

Partnership: Essential But Not  
Sufficient  
An Industry In Need of Change

Stewart Adkins  
Stewart Adkins Advisors Ltd  
[stadkins@btconnect.com](mailto:stadkins@btconnect.com)



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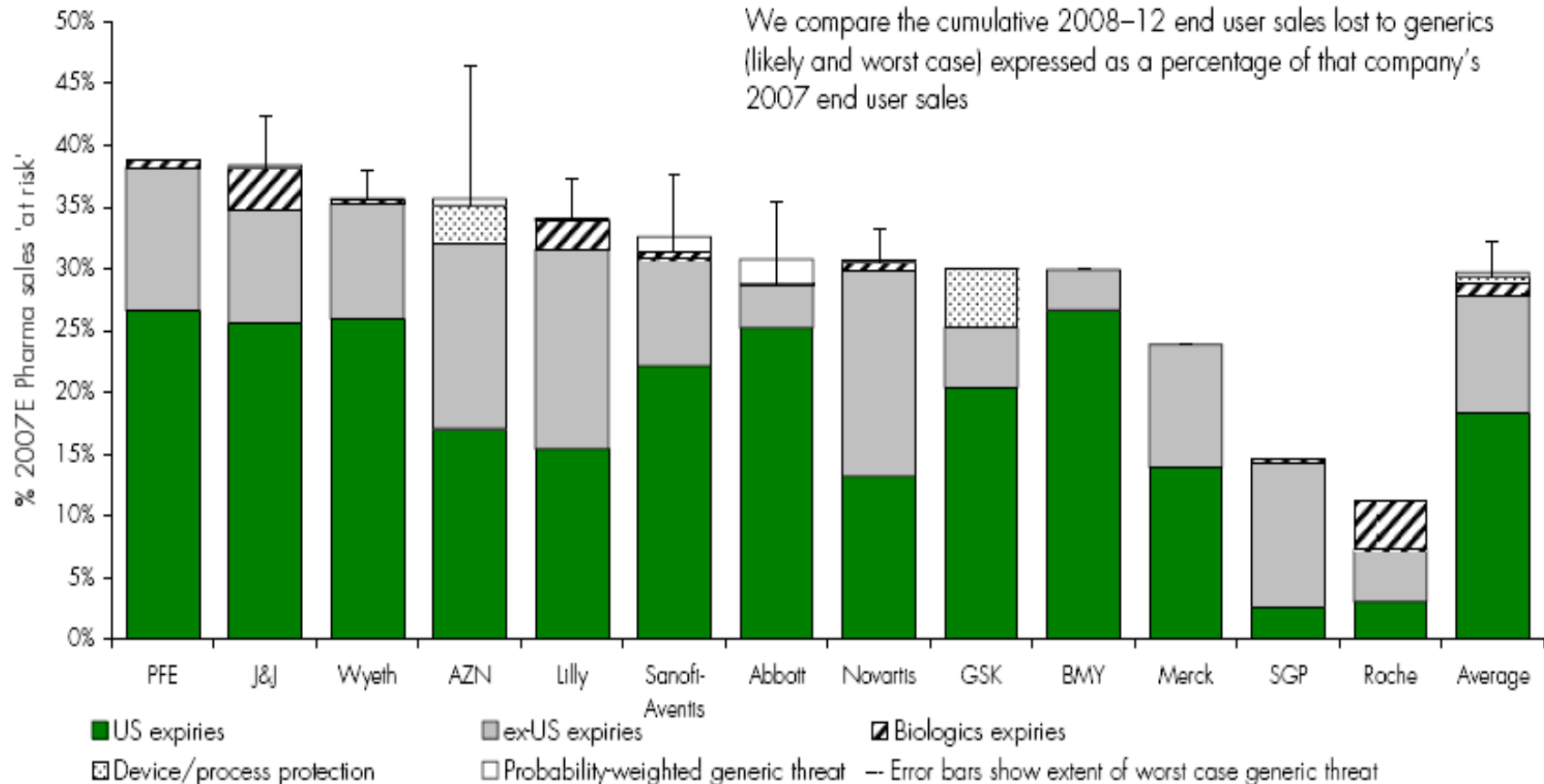
# Discussion

- Patent Expiries and Poor New Product Flow Squeeze Profits and Cash Flow
- Partnerships (in- and out-licensing, JVs, co-development, co-marketing etc) represent increasing contribution to sales and NPV
- The Influence of Capital Markets on Deal Terms
- Big Pharma's Changing Balance Sheet
- Changes in Cost Structure and Risk Profile Force Changes in Business Model





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

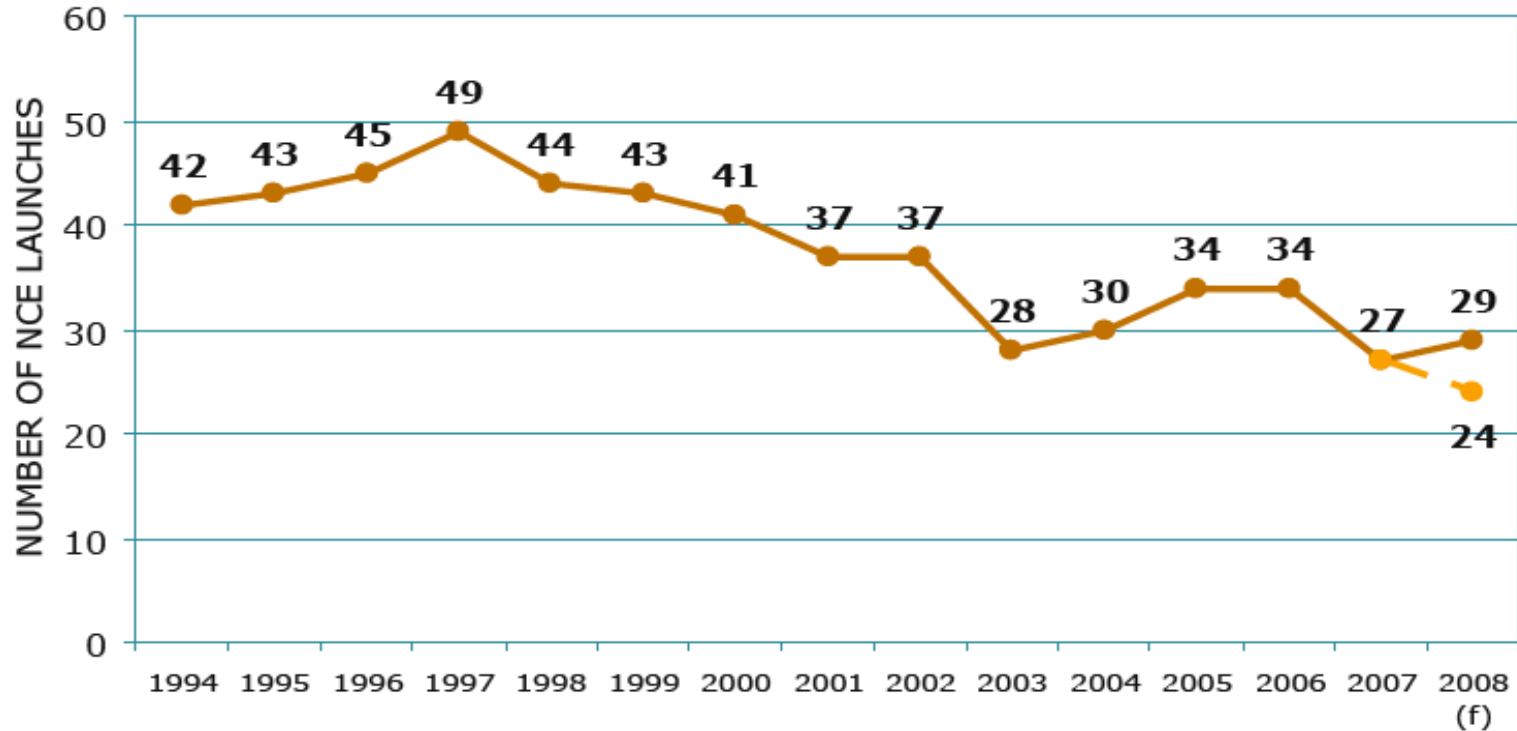


Source: Lehman Brothers Pharmaceutical Research



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# Number of NME/BLA Approvals at All Time Low

