




# The Primary Care Opportunity

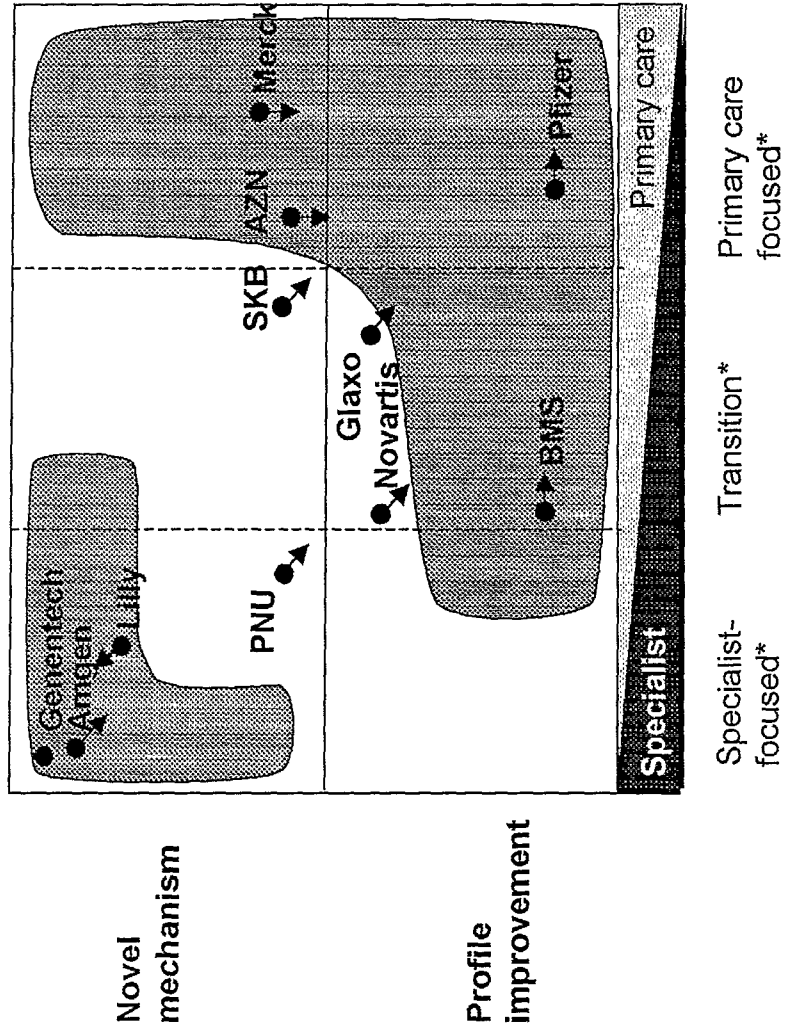
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# LARGER COMPETITORS ARE MIGRATING TOWARD THE PRIMARY CARE CHANNEL WITH DRUGS DRIVEN BY PROFILE IMPROVEMENTS

