

Maximizing Your Company Value Through Non-Traditional Alliances

*Pharmaceutical Strategic Outlook
February 2010*



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clinical | commercial | consulting | capital

Presentation Goals

- Acknowledge that we are in the midst of massive industry change
- Remind us that other industries have been through this as well
- Articulate the finer points around the *what* and the *how* of transformational change
- Share our observations related to pharma's efforts to collaborate
- Provide examples of successful and failed collaborations
- Highlight common themes of pharma alliances
- Share a few “war stories” from our shop
- Identify our view of the six common elements of partnering success

C.G. Gillooly

Global Vice President

- Head of corporate business development focused on enterprise-wide solutions for biopharma
- Prior work includes CEO of a privately held venture company, partner in a corporate venture fund, senior exec responsible for operational turnarounds in a number of industries

Corporate Development

- Part of 75-person team focused on creating, architecting, and managing risk-based partnerships around the globe
- Our approach is to assume and/or share risk with our biopharma clients in order to produce improved value returns
- Since 2000, our group has committed over \$2.4 billion to more than 80 partnerships with biopharma
- We have over 4,000 FTEs dedicated to these partnerships today, focused on executing for value

Our perspective on the industry

Based on a unique seat at the table

Since 2000, Quintiles has been involved in over 4,440 studies covering 240,000 investigative sites and 2.7 million patients

Extensive Therapeutic Experience⁽¹⁾

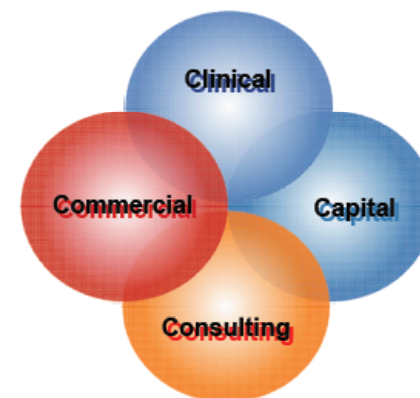
Allergy, Respiratory	123,000
Cardiovascular	754,000
Dermatology	32,000
Diabetes, Endocrinology, Metabolism	217,000
Gastroenterology	89,000
Genitourinary	130,000
Infectious disease	697,000
Musculoskeletal	140,000
Neurology	153,000
Oncology	154,000
Ophthalmology	21,000
Pediatrics	97,000
Psychiatry	183,000
Women's Health	269,000

Extensive Commercialization Expertise

- Marketed brands include:
 - Voltaren
 - Cialis
 - Claritin
 - Tamiflu
 - Zyprexa
 - Plavix
 - Zyrtec
 - Angiomax
 - Effexor
 - Procrit
 - Diovan
 - Zestril
 - Xopenex

Expert Resources

- More than 400 physicians and senior medical advisors
- More than 3,700 clinical research associates
- More than 1,000 clinical trials leaders
- More than 200 degreed biostatisticians
- More than 650 project managers
- More than 450 PhDs
- More than 1,500 commercial sales managers
- Launched 37 biopharmaceutical brands