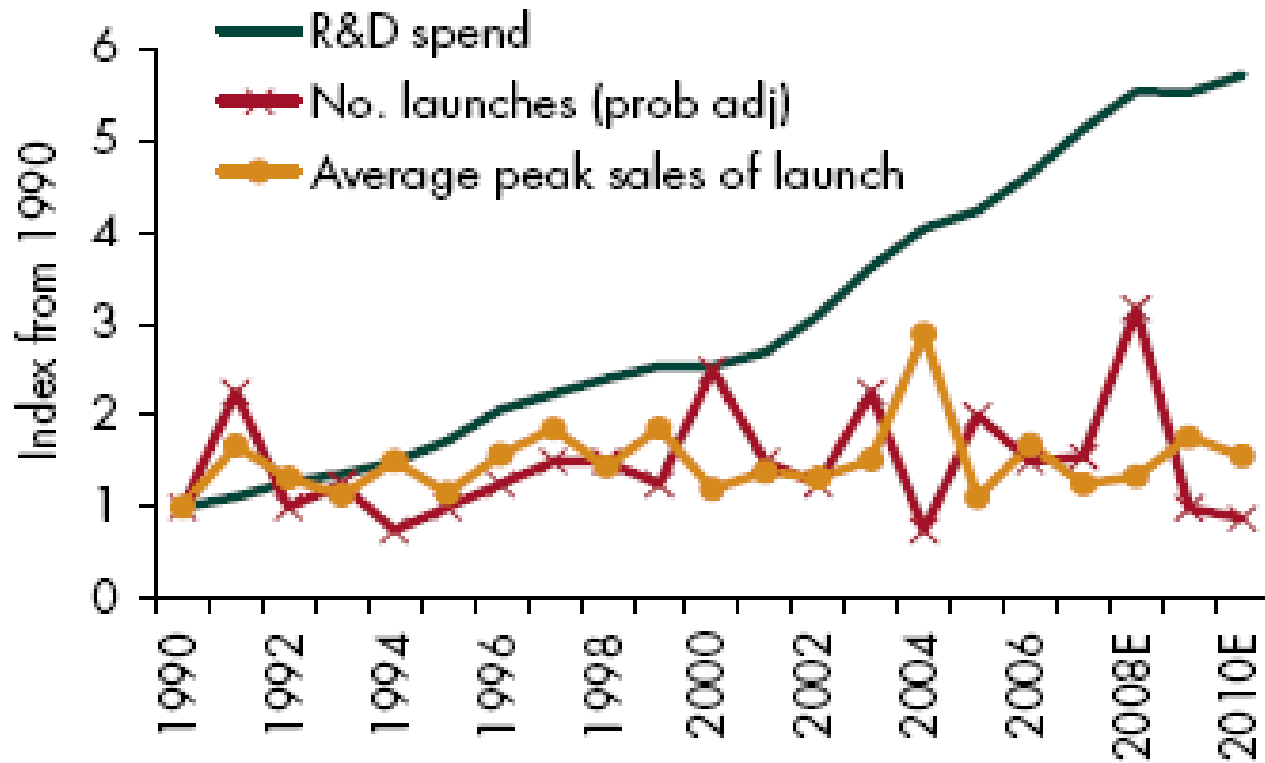


Source: IMS R&D Focus & New Product Focus; Market Insights, Mar 2007



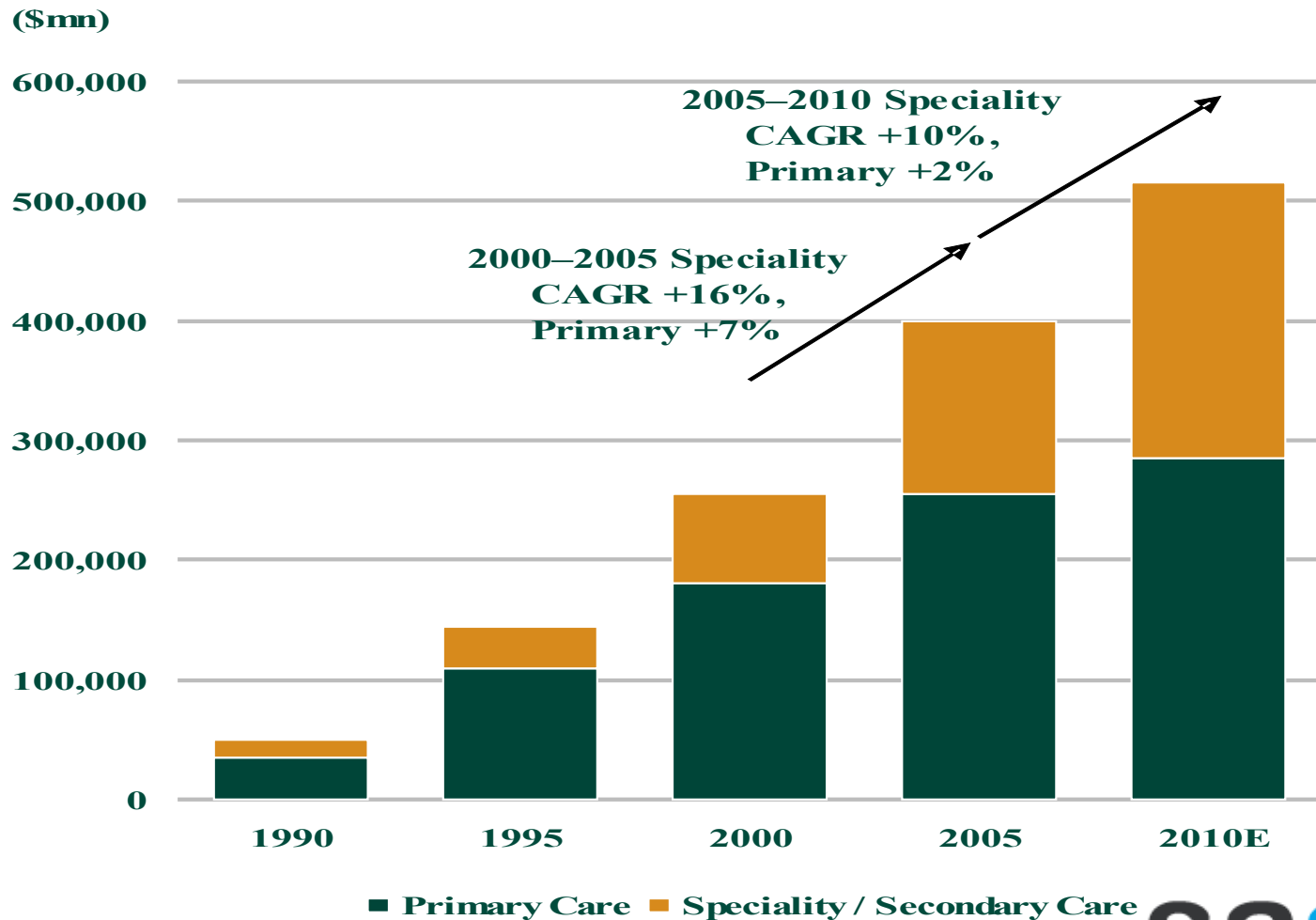
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# R&D Productivity Remains Poor