-  Profit pool
-  Current portfolio focus
-  Pipeline focus

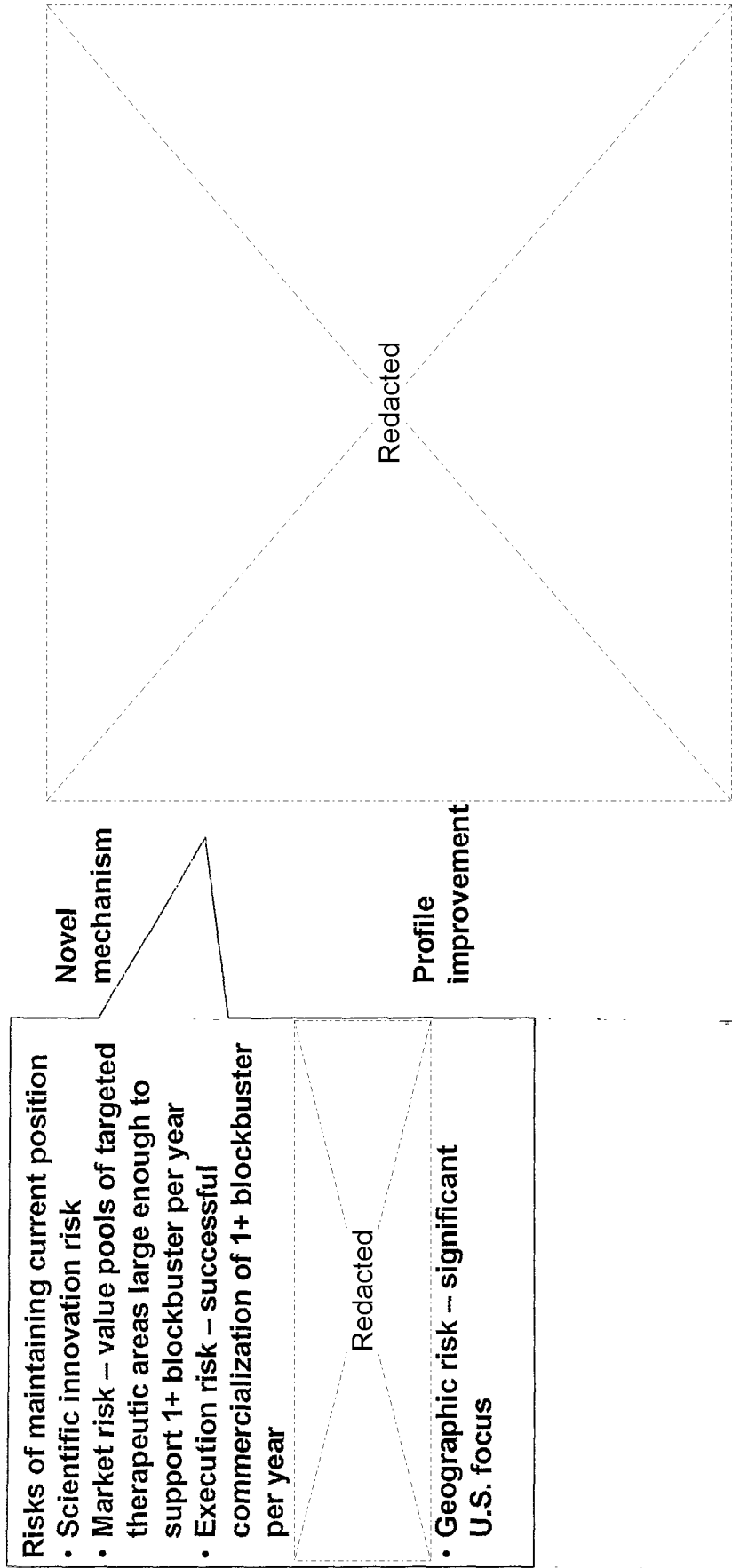
DIRECTIONAL



## Channel focus

\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)  
 Source: Annual reports; Lehman Brothers; McKinsey Healthcare Practice; team analysis

# LILLY'S CURRENT POSITION MAY NOT ACCOMPLISH ITS CORPORATE OBJECTIVES



\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)  
Source: Lehman Brothers; team analysis

# FAST FORWARD – KEY QUESTIONS FOR 7-YEAR PLAN

**Extract full value from current products**

- Which candidate drugs should Lilly choose?
- What are the business plans that extract full PCP value, including
  - Clinical profile and its development
  - Product positioning
  - Marketing approaches
  - Overall resource level commitments
  - Projected sales and profit impact
- How do we augment our portfolio?
  - What business development opportunities fit with our strategy?

**Ensure market-linked product development/assessment**

- What is a representative case study for how Lilly currently operates?
- What are benchmarks for the capabilities and processes that ensure market-linked product development and assessment?
- What is Lilly's performance vs. the benchmarks?
- What areas require change or improvement?
- What is the implementation plan to make the changes?
- How will we measure progress?

**Assess portfolio strategy**

- What are the total value pools based on current products and unmet needs?
- How should the profit pools be prioritized based upon Lilly's current technical capabilities and those that it may be able to acquire?
- What are the economics of each target area?
- What is the assessment of Lilly's ability to achieve its objectives given its current portfolio?

*Sperry*

## The Primary Care Opportunity

## TODAY'S DISCUSSION

- Primary care and Lilly's position

- Performance gap/money "left on the table"

- Fast forward – key questions for 7-year plan

ZY 7119 746

Redacted



# HEALTHCARE REFORMS WILL CONTINUE TO REINFORCE PCP ROLE

Significant impact  
 No impact

Major reform	U.K.	Canada	France	Germany	Italy	U.S.
PCPs act as "gatekeepers" to manage the cost of hospitals and specialists	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
PCPs are financially incented to control prescription costs	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
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Drug budgets place pressure on pricing and labeling (including their interaction)	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



- PCPs – "gatekeeper" role expands to cover hospital, specialist, and pharmaceutical costs
- Pharmaceutical products, in general – lower pricing likely to occur across the industry
- Primary care pharmaceutical products – increased reliance on pharmacoeconomics

# THE MARKET CAN BE LOOKED AT IN 2 WAYS – CHANNEL AND POSITIONING

Channel

Positioning

	<p><b>Novel mechanism</b></p> <ul style="list-style-type: none"> <li>• Novel molecule/new mechanism of action</li> <li>• Current mechanism of action serving a major unmet need</li> <li>• Examples                             <ul style="list-style-type: none"> <li>– Mevacor, [Redacted], Fosamax, Zyprexa</li> </ul> </li> </ul>
<p><b>Specialist</b></p> <p>Specialist-focused</p>	<p><b>Profile improvement</b></p> <ul style="list-style-type: none"> <li>• Known or proven mechanism of action with improved                             <ul style="list-style-type: none"> <li>– Dosage</li> <li>– Delivery</li> <li>– Side effects</li> <li>– Efficacy</li> <li>– Other</li> </ul> </li> <li>• Examples                             <ul style="list-style-type: none"> <li>– Lipitor, Paxil, Biaxin</li> </ul> </li> </ul>

