

# An Update on Global Pharma and the Continuing Role of ROI in Field Force Effectiveness

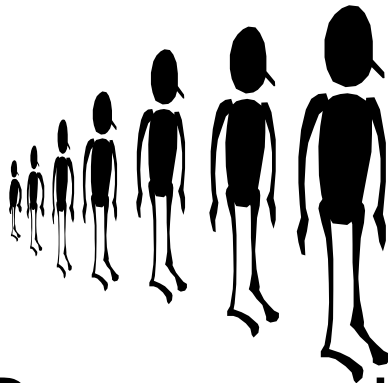
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# Discussion Points

- Seismic shifts in the pharmaceutical market
- The scale of patent expiries
- Stock market performance of pharma
- The role of emerging markets
- The shift in product mix
- The shift in customer mix
- The shift in age profile

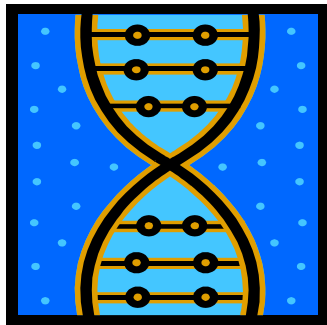
# Four seismic shifts in the global pharmaceutical market



Demographic



Geographic

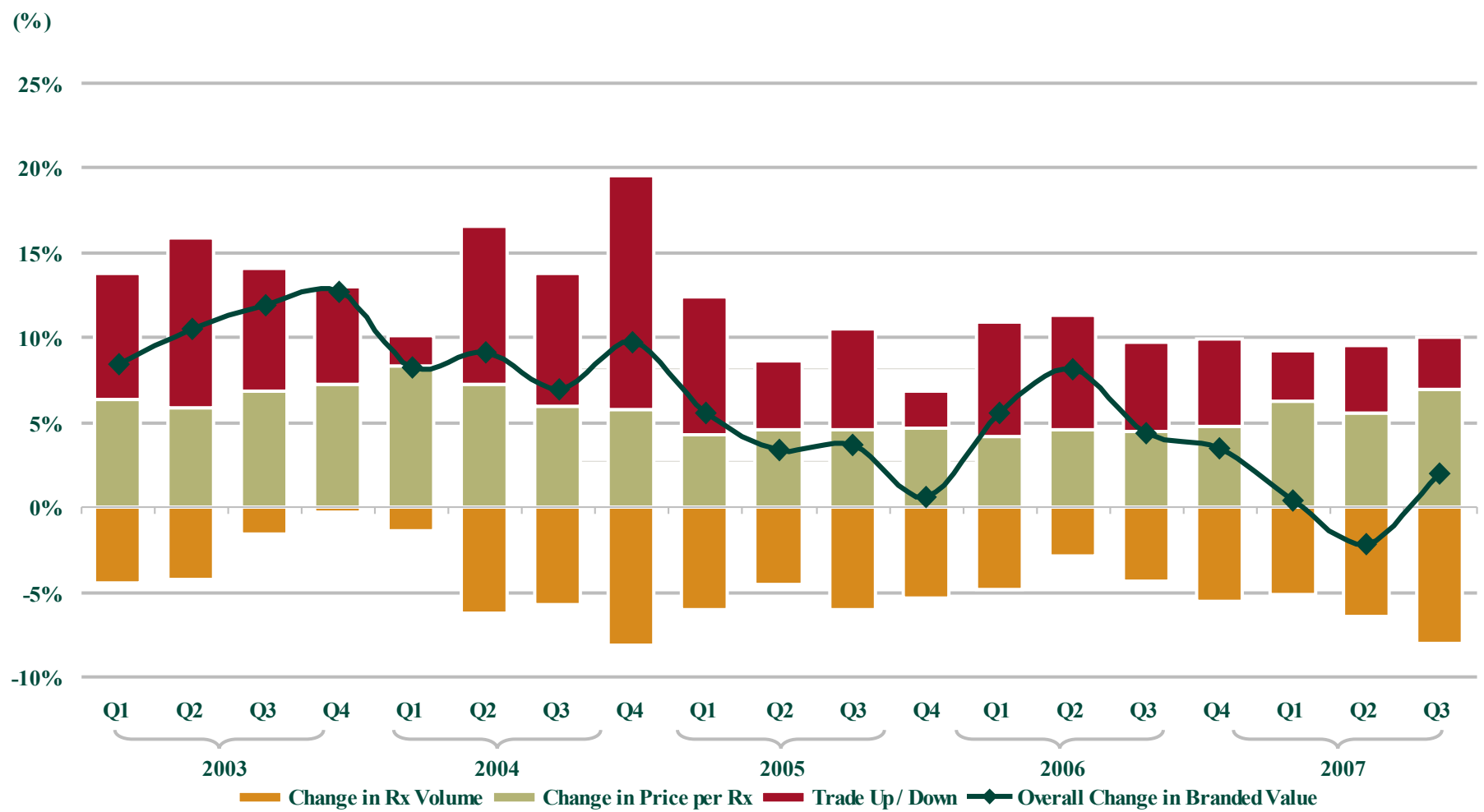


Technological



Expectational

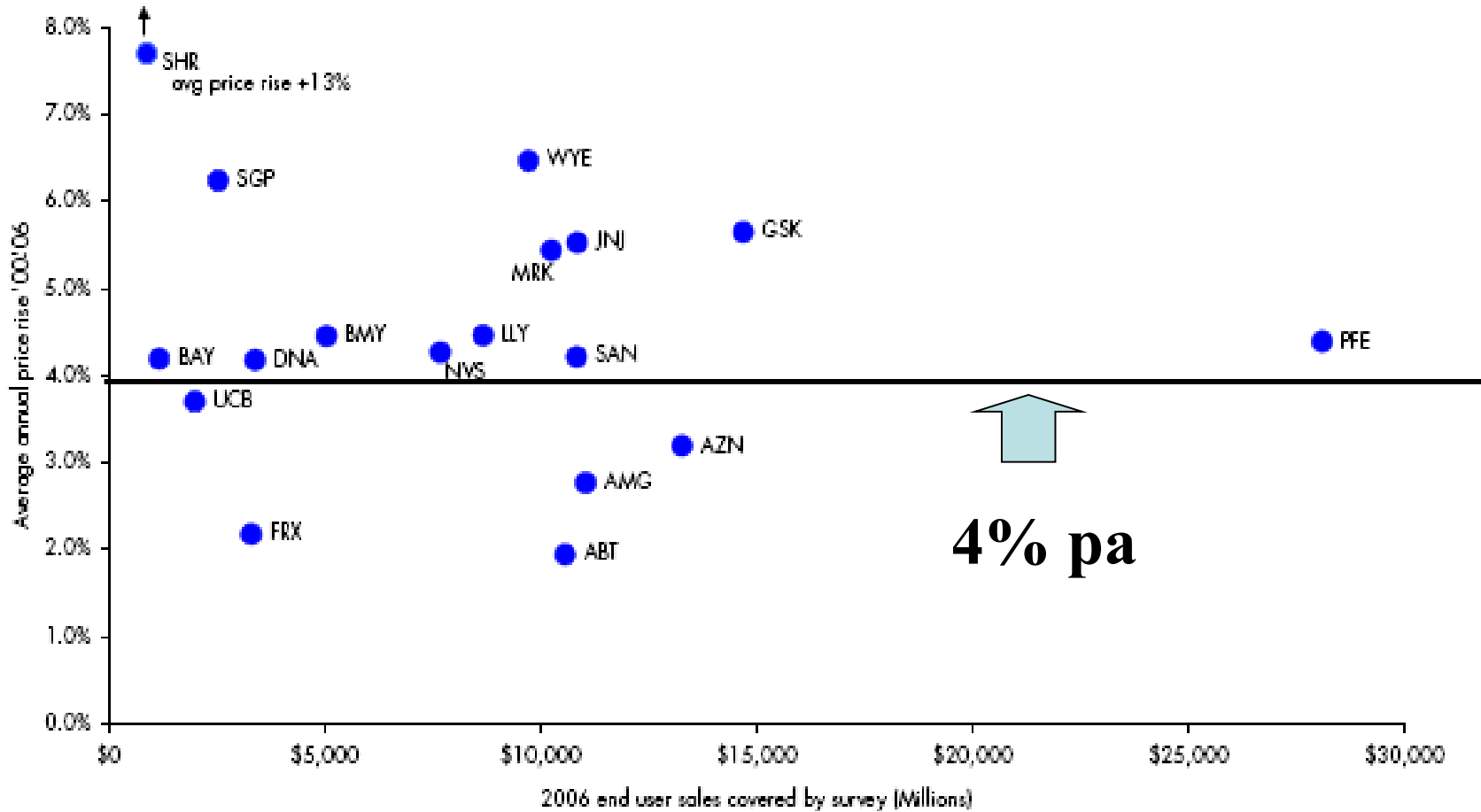
# US Branded Rx Volumes Still Down



Source: IMS, Lehman Brothers  
Pharmaceutical Research

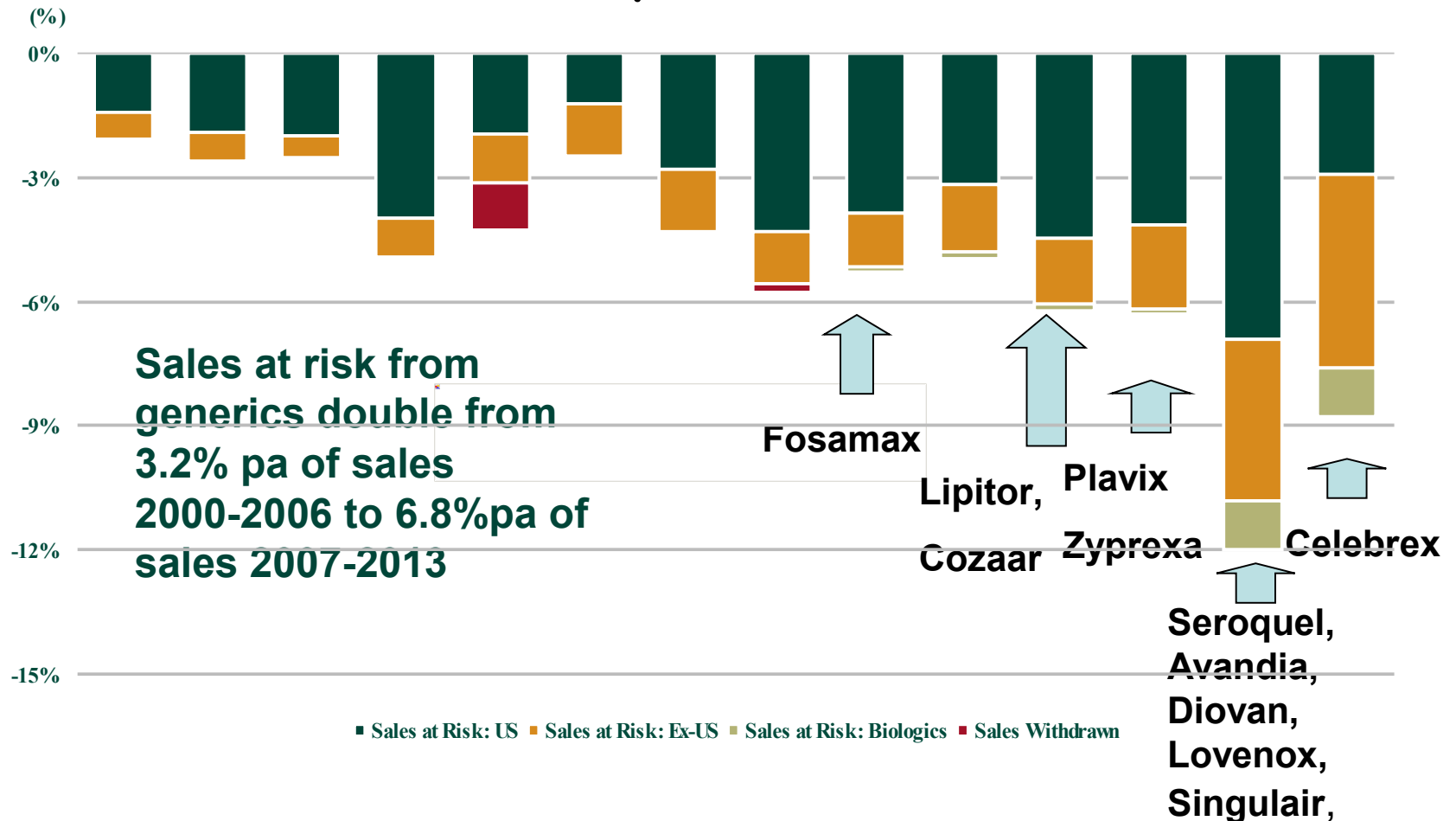
# Big Pharma Still Relies on Price Inflation in US

List Price inflation 2000-06 for major companies



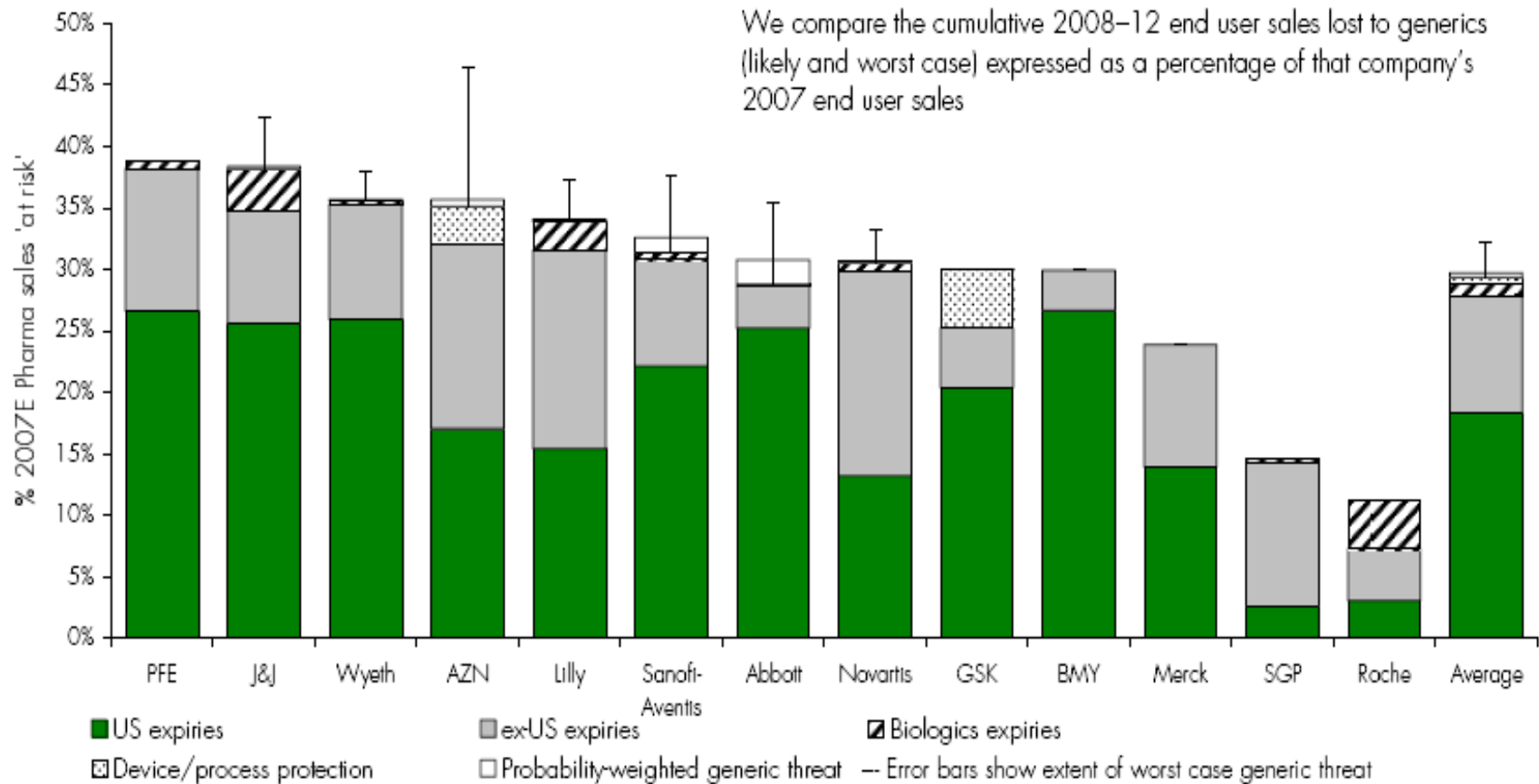
Source: First Data Bank, Company data,  
Lehman Brothers Research

# Patent Expiries are the Key Drivers of Slowdown



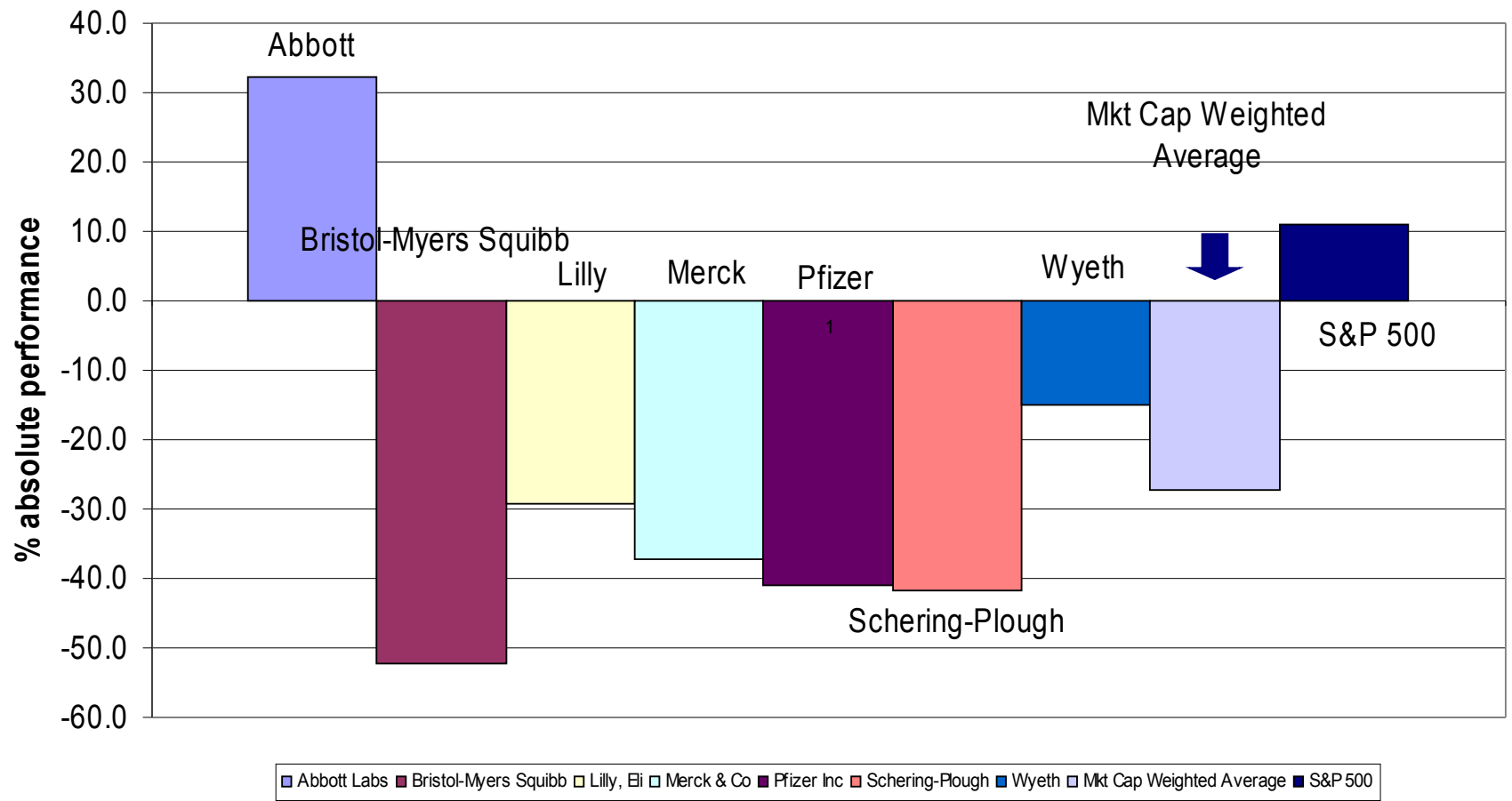
Source: Lehman Brothers Pharmaceutical Research