Source: Lehman Brothers research

# Specialty/Secondary Care is Key Driver of Growth



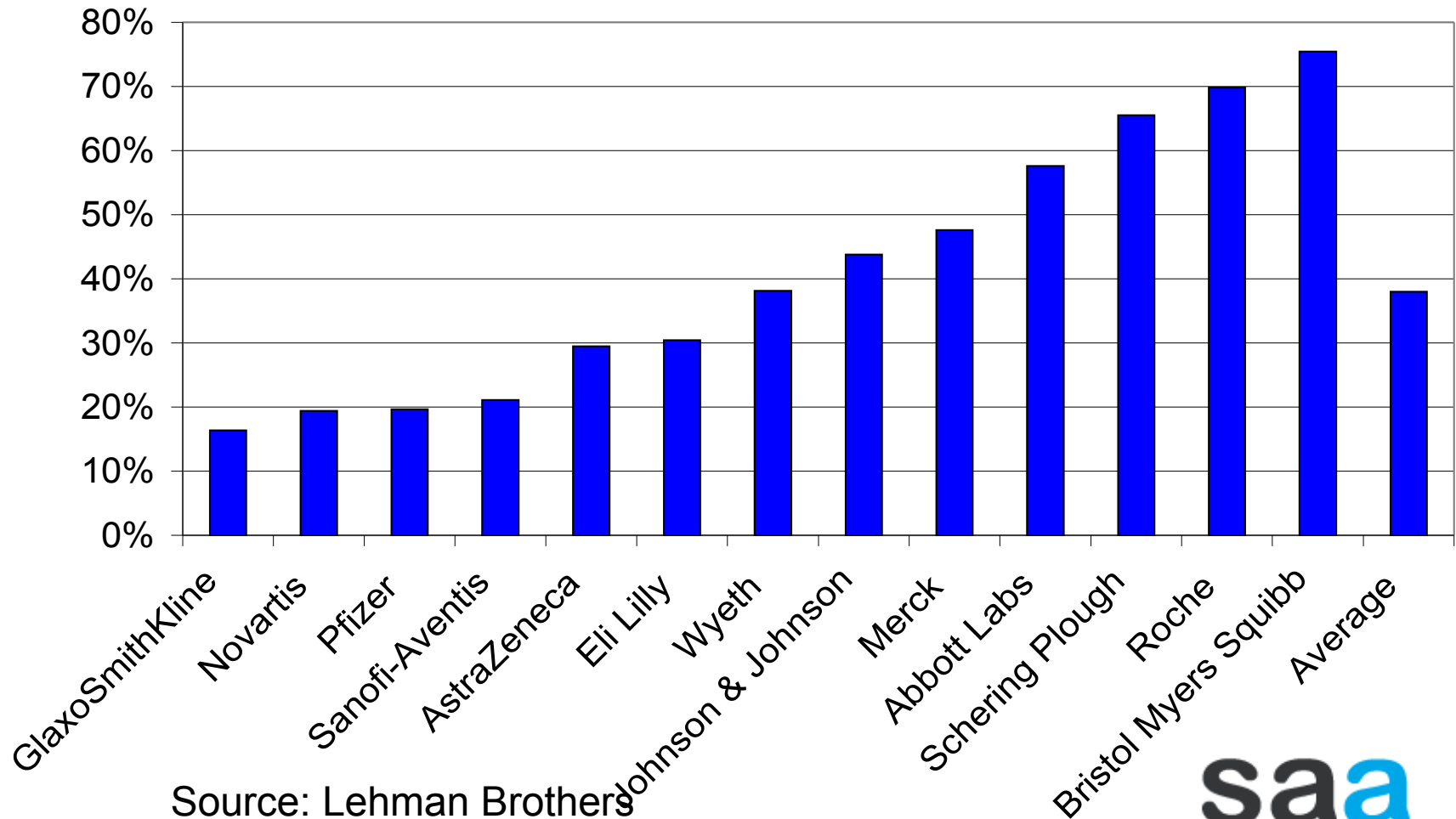
Source: Lehman Brothers  
Pharmaceuticals Research



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# Big Pharma's Reliance on Partnerships