Primary care

Specialist-focused

Transition

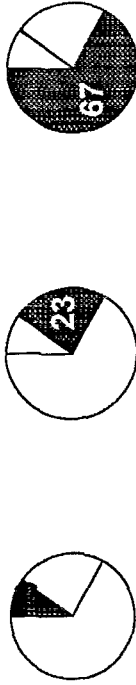
Primary care focused

# BLOCKBUSTER DRUGS TEND TO BE DRIVEN BY PROFILE IMPROVEMENTS AND FOCUSED IN PRIMARY CARE CHANNEL

\$ Billions – sales

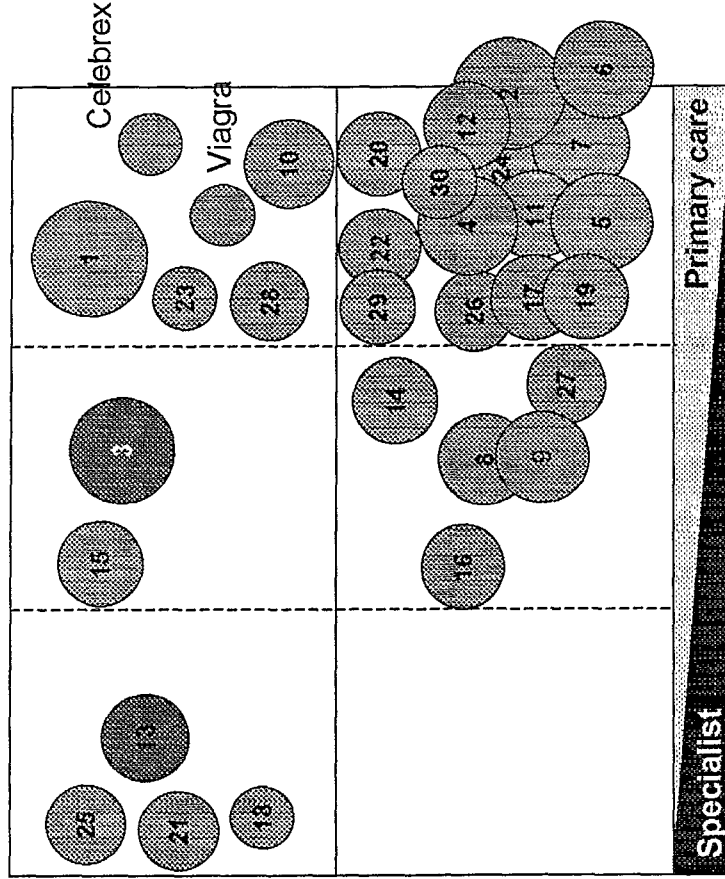
100% ≈ 50

Channel percent of value



Novel mechanism (~35%)

Profile improvement (~65%)



Specialist-focused\*      Transition\*      Primary care focused\*

**Channel focus**

\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)

Source: IMS; team analysis

Top 30 products based on worldwide sales – 1998 \$ Millions

● Lilly  
● Competitors

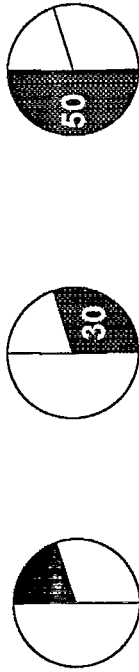
Rank	Product	Company	Sales
1.	Prilosec/Losec	AZ	3,976
2.	Zocor	MSD	3,945
	Redacted		
4.	Norvasc	PFE	2,575
5.	Vasotec	MSD	2,400
6.	Claritin	SCH	2,300
7.	Lipitor	WL	2,200
8.	Zolof	PFE	1,836
9.	Paxil	SKB	1,757
10.	Premarin	AHP	1,650
11.	Pravachol	BMS	1,643
12.	Augmentin	SKB	1,598
13.	Zyprexa	LLY	1,403
14.	Cipro	BAY	1,380
15.	Epogen	AMG	1,363
16.	Procrit	JNJ	1,350
17.	Prevacid	TAP	1,276
18.	Sandimmune/Neoral	NVR	1,255
19.	Zantac	GLX	1,250
20.	Biaxin	ABT	1,206
21.	Taxol	BMS	1,179
22.	Rocephin	HLR	1,157
23.	Imitrex	GLX	1,122
24.	Zestril	AZ	1,120
25.	Neupogen	AMG	1,110
26.	Pepcid	MSD	1,083
27.	Voltaren-XR	NVR	1,060
28.	Cozaar/Hyzaar	MSD	1,045
29.	Adalat	BAY	1,041
30.	Zithromax	PFE	10