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

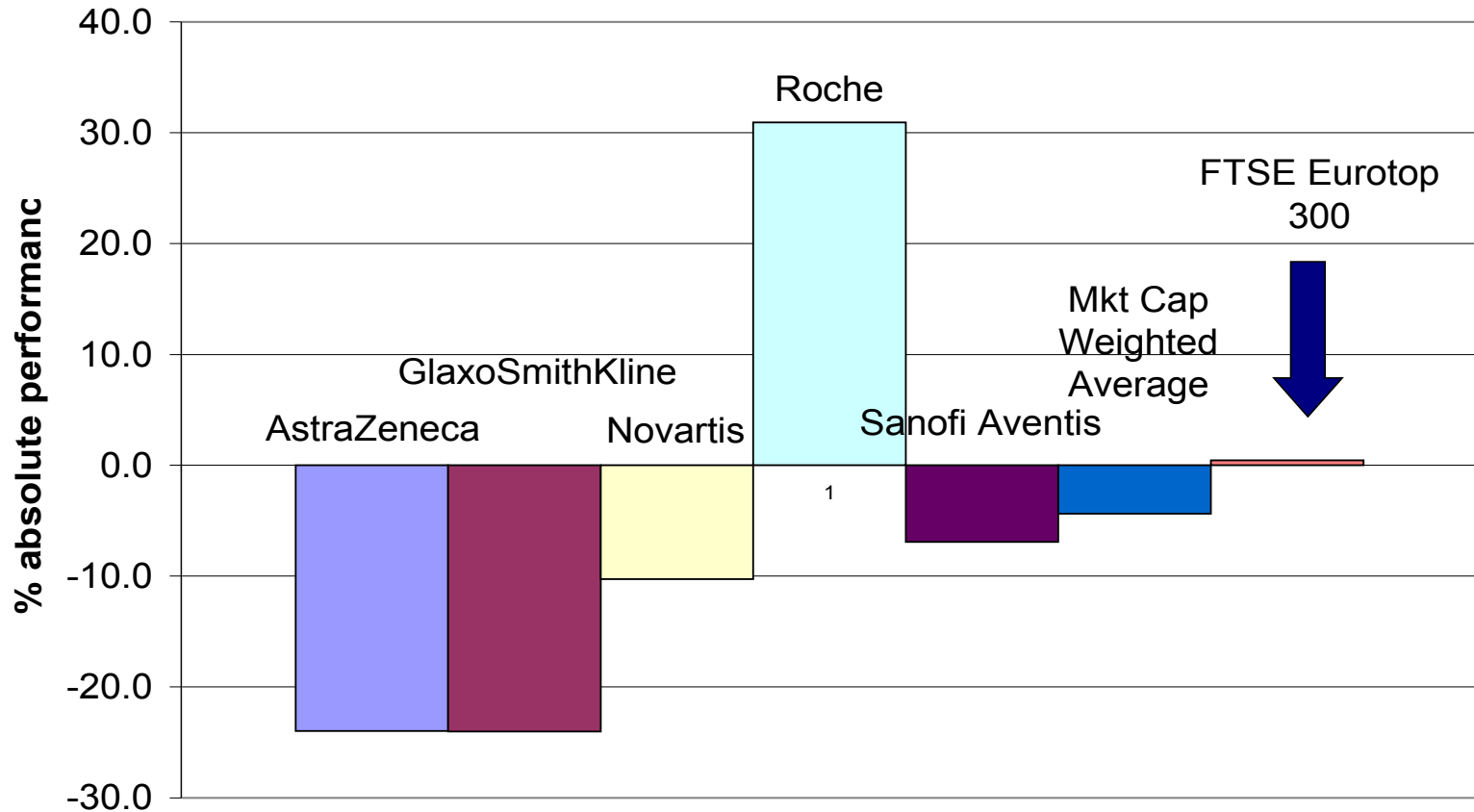


Source: Lehman Brothers Pharmaceutical Research

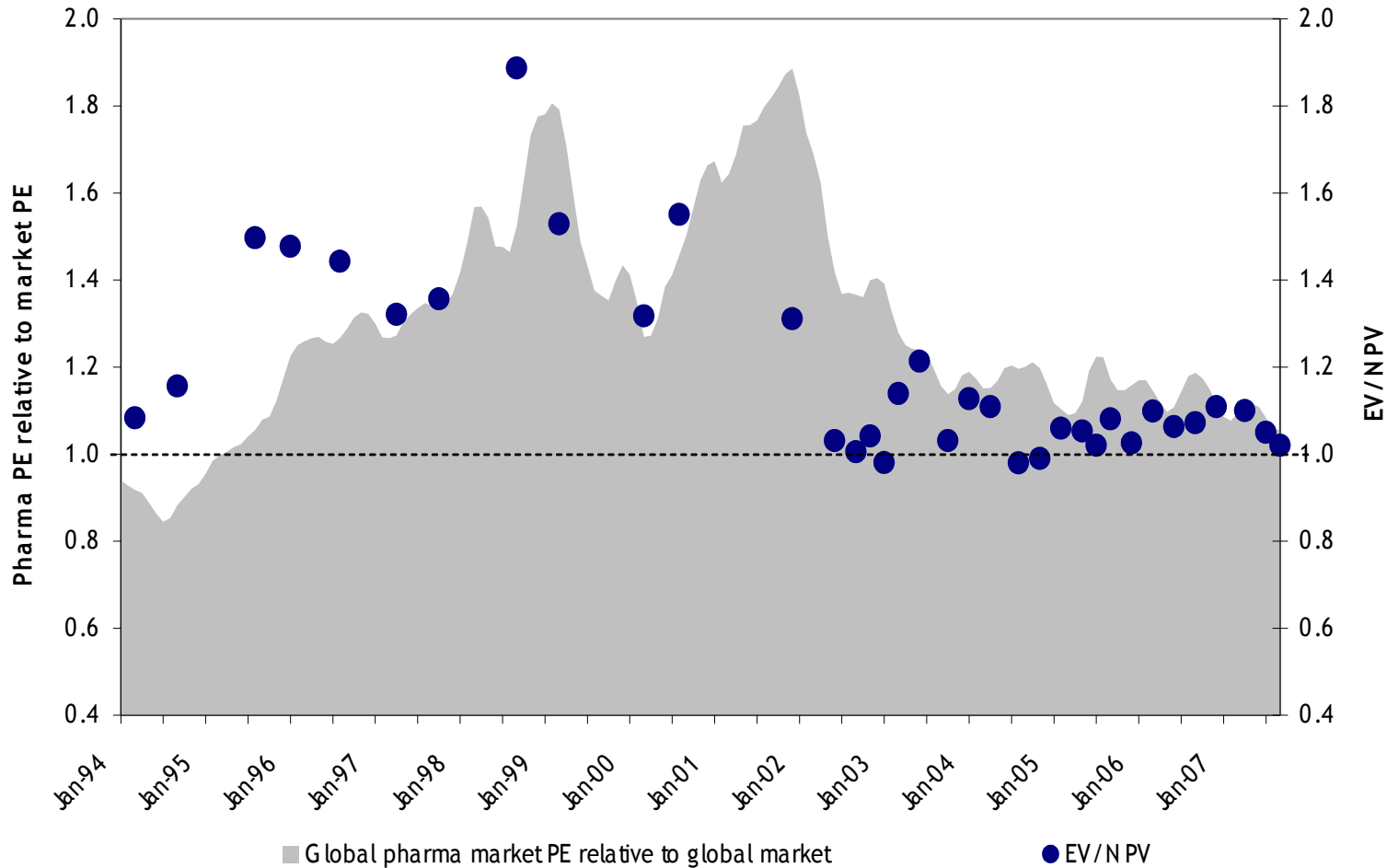
# Dismal Share Price Performance



# European Pharma Has Performed Better - But Still Badly

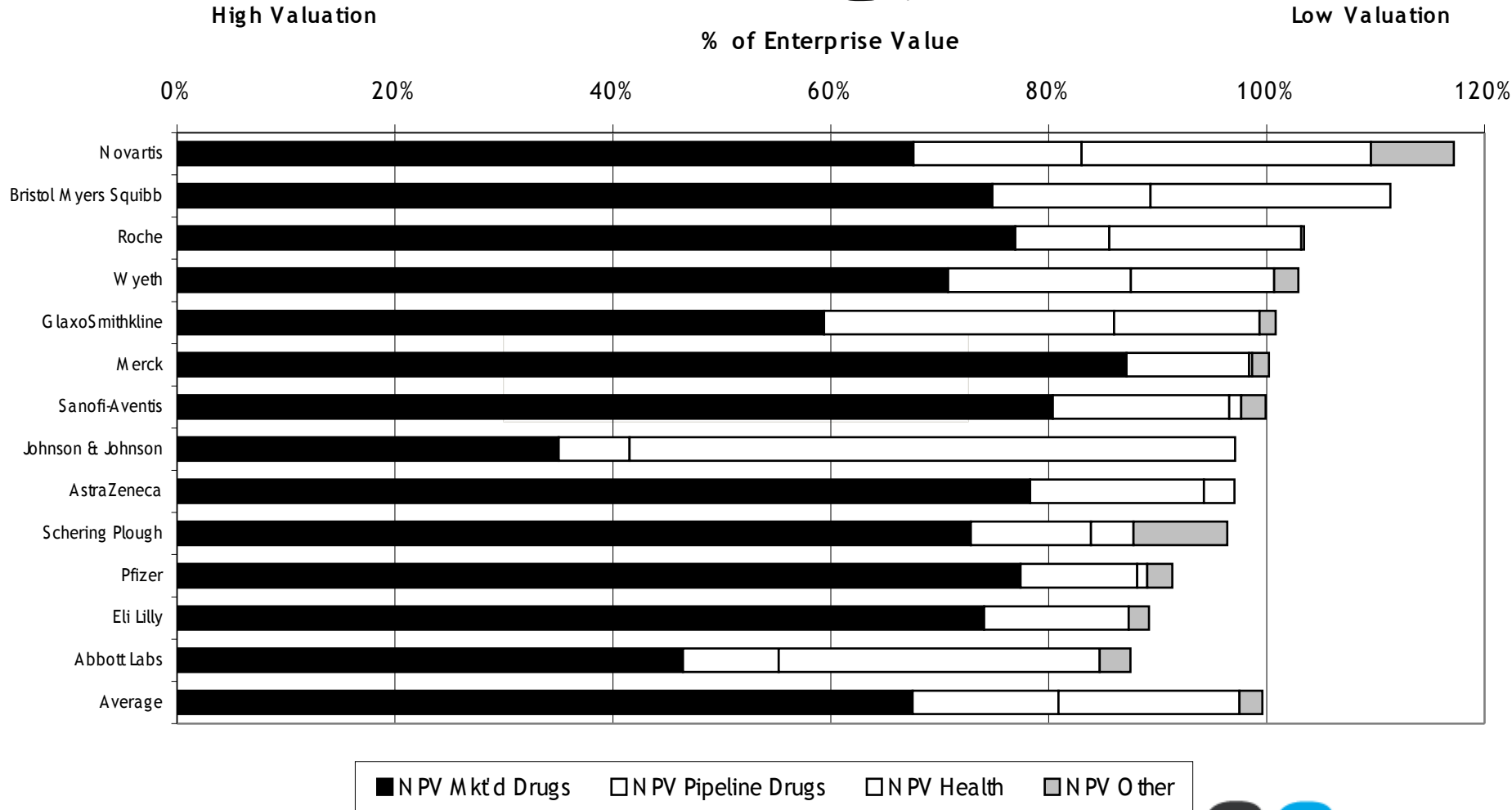