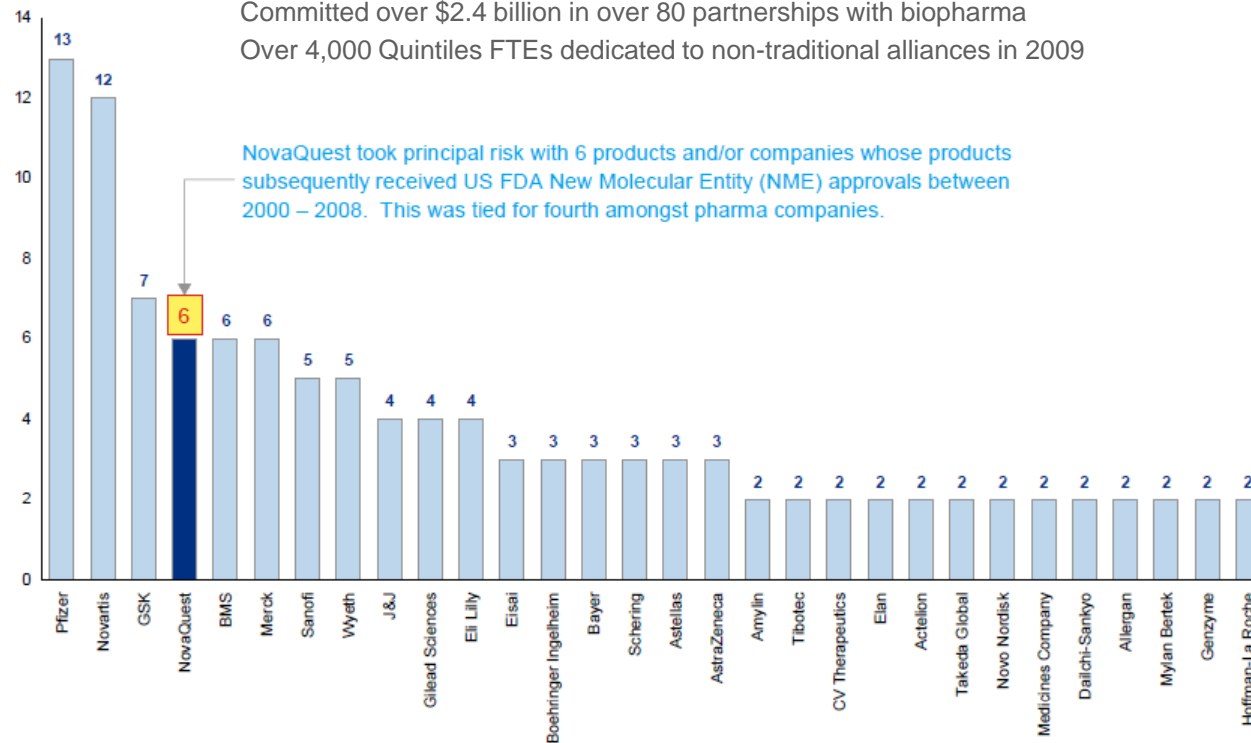


(1) Number of patients involved in studies, 2000-2008

Our perspective on the industry

Our unique seat at the table, combined with expertise in managing development and regulatory risk, has allowed us to partner often

NMEs 2000-2008



Deployed more capital than any services provider

Committed over \$2.4 billion in over 80 partnerships with biopharma
Over 4,000 Quintiles FTEs dedicated to non-traditional alliances in 2009

NovaQuest took principal risk with 6 products and/or companies whose products subsequently received US FDA New Molecular Entity (NME) approvals between 2000 – 2008. This was tied for fourth amongst pharma companies.

Source: FDA Website.

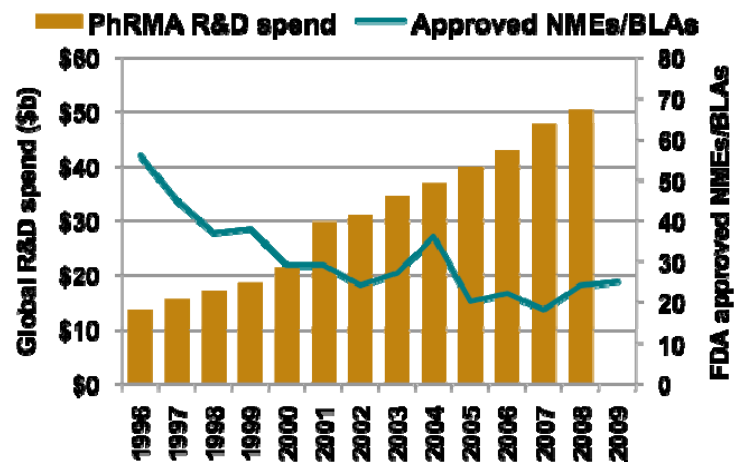
Note: Approvals have been restated to reflect mergers.

(1) Based on NMEs. NovaQuest has taken principal risk on other companies/products which were subsequently approved, although these were not NMEs.

13 Pharma co's with one NME approval are not shown above.

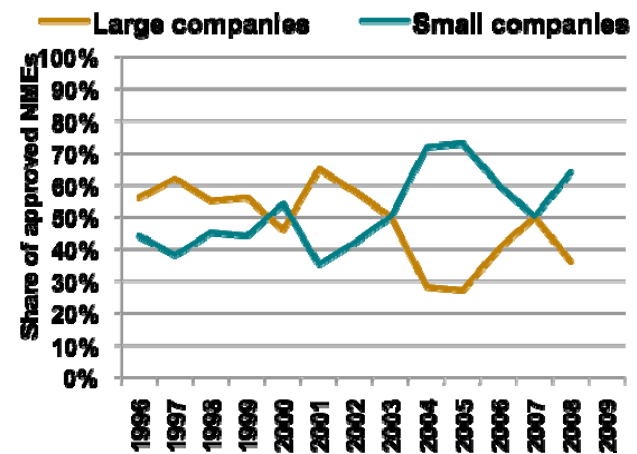
The Pharmaceutical industry is fighting for its very survival