# INDUSTRY PIPELINE DRUGS ARE ALSO LARGELY DRIVEN BY PROFILE IMPROVEMENTS AND CLUSTER IN PCP CHANNEL

\$ Billions – NPV

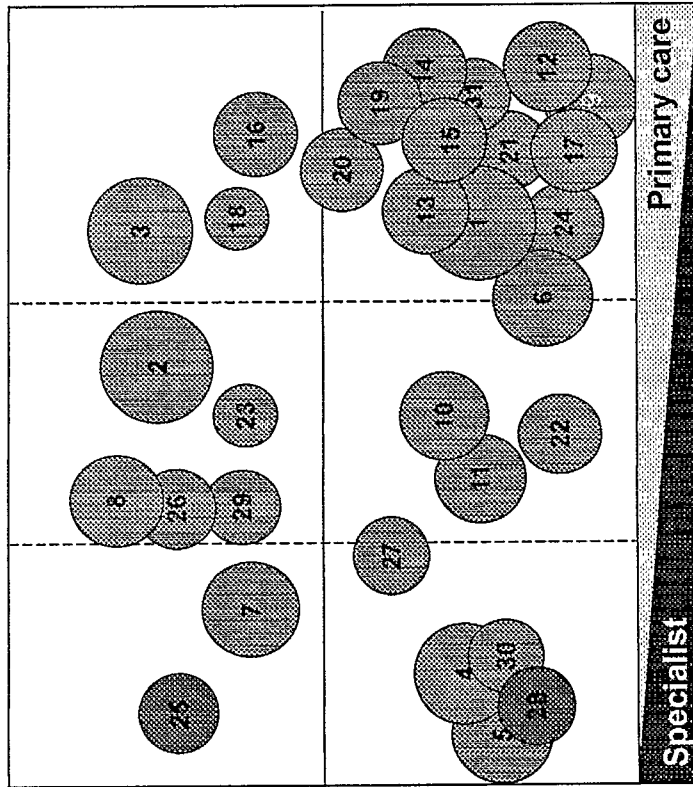
100% ≈ 41

Channel percent of value



Novel mechanism (~35%)

Profile improvement (~65%)



Specialist-focused\*\*

Transition\*\*

Primary care focused\*\*

Channel focus

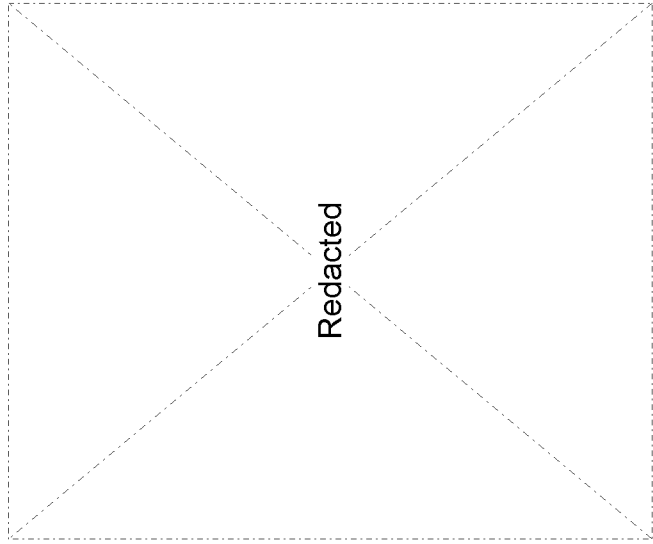
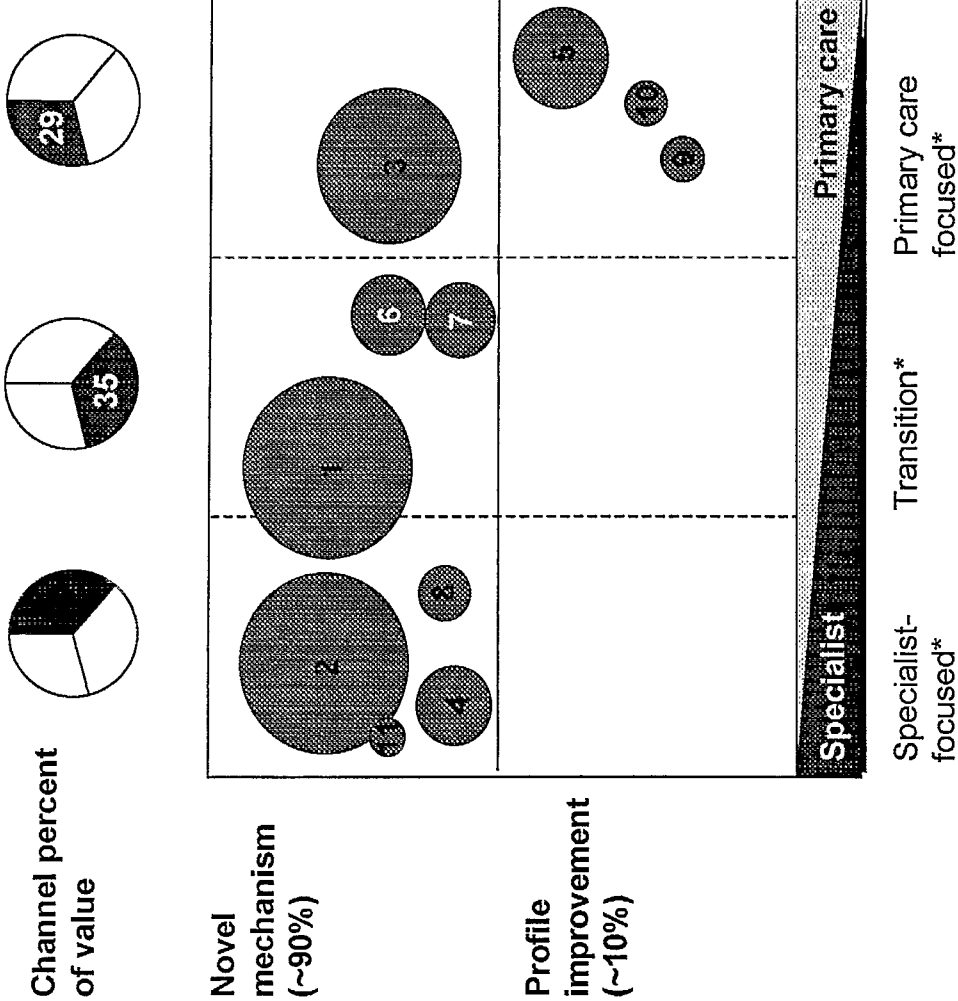
Top 1998 Phase 3 products by NPV \$ Millions