# Big Pharma Sector is Cheap



Source: Lehman Brothers PharmaPipelines

# Most Companies Offer NPV At Or Above EV



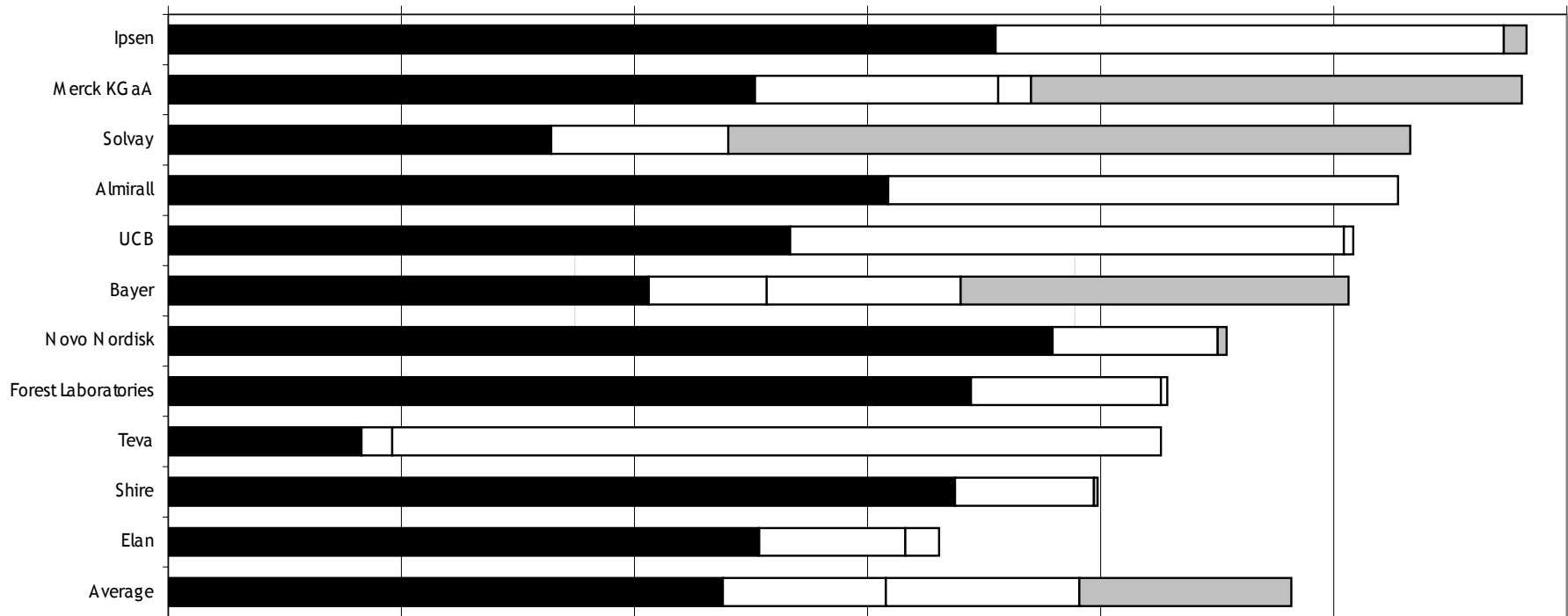
# Even Mid-cap Pharma Looks Cheap

High Valuation

Low Valuation

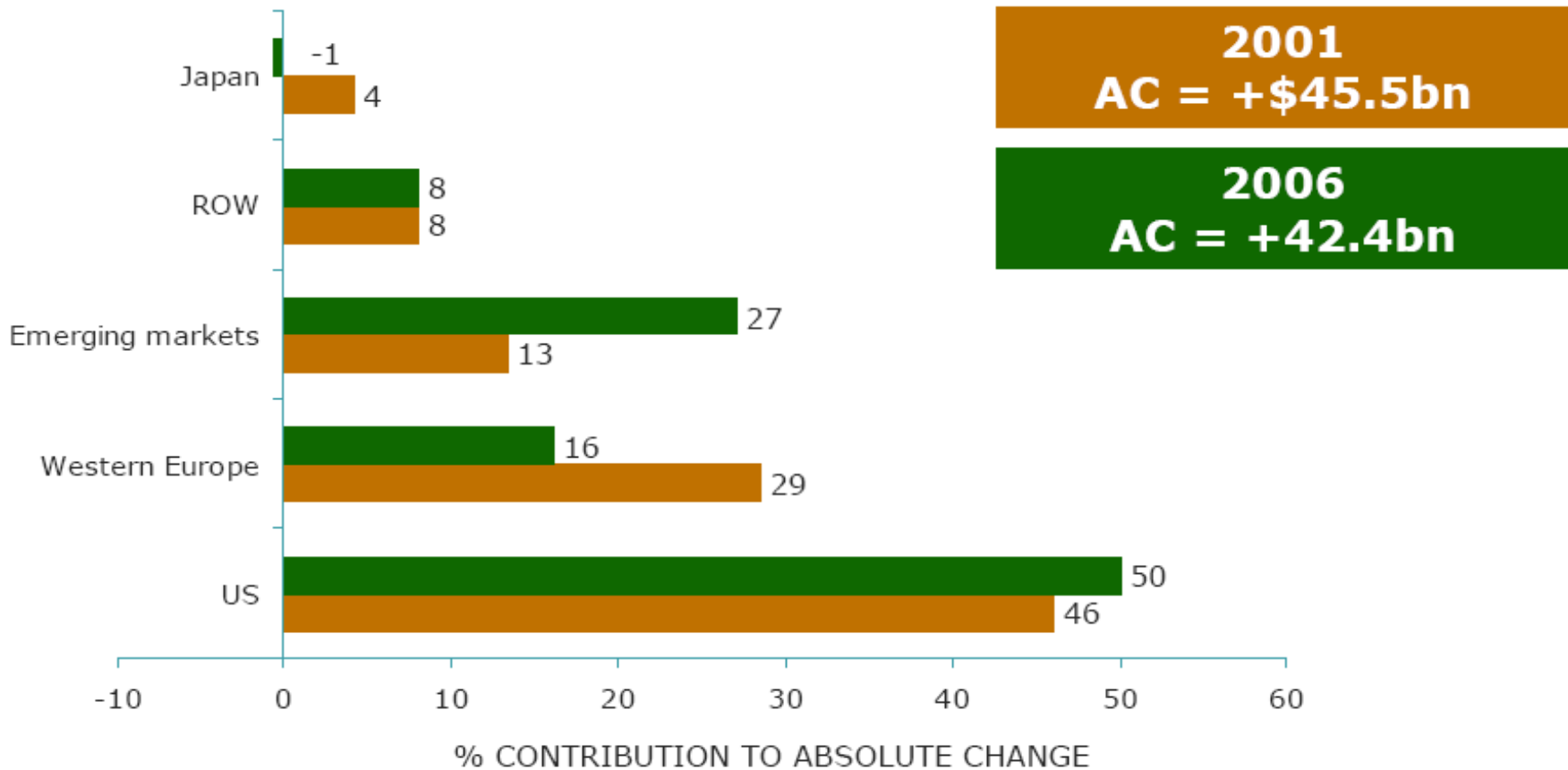
% of Enterprise Value

0% 20% 40% 60% 80% 100% 120%