Returns to R&D spend decreasing



Sources: Nature Reviews Drug Discovery, PhRMA (member R&D spend)

Large companies' share of innovation decreasing



Source: Bernard Munos, *Lessons from 60 years of pharmaceutical innovation*, Nature Reviews Drug Discovery, December 2009

The new focus for pharma:

Create value for the organization by bringing products to market that are approvable, reimbursable, and prescribable

The industry is in the midst of a predictable cycle of change

Movement away from vertical integration, with greater collaboration in:

- **Discovery** → In-licensing, partnering with academia, etc.
- **Development** → Use of CROs, co-development agreements, etc.
- **Business Functions** → BPO models, functional service providers, etc.
- **Commercialization** → Contracts sales representatives, etc.

Willingness of senior executives to embrace change in pursuit of value creation

- High degree of engagement with leading strategy consultancies
- Announcement of top-down initiatives focused on cost/productivity

Many companies have identified *what* needs to be done

- Cost cutting/restructuring to streamline organizations

Company	Targeted improvement
Pfizer	\$4 billion of cost savings by 2012
GlaxoSmithKline	Pre-tax savings of £1.7 billion by 2011 in manufacturing, selling, and R&D
Novartis	\$1.6 billion of cost savings by “Forward” initiative
AstraZeneca	\$1 billion of annual savings by 2014
Merck	\$2.6-\$3 billion of annual savings by 2012

Source: Company presentations

- Speed/cycle time reductions
- Improved decision-making, leading to improved ROI

Today, the battle is over *how* to change

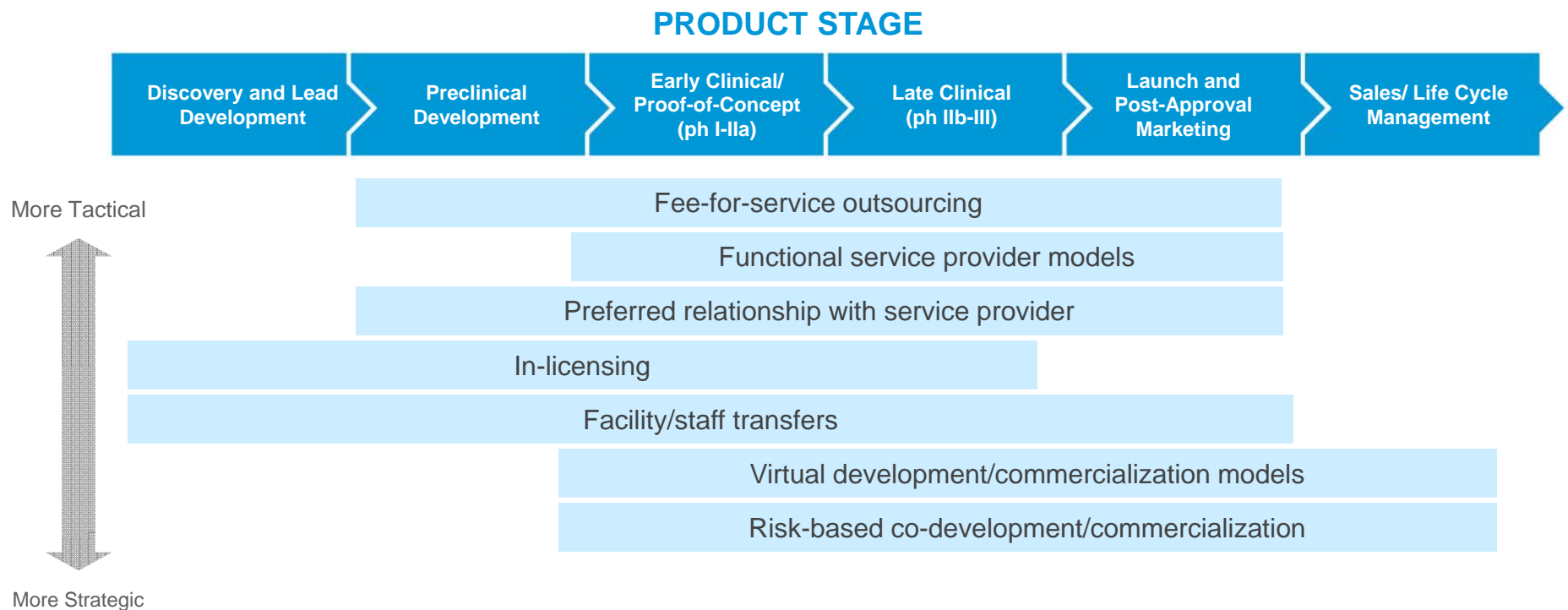
This is the battleground where firms will be differentiated