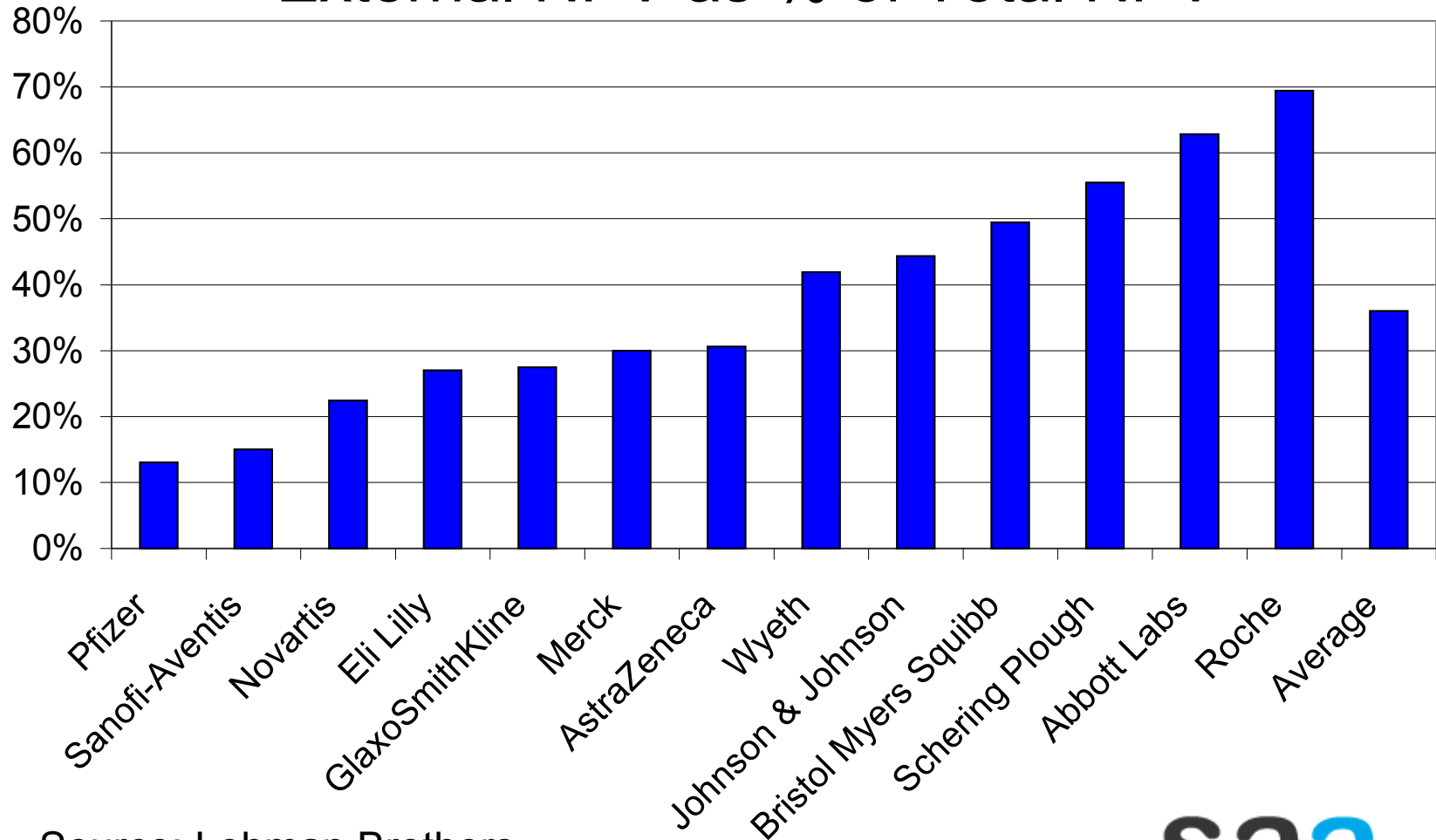
## External Sales as % of Total Sales



Source: Lehman Brothers  
PharmaPipelines, July 2008

# Big Pharma's Reliance on Partnerships

External NPV as % of Total NPV

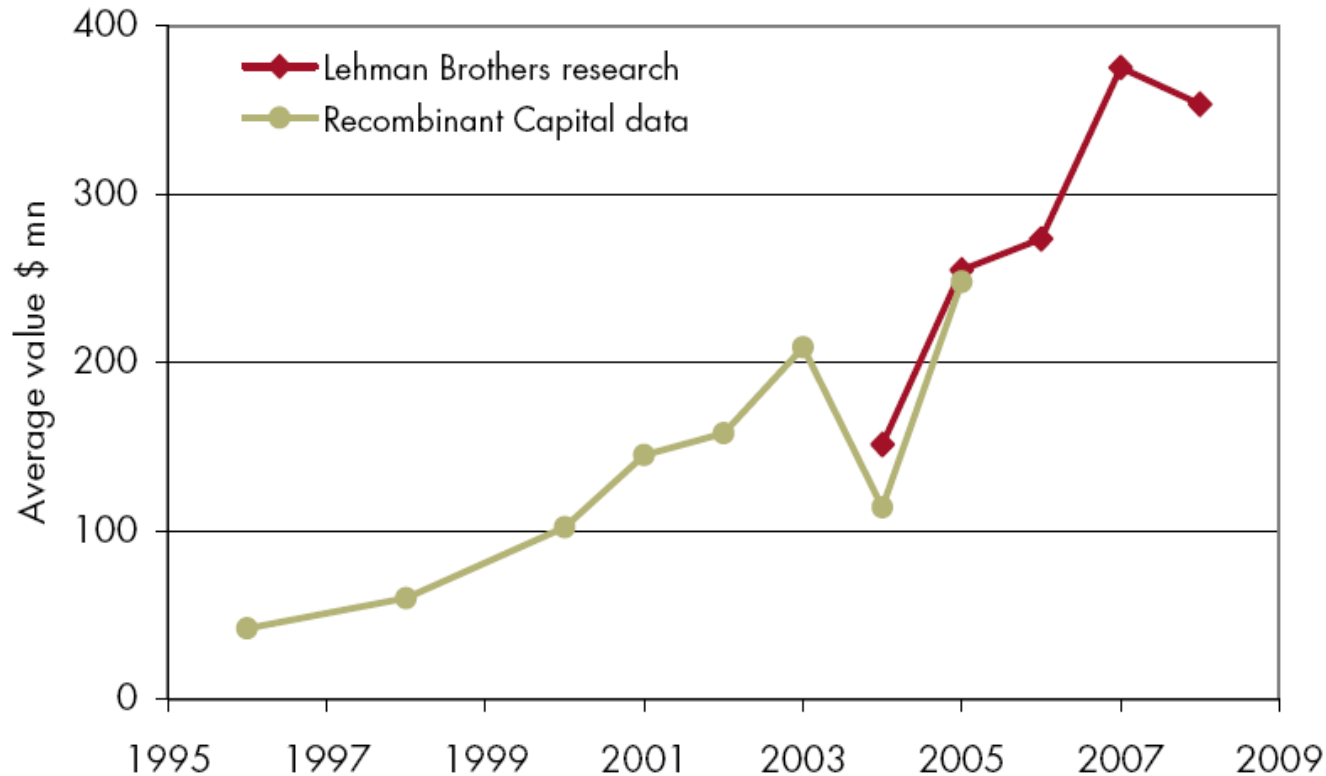


Source: Lehman Brothers  
PharmaPipelines, July 2008



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# Average Deal Values Peaked?

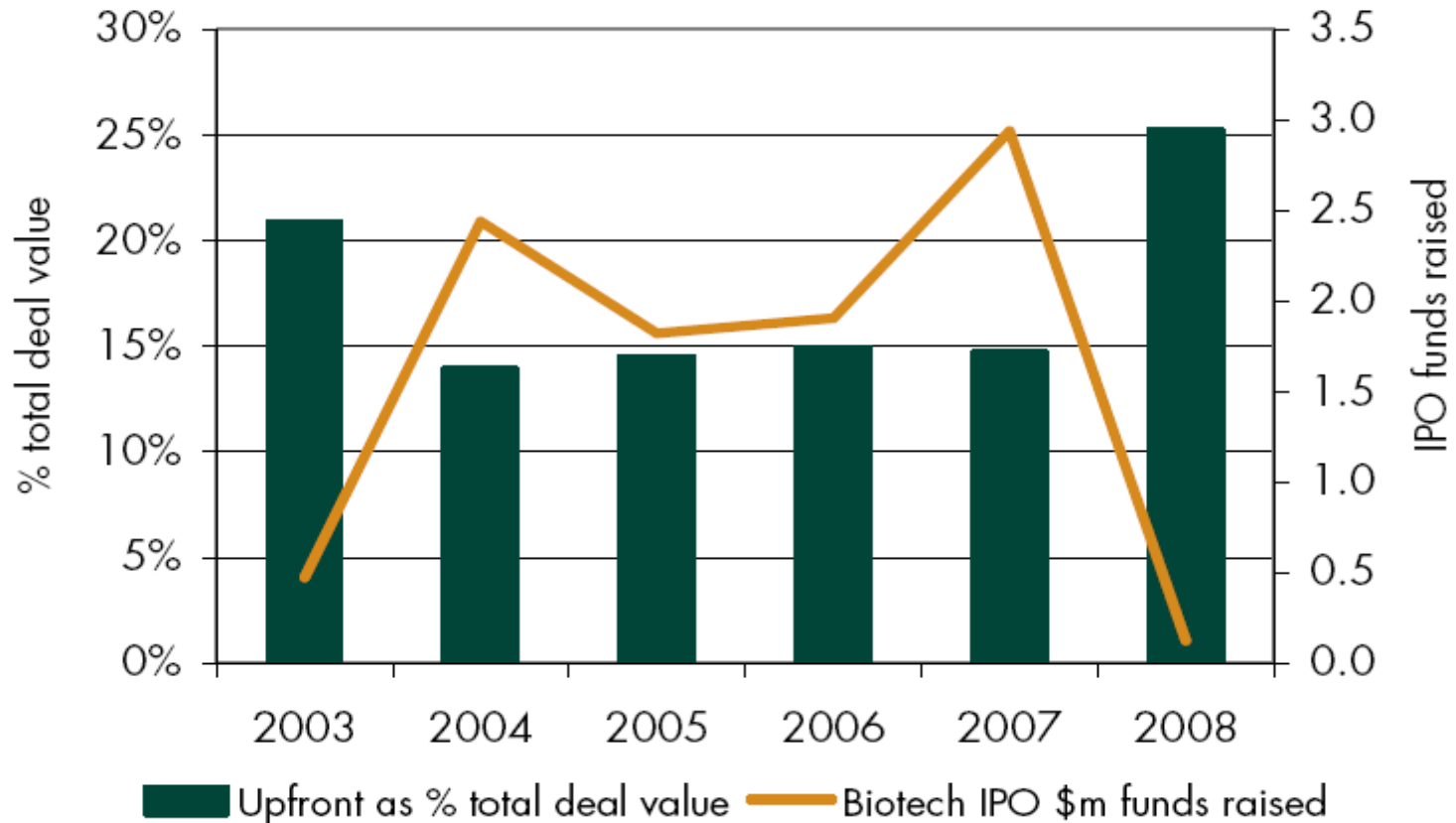


Source: Recombinant Capital, Lehman Brothers research. 2008 figure is to 31 July



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# Upfront Fees Rising as % of Total Deal Value

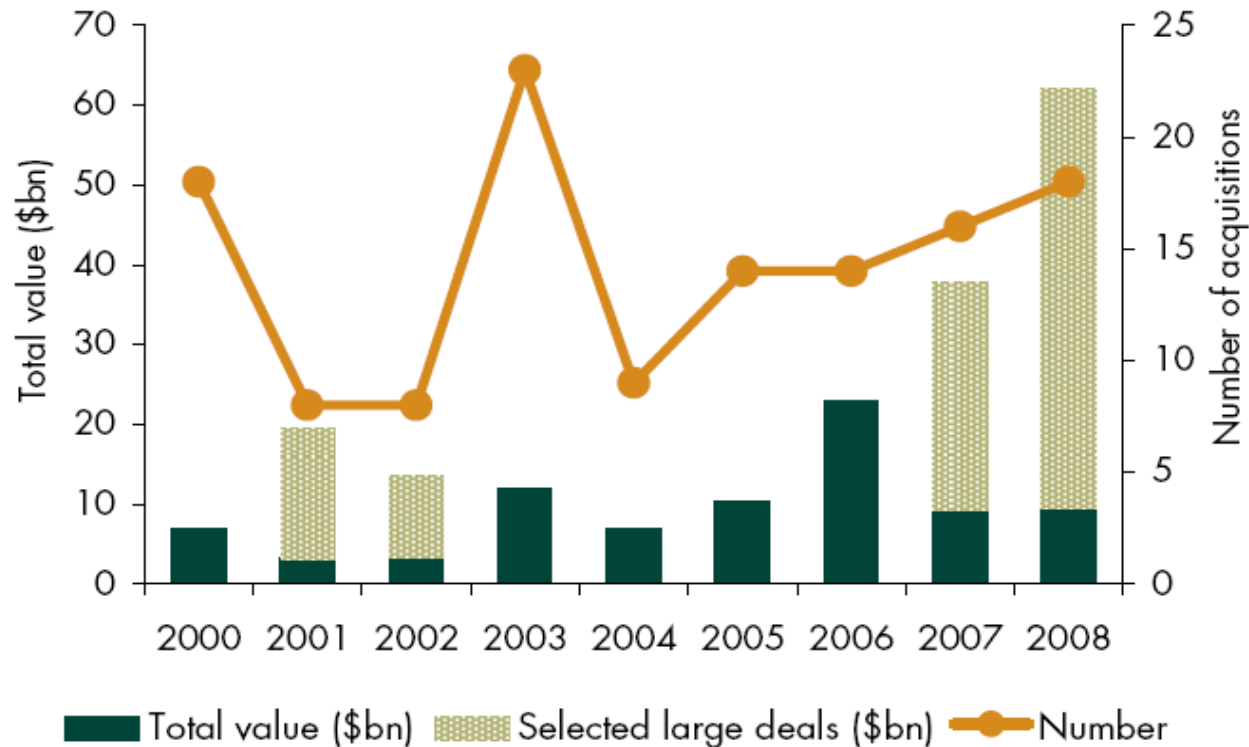


Source: Lehman Brothers research. 2008 figure is to 31 July



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# Acquisition of Public Biotechs Rising