Rank	Product	Indication	Company	NPV
1	Perprazole	Acid disorders	AZN	3,860
2	Lotronox	Irritable bowel	GW	3,460
3	Pulmonary insulin*	Diabetes	Pfizer	2,555
4	Strocin	HIV	Merck	1,890
5	UFT Oral	Cancer	BMS	1,674
6	GI198745	Ben. prost. hypertro.	GW	1,645
7	MK991	Fungal infect	Pfizer	1,542
8	Igmesine	Depression	W-L	1,355
9	Norastemizole	Allergy	J&J/Sepracor	1,345
10	Voriconazole	Fungal infect.	Pfizer	1,308
11	Pregabalin	Epilepsy/pain	W-L	1,246
12	ZD4522	Cholesterol	AZN	1,188
13	Idoxifene	Osteoporosis	SB	1,157
14	Symbicort	Asthma	AZN	1,153
15	Droloxitene	Osteoporosis	Pfizer	1,126
16	Tamiflu	Influenza	Roche	1,113
17	Factive	Infection	SB	1,108
18	Omapatrilat	Hypertension	BMS	1,107
19	HOE901	Diabetes	Aventis	1,100
20	Protonix	Acid disorders	AHP	956
21	Oxis Turbuhaler	Asthma	AZN	945
22	Darifenacin	Irritable bowel	Pfizer	900
23	Reslor	Chronic constipation	J&J	890
24	HMR3647	Bacterial infect.	Aventis	857
26	Melatonergic Agonist	Sleep disorders	BMS	814
27	Reminyl	Alzheimers	J&J	788
29	HOE642	Angina	Aventis	744
30	ABT378	HIV	Abbott	738
31	COX-2 inhibitor	Arthritis	BMS	712

\* Significant innovation in drug delivery

\*\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)