Key objective: How to realize and maximize value of assets, portfolios, and the enterprise as whole

Successfully managing this change is central to the very survival of many organizations

Alliances will play a key role in shaping the outcome of this battle

We are seeing companies experiment with different approaches to collaboration in the hopes of realizing value



Let's pause for a moment...

and ask ourselves, "What can we learn from other industries about creating value through alliances?"



Example 1: Sprint Nextel

Several synergies appeared to exist in \$36 billion merger in 2005

- Scale/cost benefits derived from creation of #3 wireless provider
- Addition of loyal customer base and popular walkie-talkie technology to Sprint infrastructure

“This is a great day for our investors, customers, employees, and partners.”

SPRINT CEO GARY FORSEE

Fast-forward to March 2008: Sprint announces \$30b loss due to write-down of Nextel investment

How does this happen?

- Clash of cultures: bureaucratic Sprint with entrepreneurial Nextel
- Loss of key employees (many from Nextel) following merger
- Poor integration: dual headquarters, duplicate/competing roles
- Inability to work together to address pressing challenges

“This is a case where two companies were fundamentally incompatible.”

NEW YORK TIMES COLUMNIST JOE NOCERA, 2008

Example 2: Boeing Dreamliner

“...thinking outside the box is one thing, but Boeing is ‘reinventing’ the box...”

BOEING PRESS RELEASE, JULY 2003

Development involved over 40 global suppliers, sharing risk and design burden in a virtual development world using technology to enable 24/7 connectivity

Result: “A Dream Interrupted at Boeing” (*NY Times* headline, 9/6/2009)

- 2008 launch date missed, over 70 orders cancelled to date

Lessons learned:

“I would draw the lines in a different place. I’d have more shared engineering done together.

I would certainly have visibility on the supply chain across corporate boundaries.”

CEO JAMES MCNERNEY

“Clearly, we made some poor judgment calls in terms of what people’s capabilities were.”

COMMERCIAL AIRPLANES PRESIDENT SCOTT CARSON

Example 3: Apple's Transformation

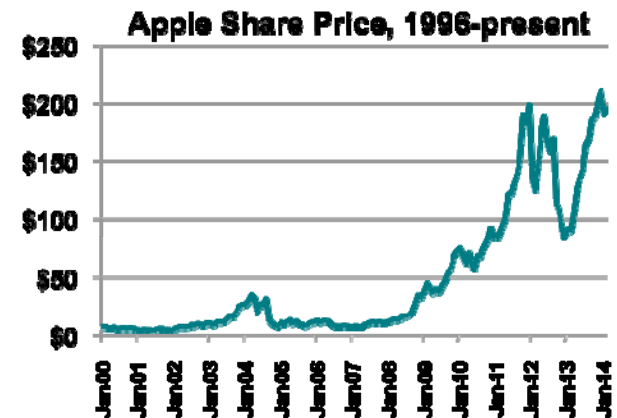
Late 1990s:

Apple a high-tech leader, but also a niche player

Over past decade, has grown share while launching pioneering new products such as the iPod, iPhone, and iTunes store

How has Apple transformed itself and its industry through alliances?

- Engaged previous rivals Microsoft and Intel – gained access to corporate markets and new
- Created customer-driven products that attract app development partners and others want to leverage → network of over 200,000 developers
- Focused on choosing best partners and creating significant value
 - Intel for processors, Google on iPhone mapping/video apps, etc.



What can biopharma learn from these experiences?