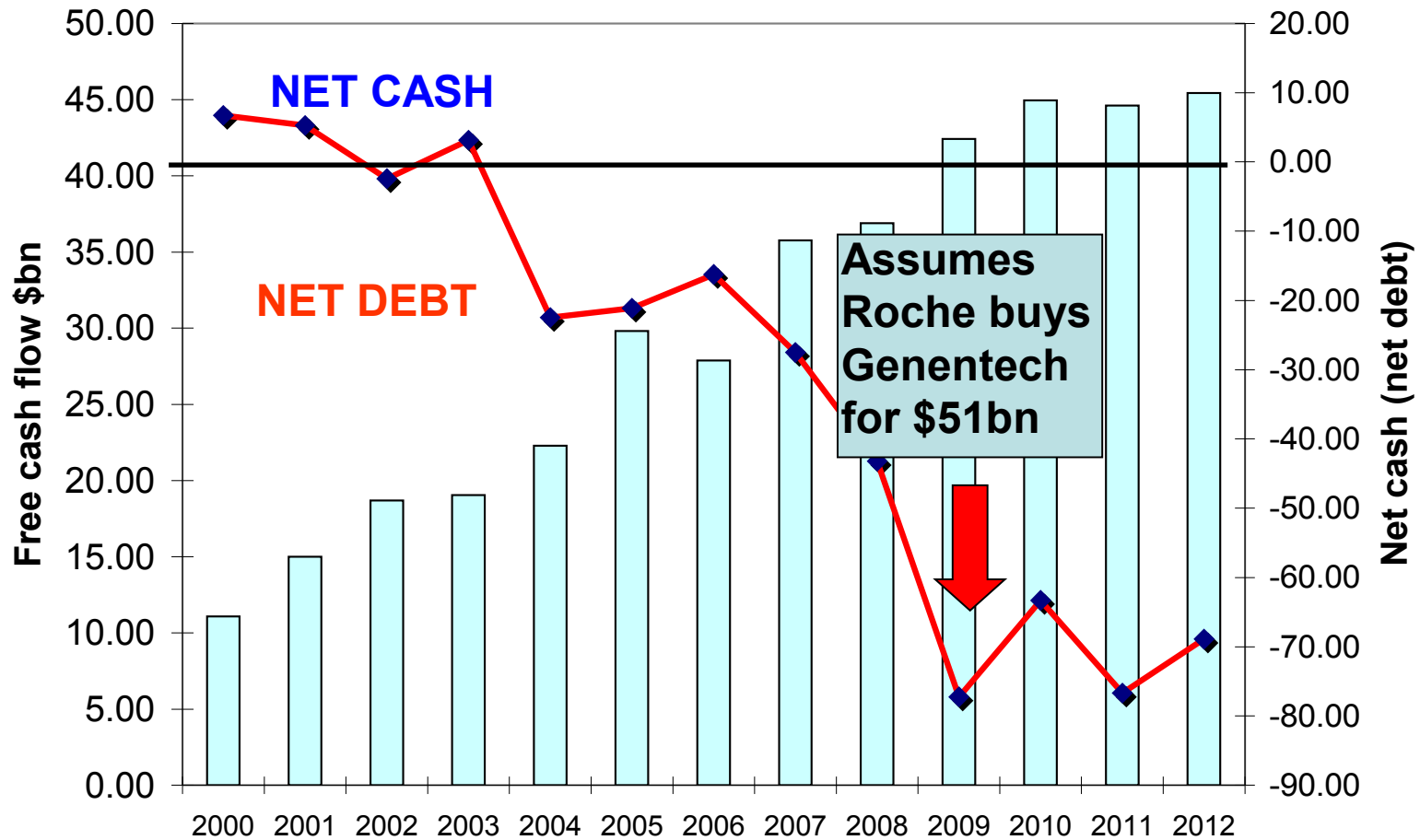


Source: Lehman Brothers research and BioCentury. 2008 figures are to 31 July and include the c.\$44bn and c.\$4.5bn announced potential acquisitions of Genentech and ImClone by Roche and BMS, respectively



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# Big Pharma Using Its Balance Sheet (Top 5 European Pharmas)



Source: Lehman Brothers



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# Do Pharma's Changes Amount To A Change in Business Model?

- Better use of balance sheet
- Shift in selling effort to Key Accounts
- Multiple partnerships/alliances to boost pipeline and marketed product portfolio
- Low cost manufacturing in India etc
- Extensive use of CROs

*No: these are adaptations rather than fundamental business model changes*



# What Must Pharma Consider Changing?

- Big pharma needs to address the following issues:
  - Payor Funding/Affordability to Patient
  - Guarantee of Treatment Outcome/Value Proposition
  - Alignment of Industry Objectives with Societal/Patient Objectives



# Sources of Profits Growth

- New products and services
  - Pay per performance/outcome guarantees, behaviour modification/disease management/compliance programmes
- New customers
  - Emerging markets, employer health programmes, secondary brands, tiered pricing, private pay etc
- New cost base
  - R&D, COGS, SG&A
  - internal vs external, modular business vs fully integrated