# LILLY'S CURRENT PRODUCTS FOCUS ON NOVEL MECHANISMS IN SPECIALIST CHANNEL

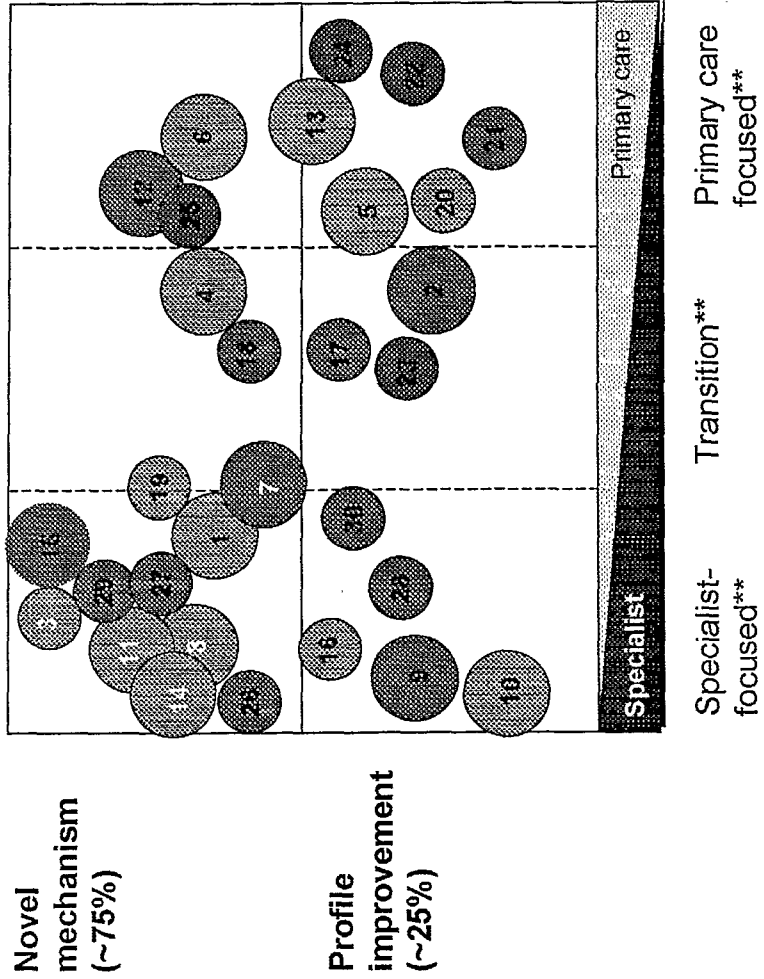
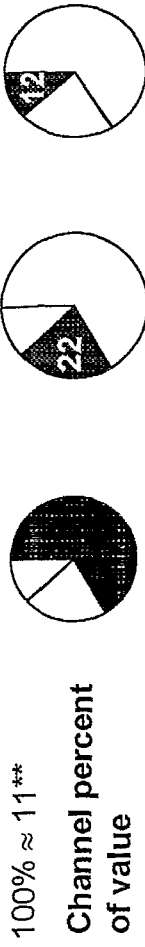


\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)  
 Source: Eli Lilly Primary Care Working Team; Lehman Brothers; team analysis

DIRECTIONAL

# LILLY'S DEVELOPMENT PORTFOLIO IS SPECIALIST-FOCUSED BUT MAY PROVIDE POTENTIAL PCP PLATFORMS

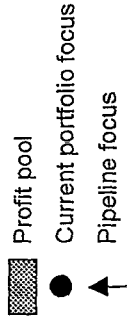
\$ Billions – NPV



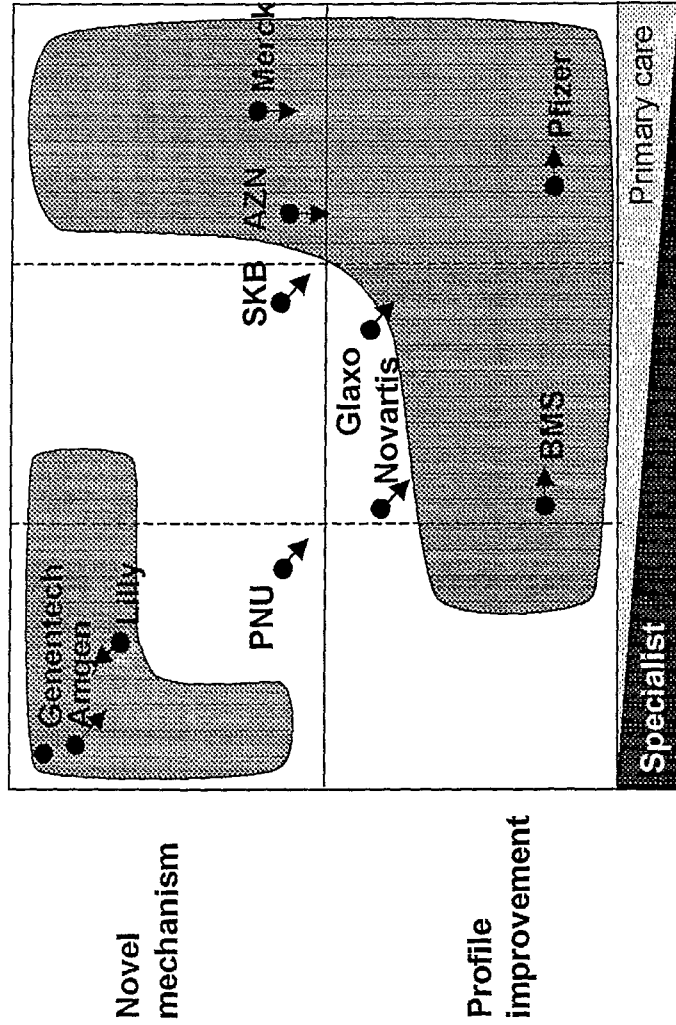
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\* Based on products for which NPVs are available  
 \*\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)  
 Source: Eli Lilly Drug Marketing Team; Lilly Product and Program Teams; team analysis

