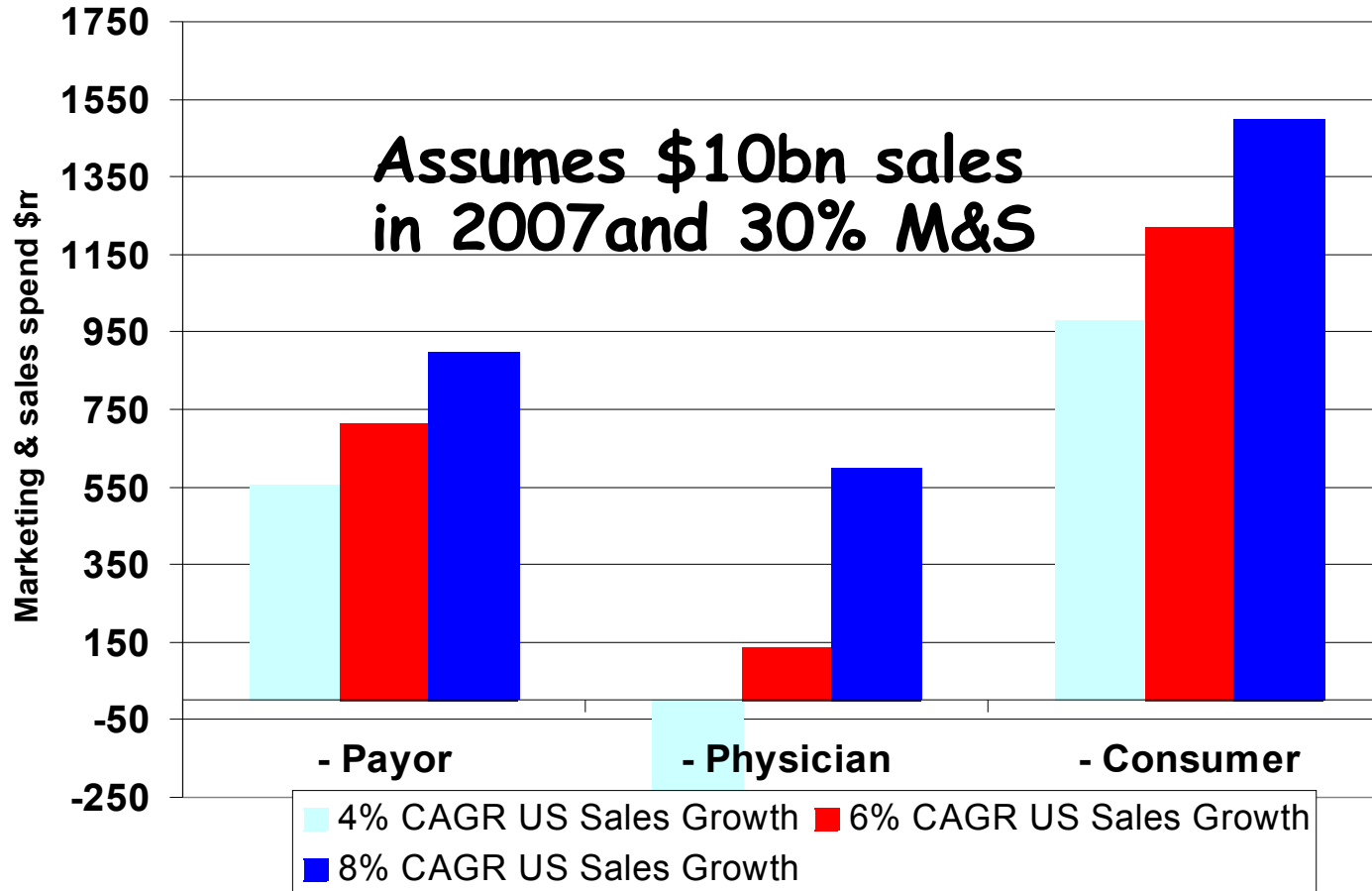


Influence split by customer

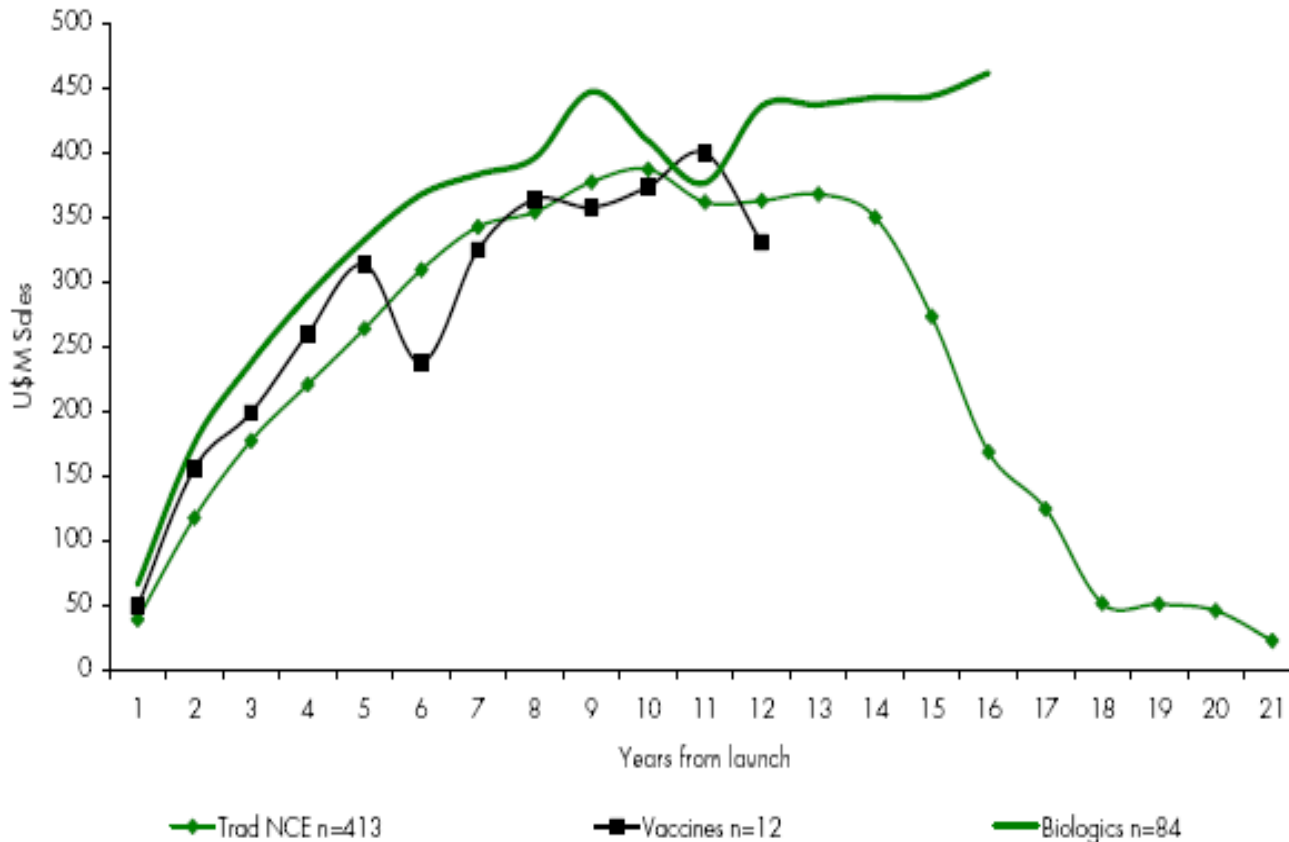
M&S split by customer
22



Consequences of Changes in Customer Influence

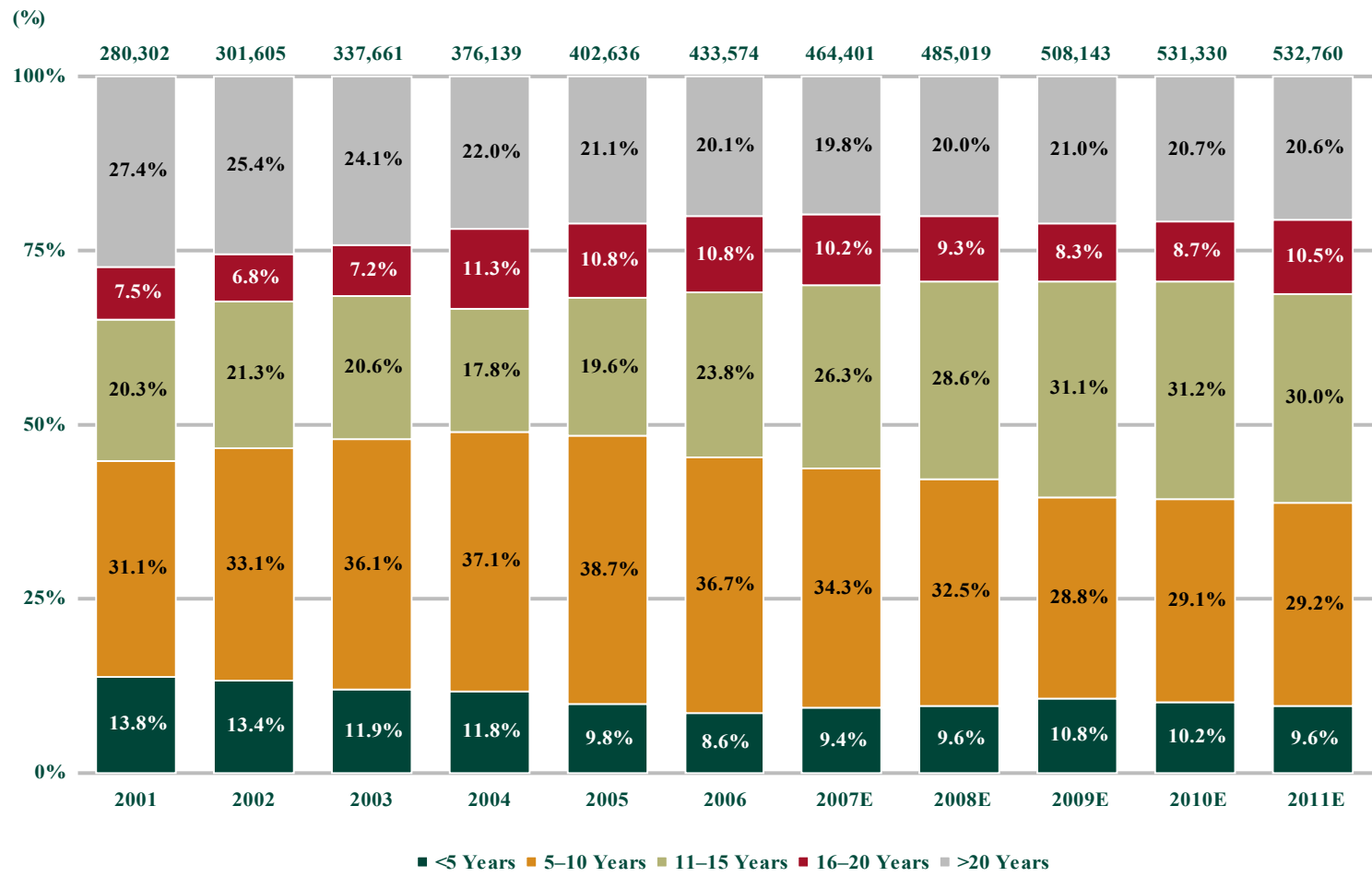


Product Life Cycles Longer Than You Think



Source: PharmaPipelines Sept 2006 database (sales by launch and molecule type by region)

Most Sales Derived From Products 5-15 Years Old



**CAGR
(06 - 11)**

6%
0%
9%
4%
5%

Source: Lehman Brothers PharmaPipelines



Novartis Has Reduction of M&S Spend as Major Commercial Objective



Key elements of our commercial strategy (2/2)

Payors

- Dedicated **market access** teams and regional/national KAMs¹
- Innovative **payor partnership** programs
- **New pricing** models (e.g. success based, annual capitation)
- Attractive **portfolio service offerings**

Patients

- Leveraging **patient advocacy**/patient insights
- Driving **screening** and **compliance** initiatives
- Leverage internet more

Promotion

- **Regional strategy** vs. “one-size-fits-all” national strategy

Wholesalers

- Move to **fee for service** and/or selective direct distribution for specialty products

Overall objective
Reduce M&S spend as % of sales

¹ Key account managers

In Conclusion

- Many aspects of S&M are outside our control eg
 - Patent expiries
 - Reimbursement changes/Health Technology Assessments
- Influence over customer types is changing

*Let's manage what we do know -
using robust, accurate and valid
ROI analytics!*