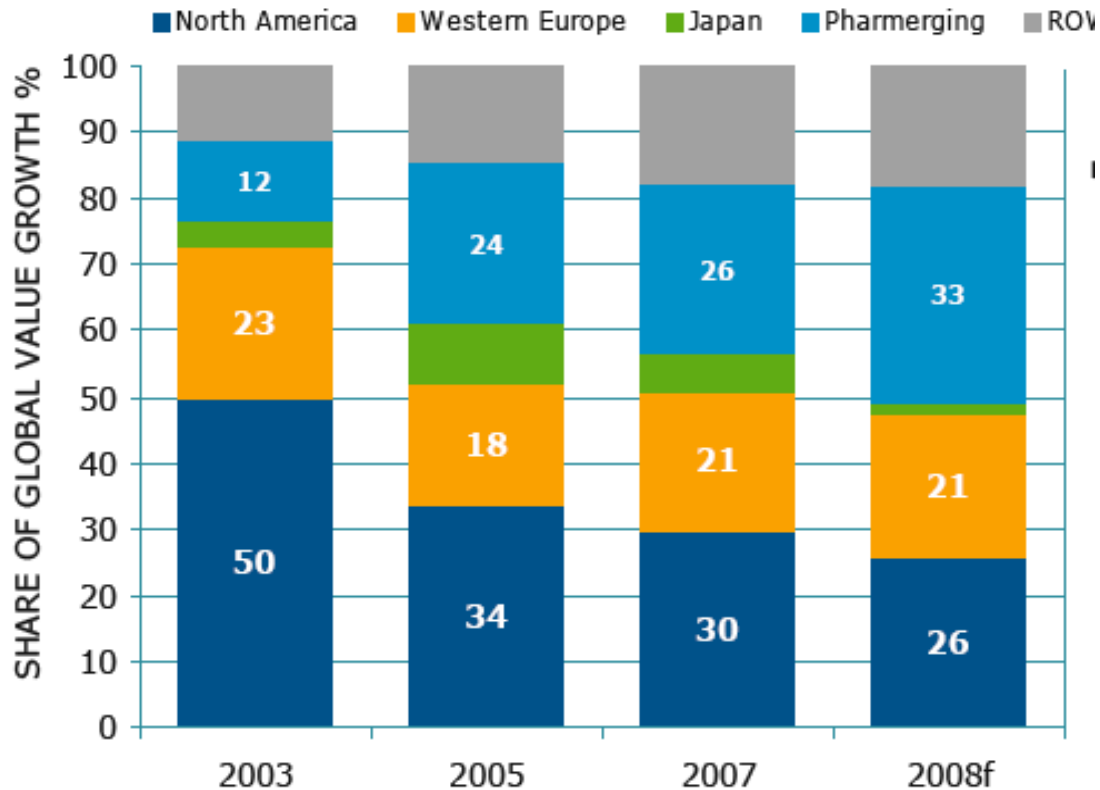


# Emerging Markets Represent a High Priority For Big Pharma



# Emerging Markets Looking Strong

**Contribution to Global Growth, US\$**



# AstraZeneca Redefines its Sales Mix

## Regional sales performance FY 07

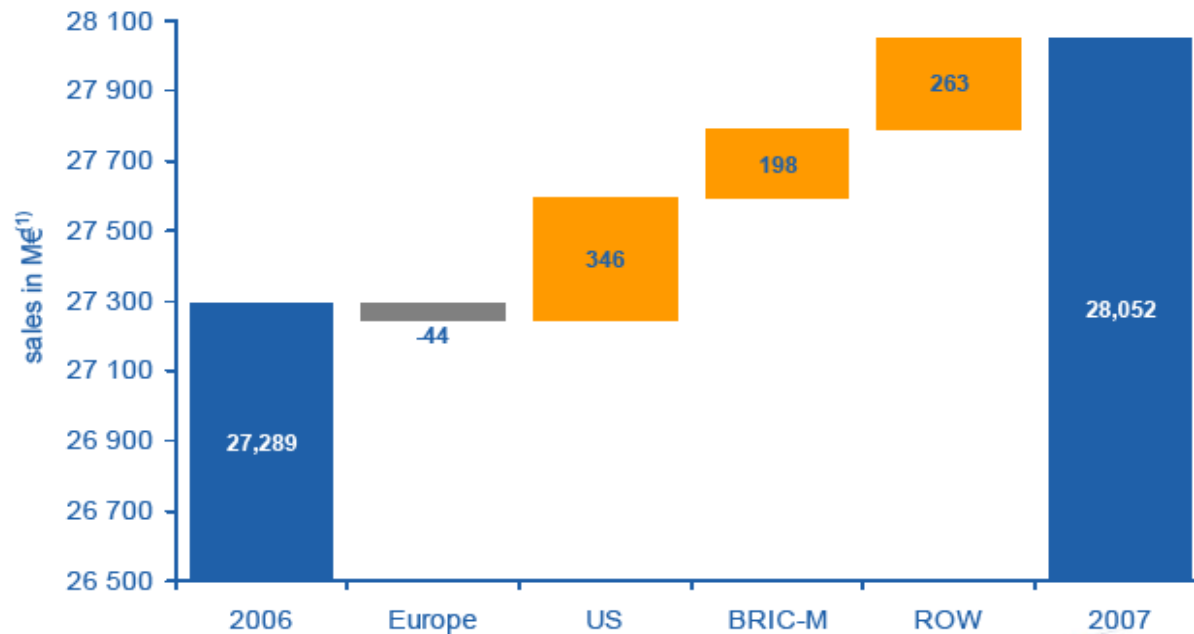


	2007 \$m	CER growth
<b>Sales</b>	<b>29,559</b>	<b>+7%</b>
<b>North America</b>	<b>14,511</b>	<b>+7%</b>
US	13,366	+7%
<b>ROW Established Markets</b>	<b>11,491</b>	<b>+5%</b>
Western Europe	9,115	+3%
Japan	1,661	+11%
Other Established	715	+15%
<b>ROW Emerging Markets</b>	<b>3,557</b>	<b>+17%</b>

# Sanofi-Aventis Talks About Emerging Markets



Broad based contribution by regions, increasing importance of emerging markets



(1) Comparable sales

33



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# Pfizer Identified Emerging Markets As One of Three Key Growth Opportunities



**Growth Opportunities**

**Accelerating Growth in Emerging Markets**

**Unlocking Value in Established Products**

**Optimizing the Patented Portfolio**

OUR PATH  
**Forward**

**saa**

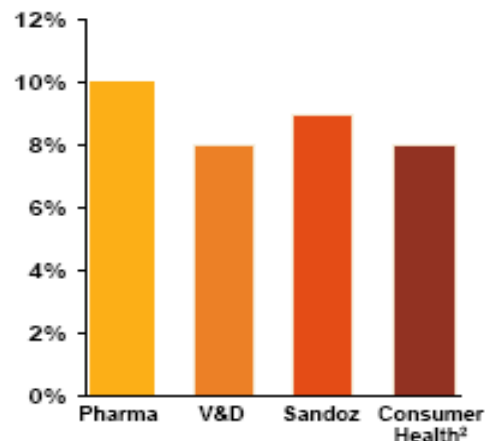
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# Novartis Highlights Superior Growth From Emerging Markets

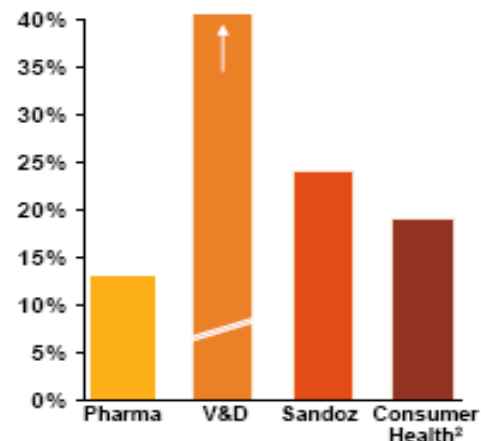
Emerging growth markets (EGM<sup>1</sup>) comprise 9% of Novartis net sales<sup>2</sup>, growing 17% in 2007

Growth rate in EGM +17% LC<sup>3</sup>, nearly three times Group net sales growth rate

EGM sales as % of total



EGM sales growth rate in LC<sup>3</sup>



<sup>1</sup> Emerging growth markets: Russia, Turkey, Brazil, Mexico, India, China, South Korea

<sup>2</sup> Continuing operations, excluding Nutrition & Santé, Medical Nutrition and Gerber


<sup>3</sup> Local currency

© | 2007 Annual Results Analyst Conference | Raymond Breu | January 17, 2008



# Emerging Markets Require New Thinking

- Tiered pricing
- Volume-price trade-offs
- Secondary brands?
- Working with local partners
- Innovative distribution agreements
- Public Private Partnerships
- Advanced market commitments/  
• advanced purchase agreements
- Etc, etc, etc



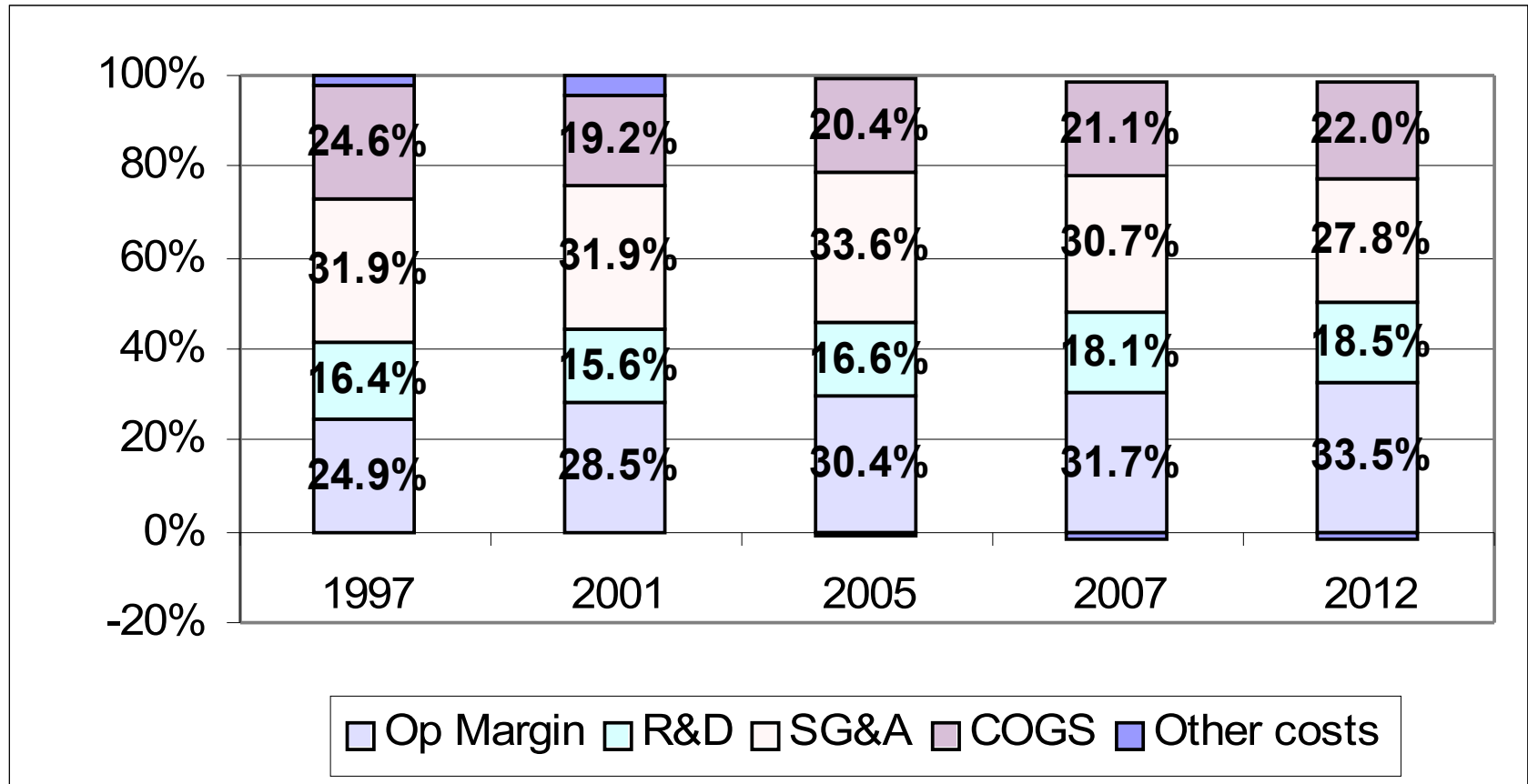
Look  
out for  
these!