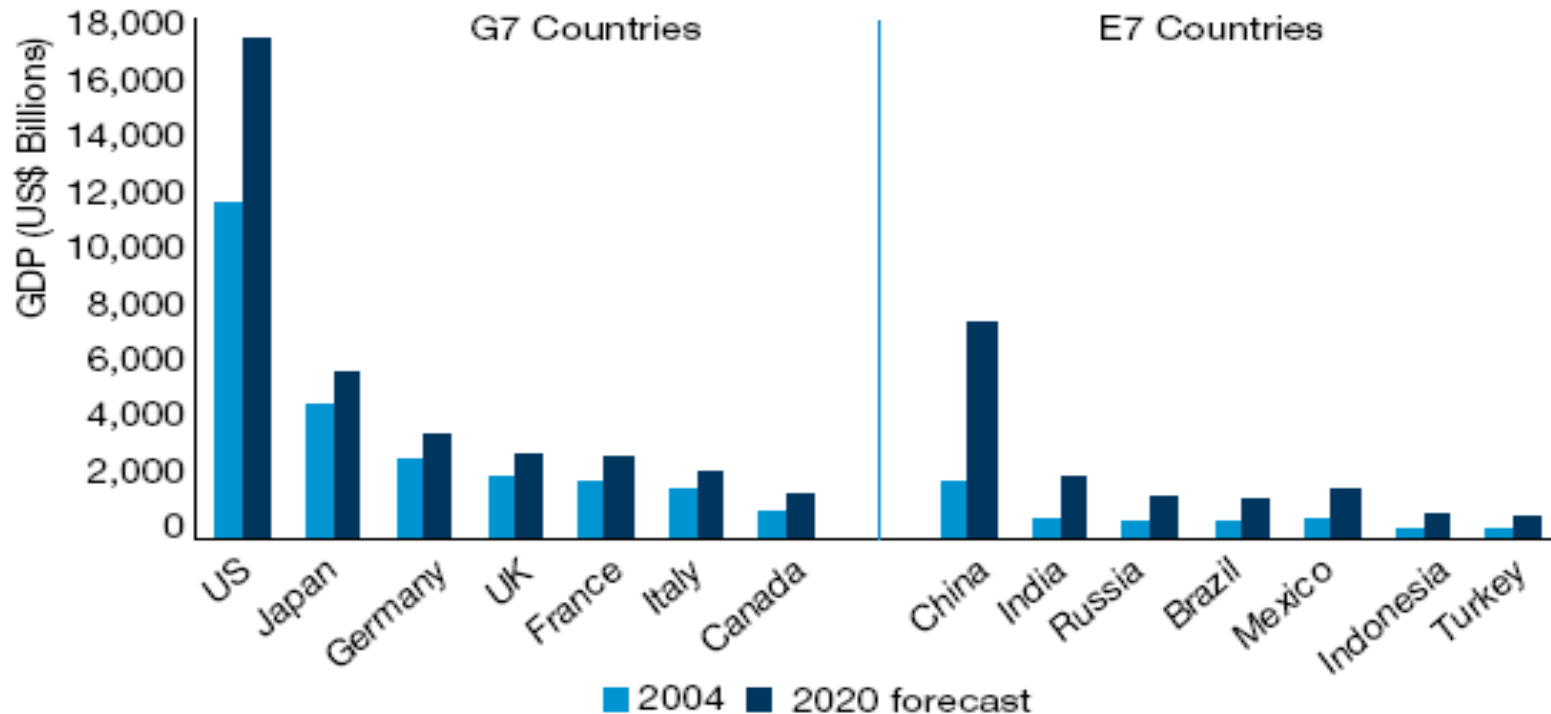
■ N PV M kt'd Drugs   □ N PV Pipeline Drugs   □ N PV Health   □ N PV Other

# Emerging Markets May Drive Growth



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

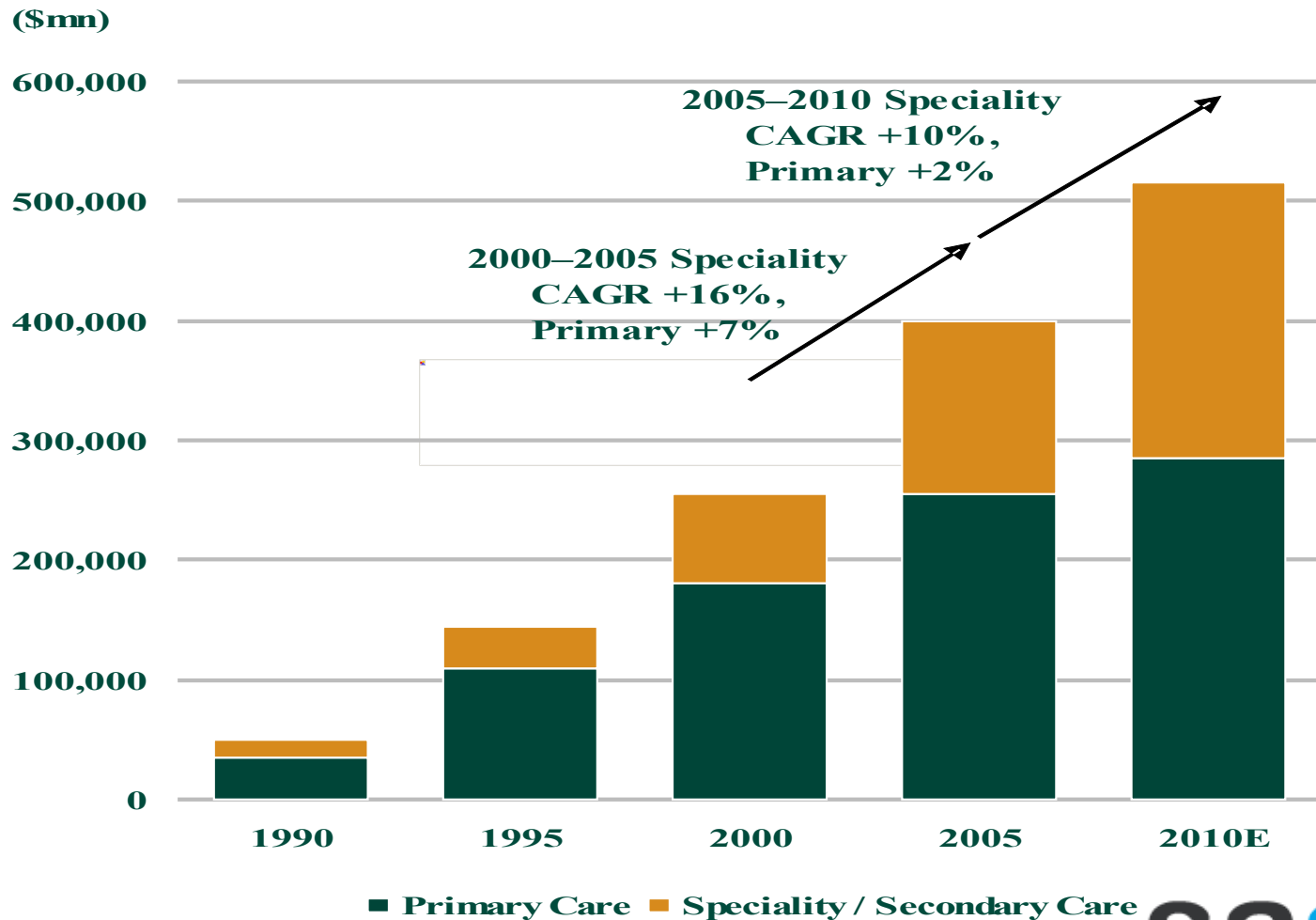
# E7 GDP as % of G7 GDP Could Rise From 20% to 43% by 2020