Challenges of partnership management

- Understanding culture is critical
- Many partners/collaborators can be difficult to manage
- Careful planning needed to avoid duplication of roles/efforts

Consequences of mismanaging risk

Value *can* be created through non-traditional alliance models

Pharma is now experimenting with some novel approaches

- Lilly FIPNet
- Pfizer-GSK ViiV alliance
- AstraZeneca Clinical Pharmacology
- Lilly Chorus
- Others

Common themes in today's alliances

1. Cost
2. Speed
3. Decision-making

And... today's alliances are all about the "and"

Recent example: Clinical pharmacology alliance

Alliance Principles

- 1) **True partnership**
- 2) **Cost transparency**
- 3) **Demand planning transparency**
- 4) **Empowered team**
- 5) **Program approach**
- 6) **Continuous improvement**
- 7) **Tracking & reporting**
- 8) **Evolution, Growth, and Change**

Motivation for change

- Old approach: Limited flexibility, capacity utilization challenges in a complex environment
- New approach: Create value through **increased efficiency and speed to market**

Operational approach

- Shared portfolio information for planning; key lever of success
- Joint teams responsible for providing strategic vision, delivery, and medical/scientific oversight on studies
- Result: end-to-end business process outsourcing

Novel commercial model

- Output-based agreement – pricing based on portfolio approach
 - Fixed study fee for data mgmt/programming/stats/writing
 - Fixed unit prices for bed nights/visits based on study type
 - Unit prices go up/down based on volume
- Productivity improvement targets built into pricing agreement

Recent example: Oncology development alliance

Alliance Summary

Goal: Expand oncology capacity and accelerate timelines

6 compounds, 11 solid tumor indications

Proof-of-concept stage

Co-funding arrangement aligns risk and reward

Objectives:

- Increase in the number of proof-of-concept studies for key assets
- Accelerate results through maximum development efficiency
- Expand capacity through collaboration (expertise, infrastructure, funding)

Operational approach

- Collaboration in planning and design of studies
- Quintiles provides program oversight and execution
- Robust governance structure to manage alliance

Impact: Enable 11 additional studies to be conducted

- Pharma able to pursue additional indications at same level of internal resource
- Partners share resources and expertise in oncology development
- Co-funding of portfolio aligns risk-reward incentives

Recent example: Neuroscience development alliance

Alliance Summary

**Late-clinical stage
alliance in neuroscience**

**Collaborating in
planning & design**

**Time benefits: First ph III
enrolled 8 months ahead
of schedule**

**Cost/capacity benefits:
Large reduction (~50%)
in oversight headcount**

**Co-funding arrangement
aligns risk and reward**

1st stage: Focus on improving productivity

- Joint teams streamlined process for outsourcing strategic programs
 - Pharma focuses on molecule strategy; Quintiles focuses on operational execution
- Realized time/cost benefits through integration in planning/design
- Reduced administrative costs through elimination of duplicate roles/processes

2nd stage: Co-development of phase III programs

- Invested at-risk services to support program, share risk, and expand capacity of pharma to develop internal portfolio
- Shared indication-specific clinical/commercial expertise to increase likelihood that molecule meets regulatory/commercial objectives

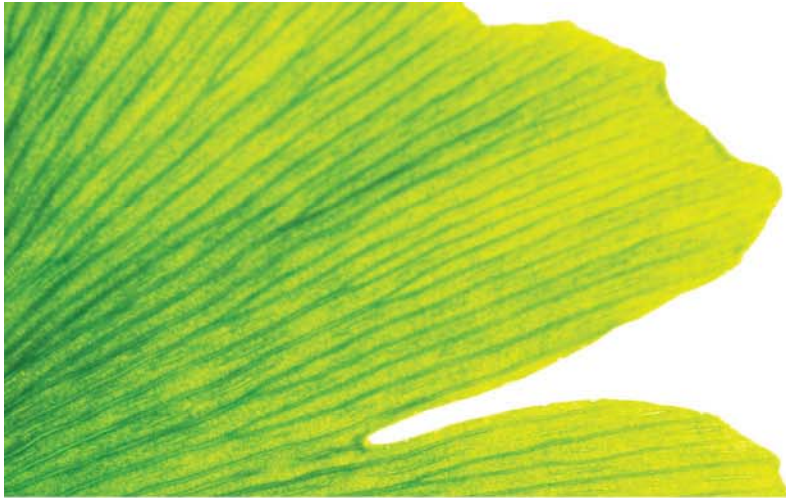
Common elements for success

- Transparency
- Scale
- Clear, fast decision-making
- One battle at a time
- Common mission and vision
- Value is at the core

These alliances can succeed

- Non-traditional alliances do in fact succeed
- It is up to each of us to have the courage to think outside the box
- Change is hard. We must have the conviction to push it through
- These types of alliances **MUST** succeed for the industry to survive and deliver on its purpose of improving the health of mankind

Thank You



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