Sales and Marketing Remains The  
Largest Cost Driver But For How Long?



# Big Reduction in SG&A Maintains Margin

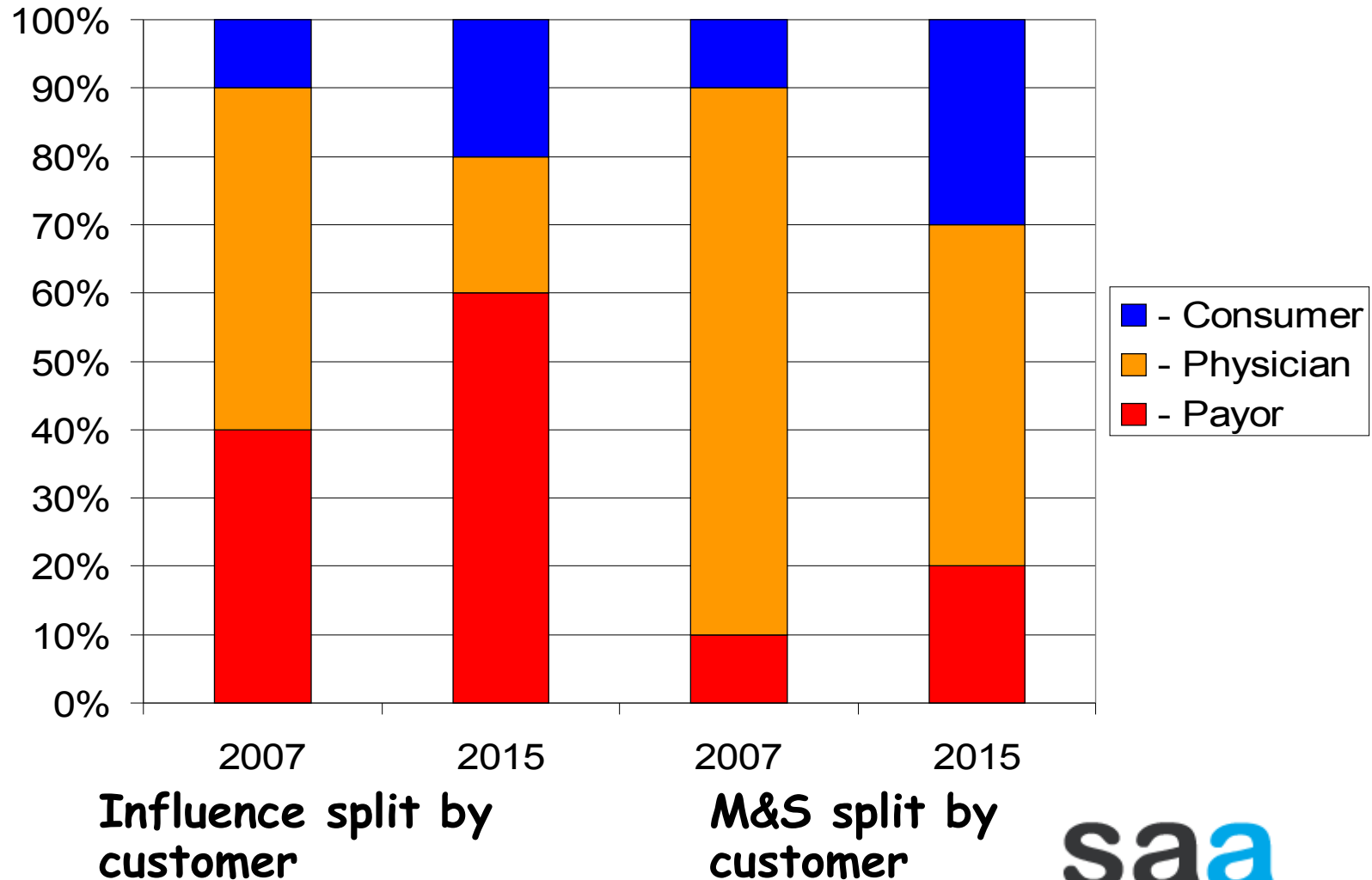


Source: Lehman Brothers; Top 10 Pharma Companies Cost Structure

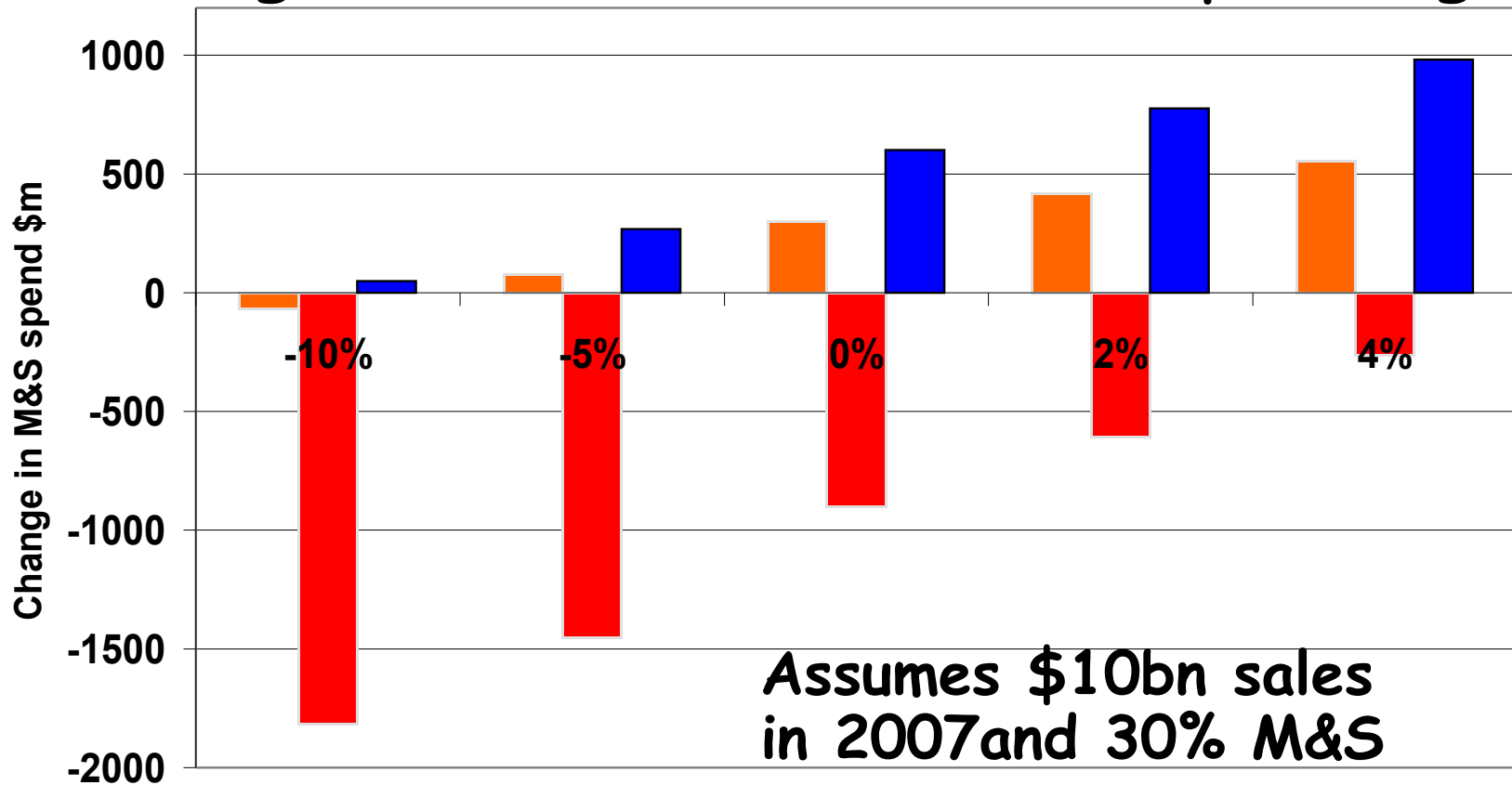


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# Growing Influence of Payor but M&S Spending Remains Focused on Physician



# Changes in Customer Influence will Change Distribution of M&S Spending



## Growth in Primary Care Sales

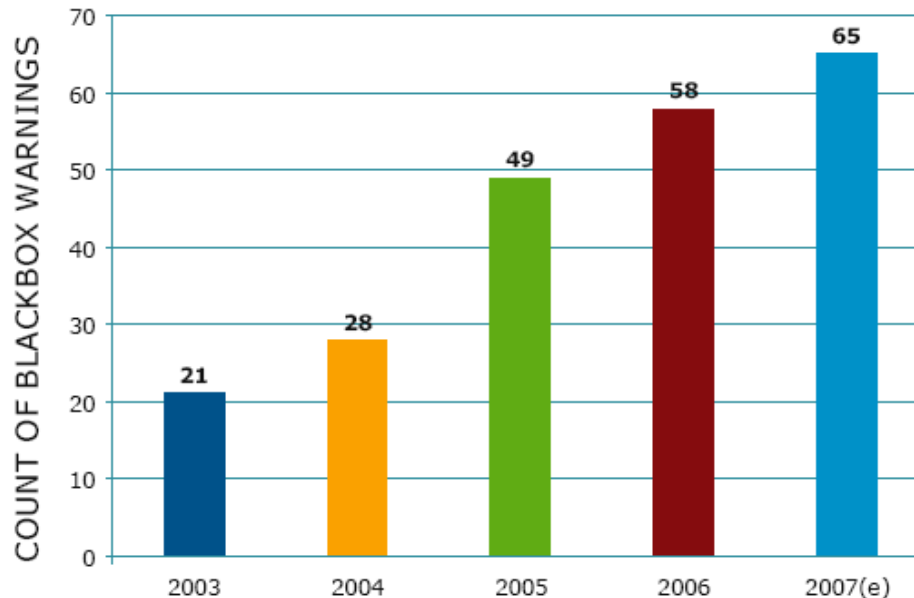
■ - Payor 
 ■ - Physician 
 ■ - Consumer



# Rising Costs of Late Stage Clinicals and Increased Regulatory Risk Encourages Risk Sharing



# FDA Raising the Safety Bar?



2007(e) is an estimate based on FDA Safety Alerts through December 2007

## Major boxed warnings in 2007

- Glitazones (Avanida, Actos)