# LARGER COMPETITORS ARE MIGRATING TOWARD THE PRIMARY CARE CHANNEL WITH DRUGS DRIVEN BY PROFILE IMPROVEMENTS



DIRECTIONAL



Specialist-focused\*      Transition\*      Primary care focused\*

## Channel focus

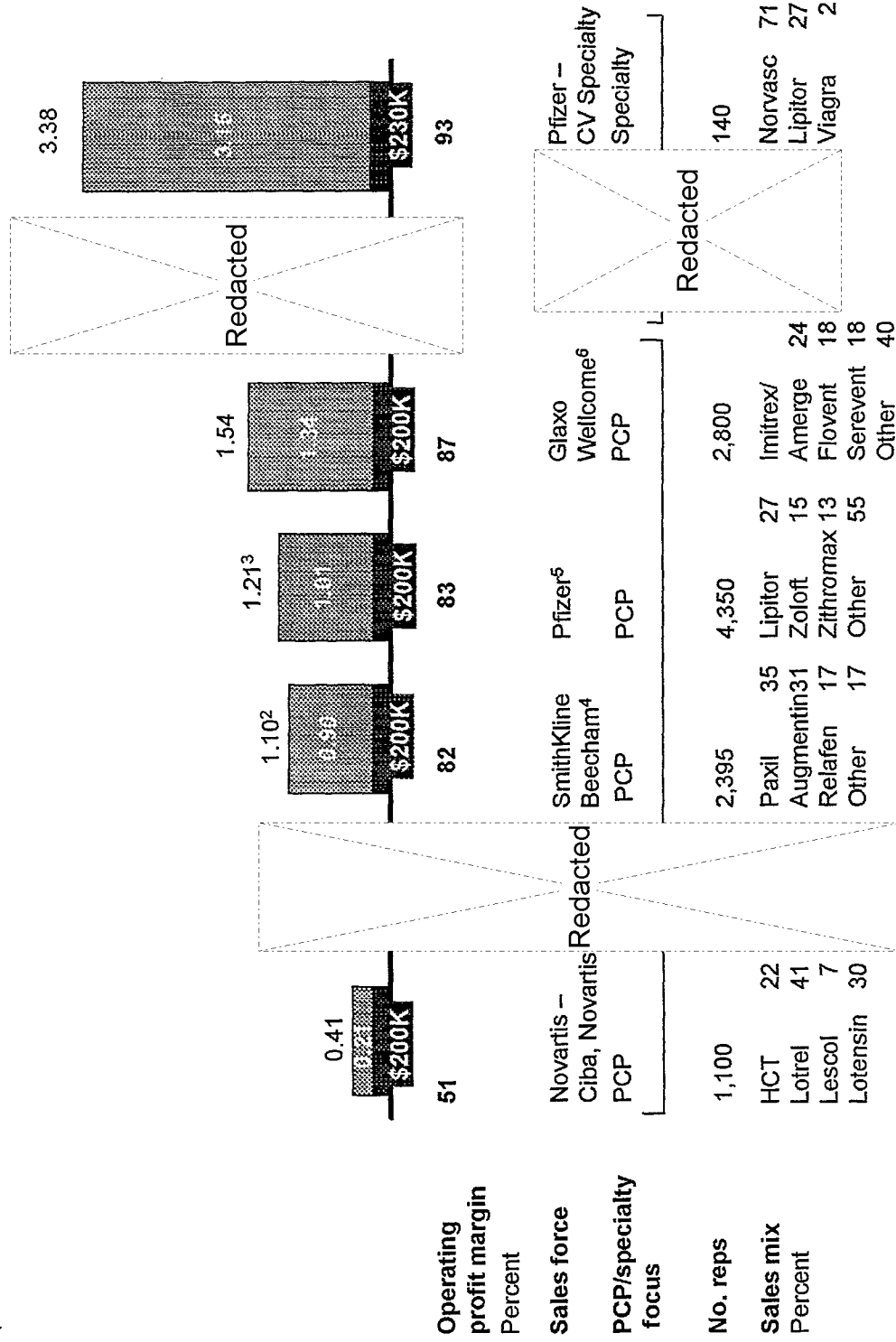
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# SPECIALTY SALES FORCE MARGIN CAN BE HIGHER . . .