Source: PricewaterhouseCoopers Macro Economic Consulting Group

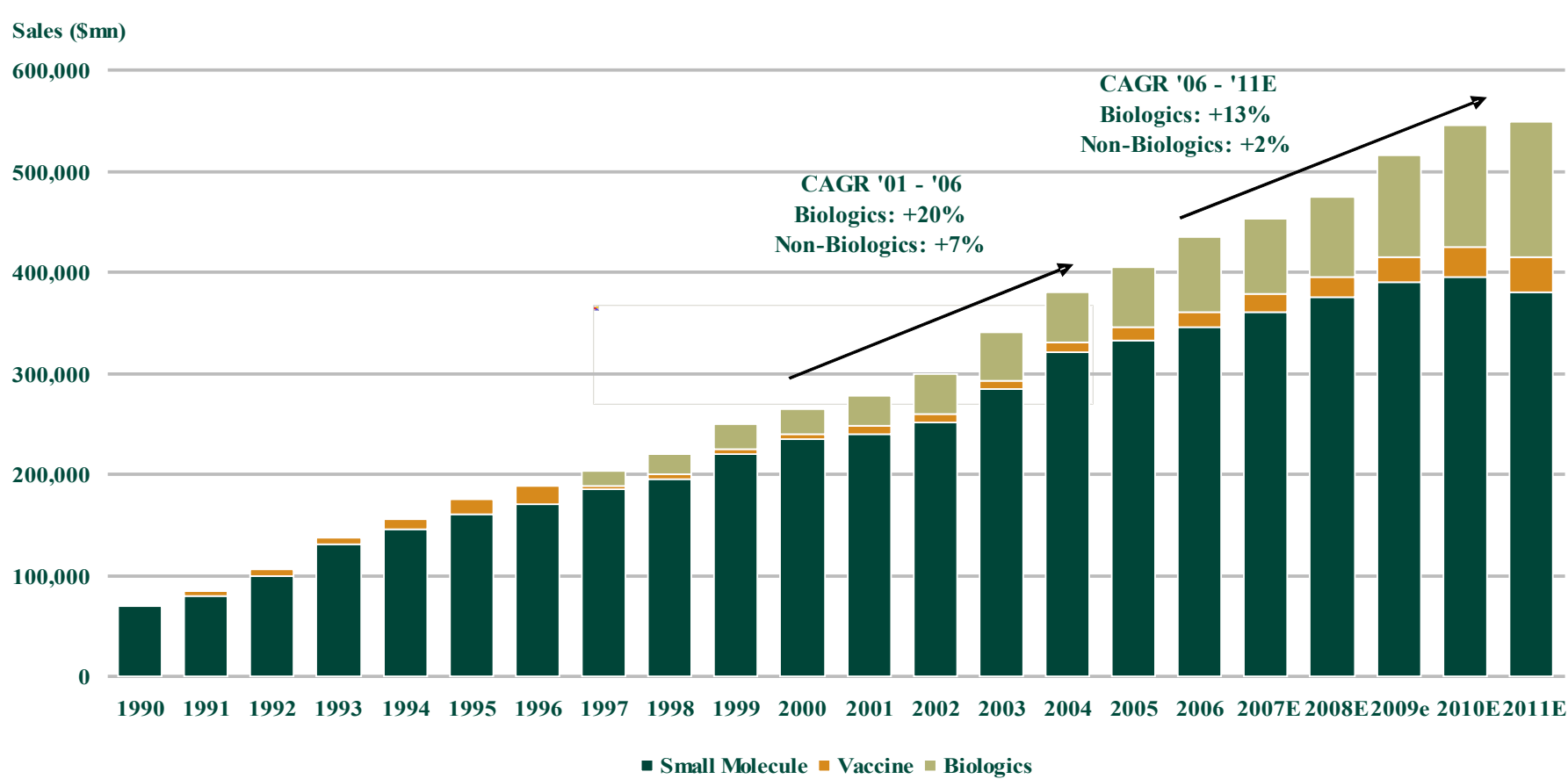
Notes: 2004 estimates based on World Bank World Development Indicators database (except China, which was adjusted for a later large data revision); 2020 projections based on our model

# 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

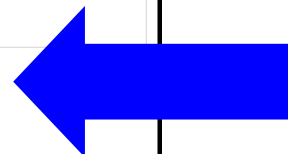


Source: Lehman Brothers PharmaPipelines estimates

# Shift in Mix Will Drive Margins

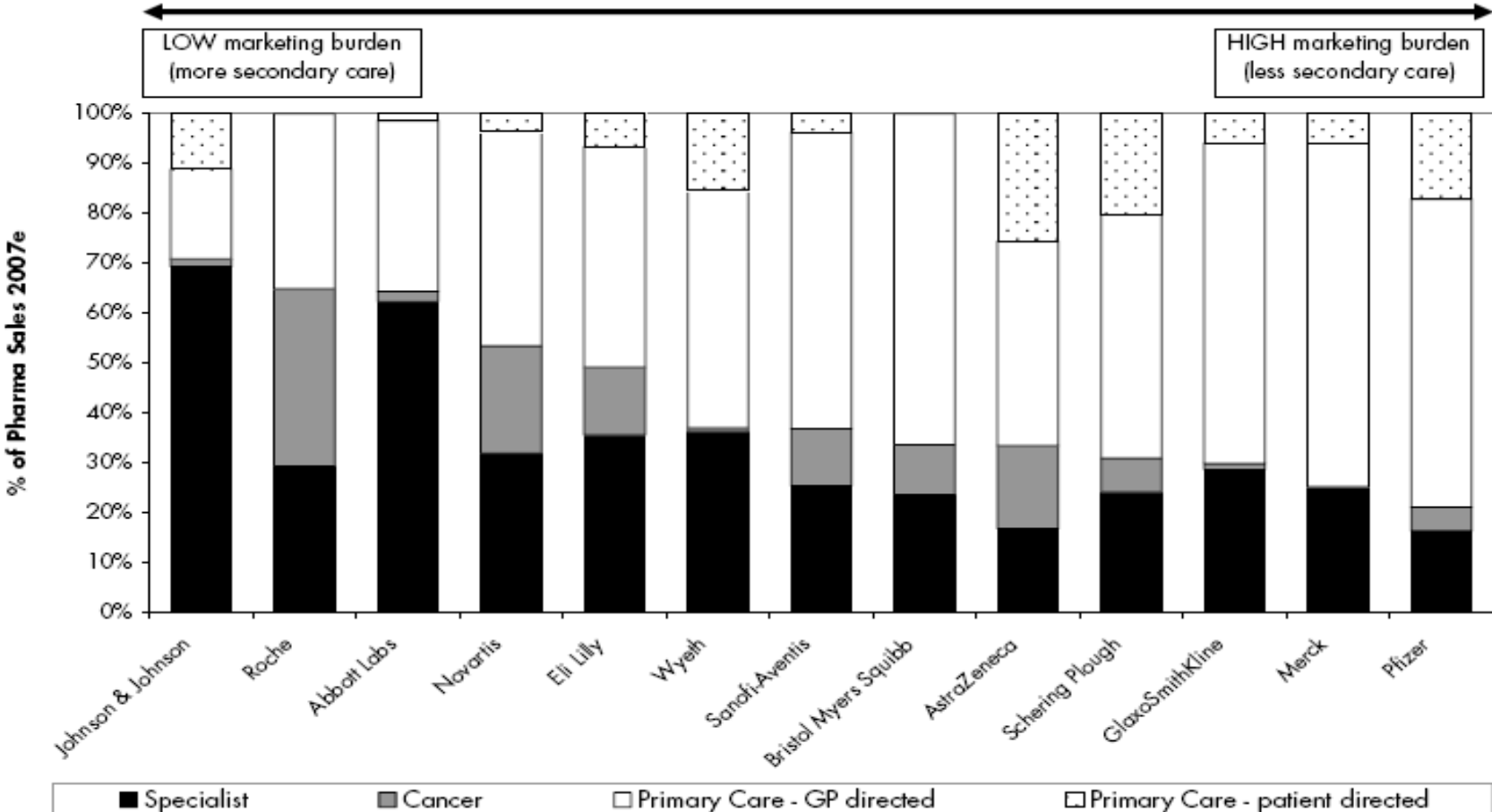
<b>Sales</b>	<b>2007</b>	<b>2011</b>	<b>CAGR</b>
Primary care	250	275	2%
Secondary/speciality care	150	220	10%
	400	495	5%
<b>M&amp;S spend as % of sales</b>			
Primary Care	40%	40%	
Secondary/specialty care	22%	22%	
Blended rate	33.3%	32.0%	
<b>Absolute \$ spent</b>			
Primary care	100	110	2%
Secondary/specialty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