- Epoetins (Procrit, Epogen, Aranesp)
- Antidepressants (Wellbutrin, Paxil, Effexor, Cymbalta, Prozac)
- Other blockbuster products: Humira, Lotrel, Diovan, Tekturna, CellCept, Evista

Source: FDA MedWatch, Feb 2008

2007 IMS Year in Review



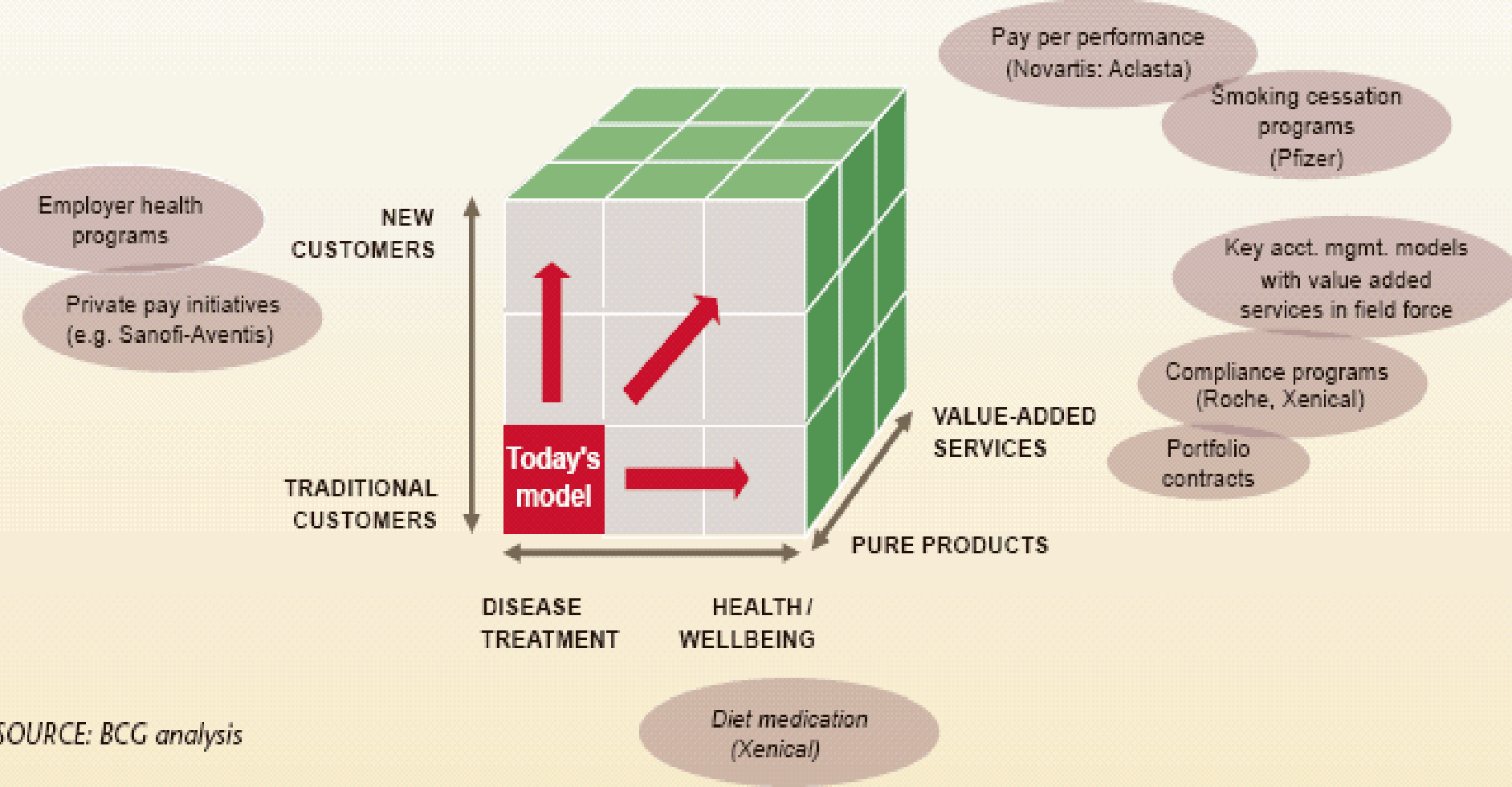
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# Bayer- Regeneron Deal

- Bayer pays Regeneron \$75m upfront
- \$250m shared development costs
- If approval ex-US then Bayer will be reimbursed 50% of R&D expenses
- 



# Business Model Opportunity Space Largely Unexploited



SOURCE: BCG analysis

# Business Model Change Is Slow

- Change requires
  - Strategic vision
  - Leadership and courage to be first mover
  - Sufficient scale for thorough test of new model
  - Flexibility to adapt the model to the environment

*Other Industries Have Changed Model;  
Why Not Pharma?*