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



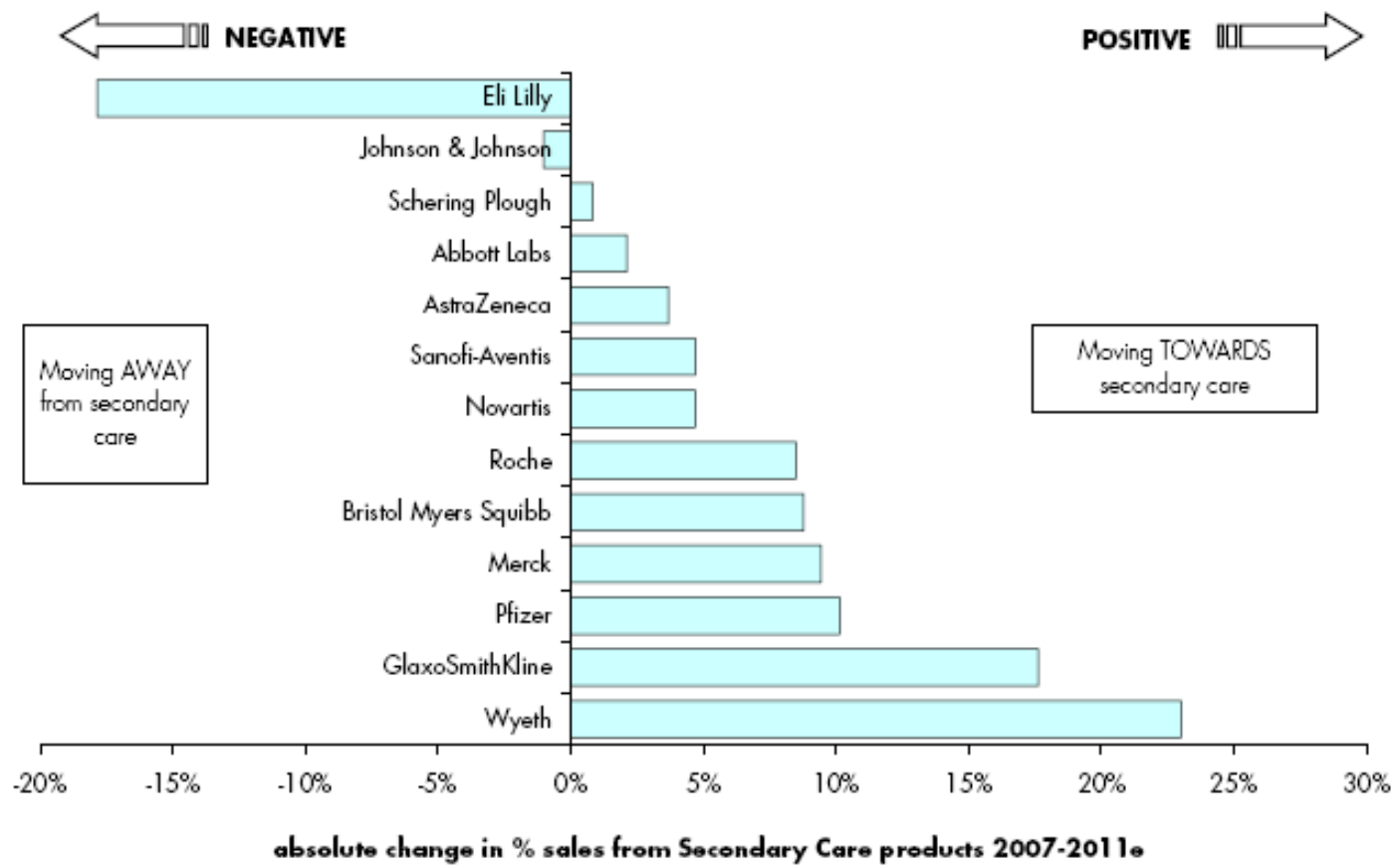
Source: Lehman Brothers and  
Stewart Adkins Advisors Ltd  
estimates

# Product Mix Obviously Impacts Sales and Marketing Mix



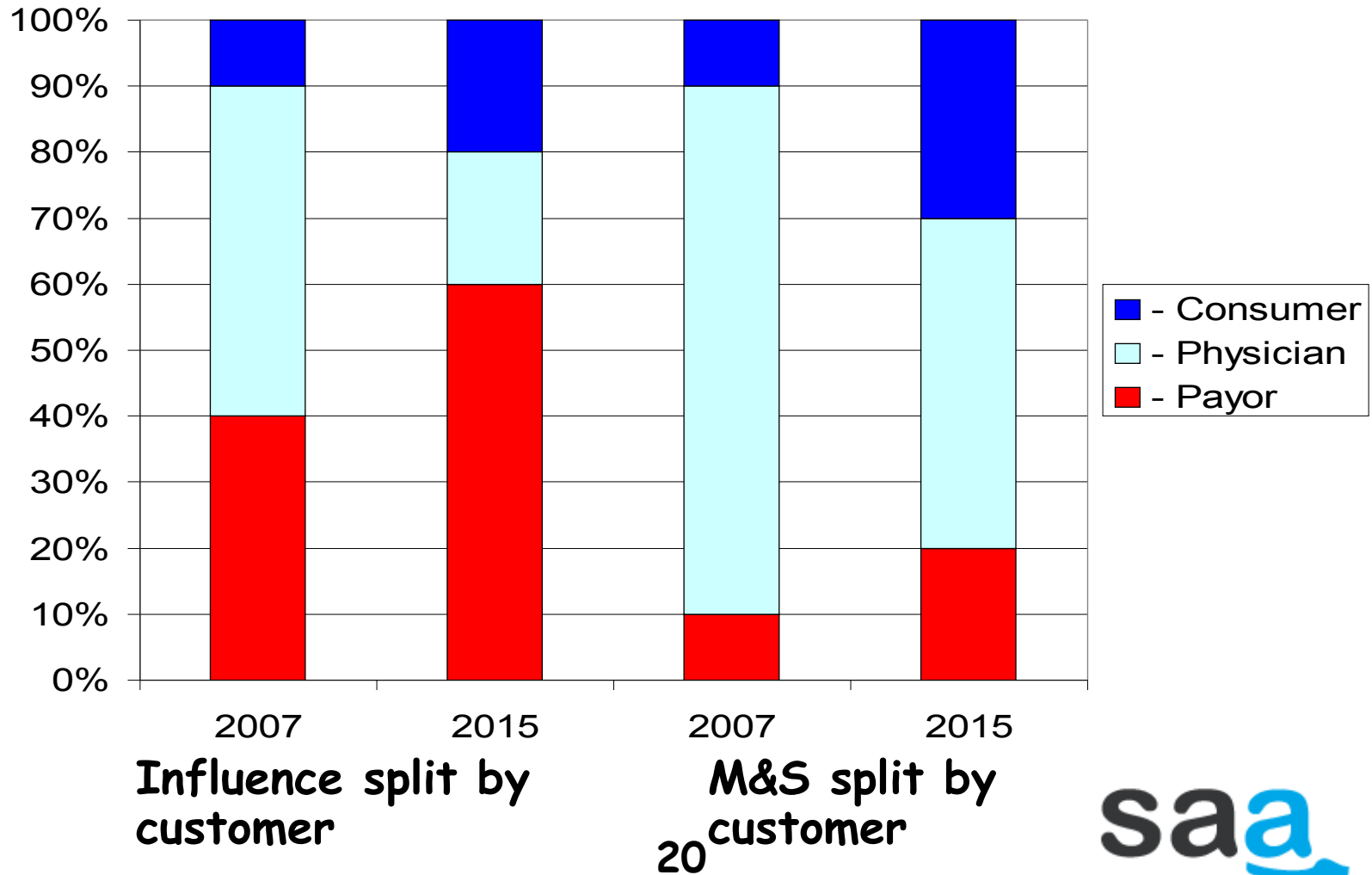
Source: Lehman Brothers PharmaPipelines estimates

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



Source: Lehman Brothers PharmaPipelines analysts

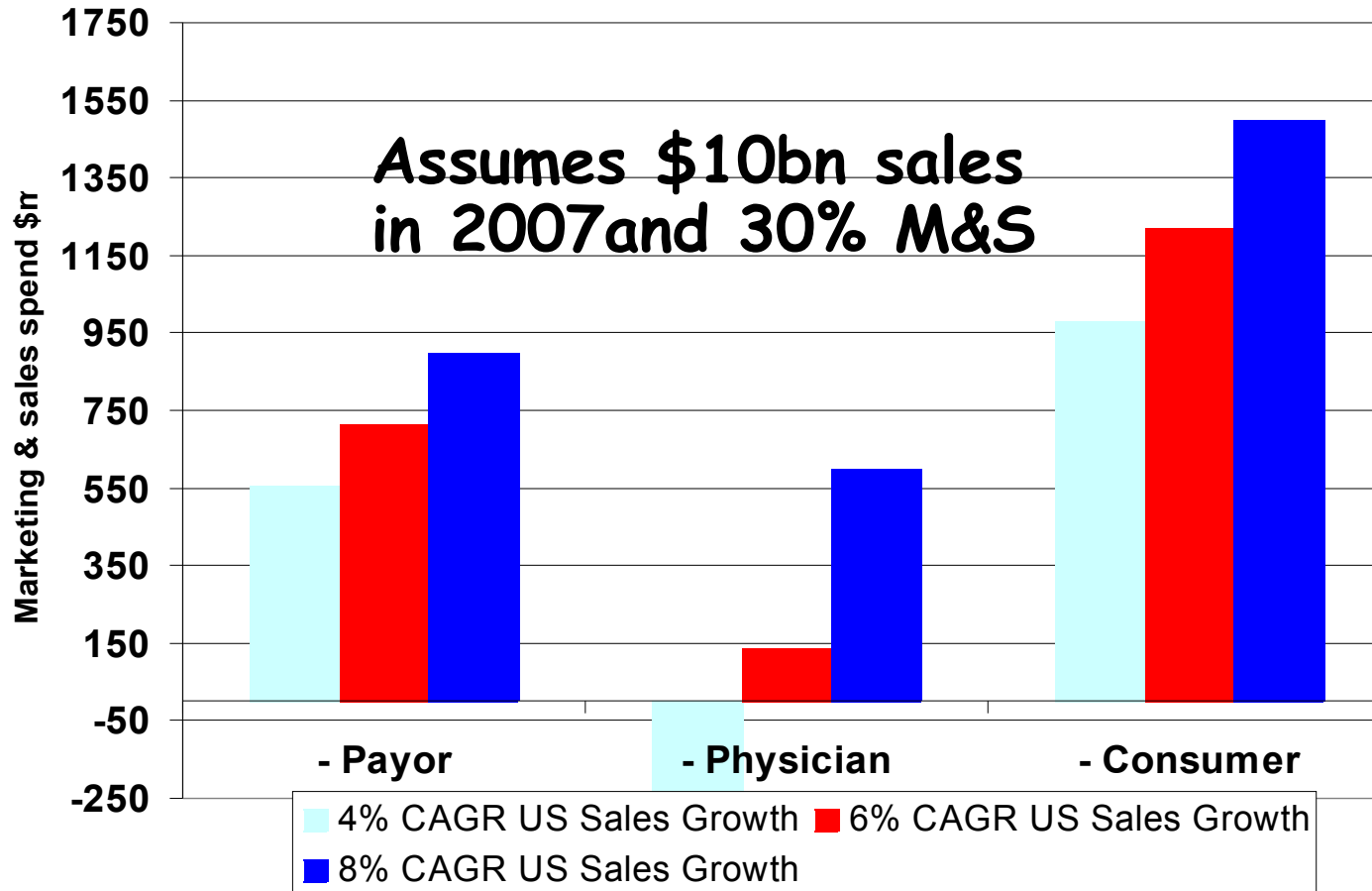
# Changing Influence of Customers



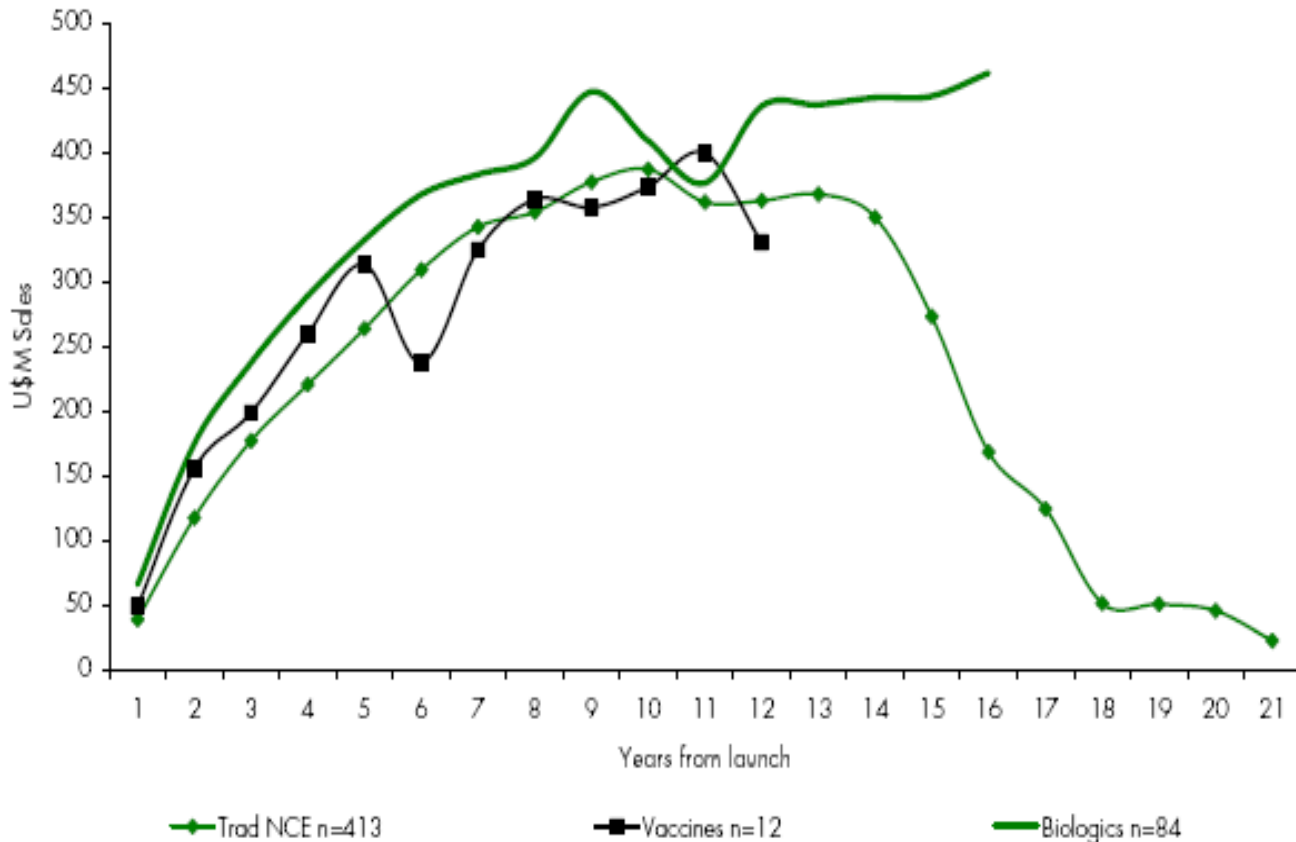
Influence split by customer

M&S split by customer  
20

# Consequences of Changes in Customer Influence

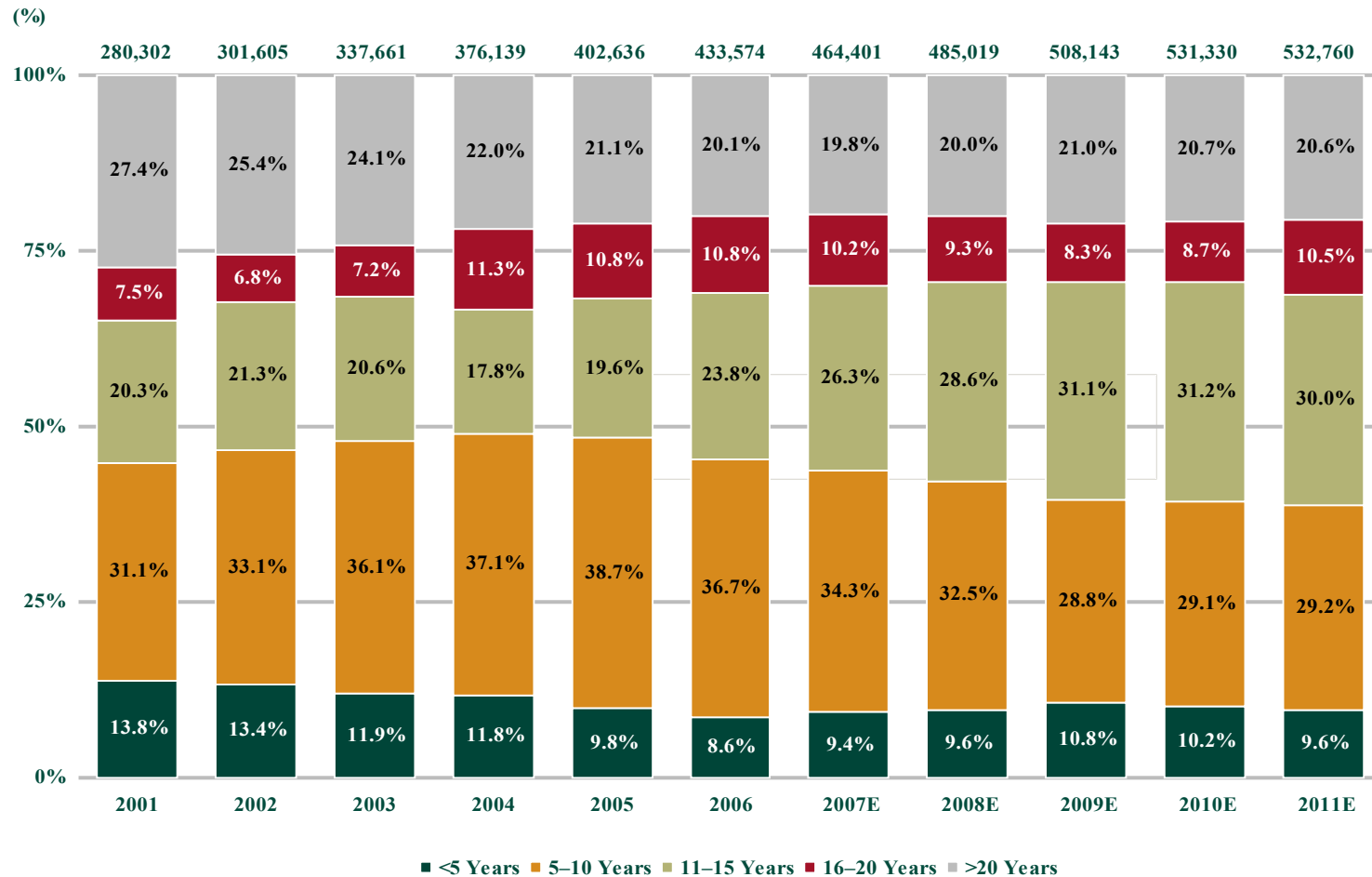


# Product Life Cycles Longer Than You Think



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 KAMs<sup>1</sup>
- 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**

<sup>1</sup> 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!*