Average revenue per sales rep – 1998  
\$ Millions

PRELIMINARY

Operating profit  
Operating expense<sup>1</sup>



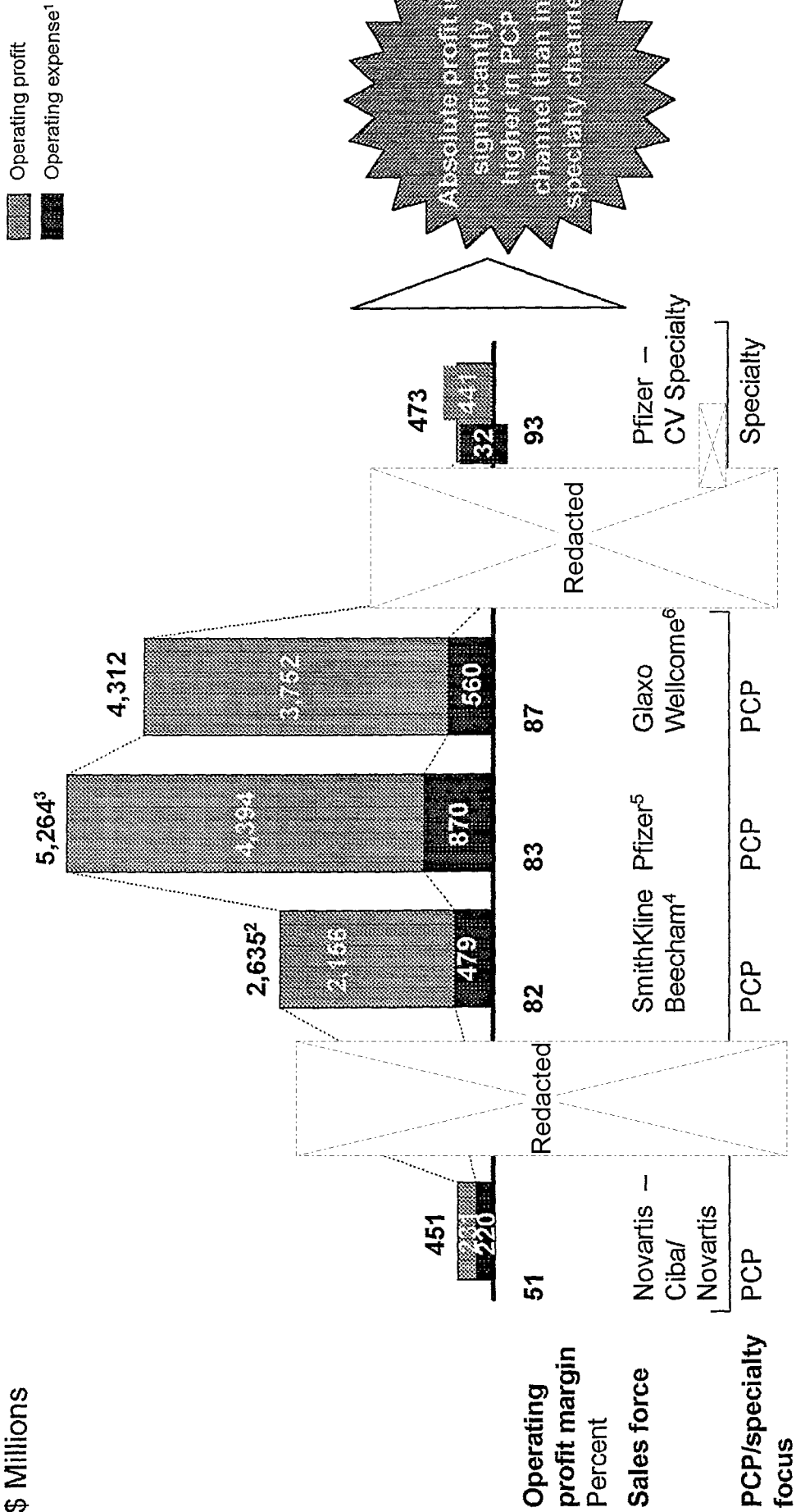
Specialist sales force margins higher than PCP channels

1 Estimated at approximately \$200,000 per PCP rep and \$230,000 per specialty rep, includes direct and indirect costs  
 2 Avandia sales based on 1999 U.S. estimate of \$200 million  
 3 Excludes Aricept; Celebrex sales based on '99 U.S. estimate of \$675 million  
 4 Includes the following sales forces (with 1st details): SmithKline & French (Paxil), Beecham (Avandia), SmithKline Beecham Pharmaceuticals (Avandia), SmithKline Beecham Priority (Paxil), Penn Labs (Famvir)  
 5 Includes – Pfizer Labs (Viagra), Roerig Field (Lipitor), Pratt Field (Lipitor), Powers (Zyrtec), Alta (Zithromax), Steere (Zithromax), Pfizer Contract (Cardura), Visio Rx (Zolofit)  
 6 Includes – Allen & Hamburgs (Flonase), Burroughs-Wellcome (Cefin), Cerenex (Imitrex/Amerge), Glaxo Pharma (Raxat), Innovex Contract (Zyban), PDI Contract (Imitrex/Amerge), Therapeutic Area Specialists (Imitrex/Amerge)



# ... HOWEVER, ABSOLUTE PROFIT RESIDES IN PRIMARY CARE CHANNEL GIVEN A WELL-STRUCTURED PORTFOLIO

Revenue per sales force – 1998  
\$ Millions



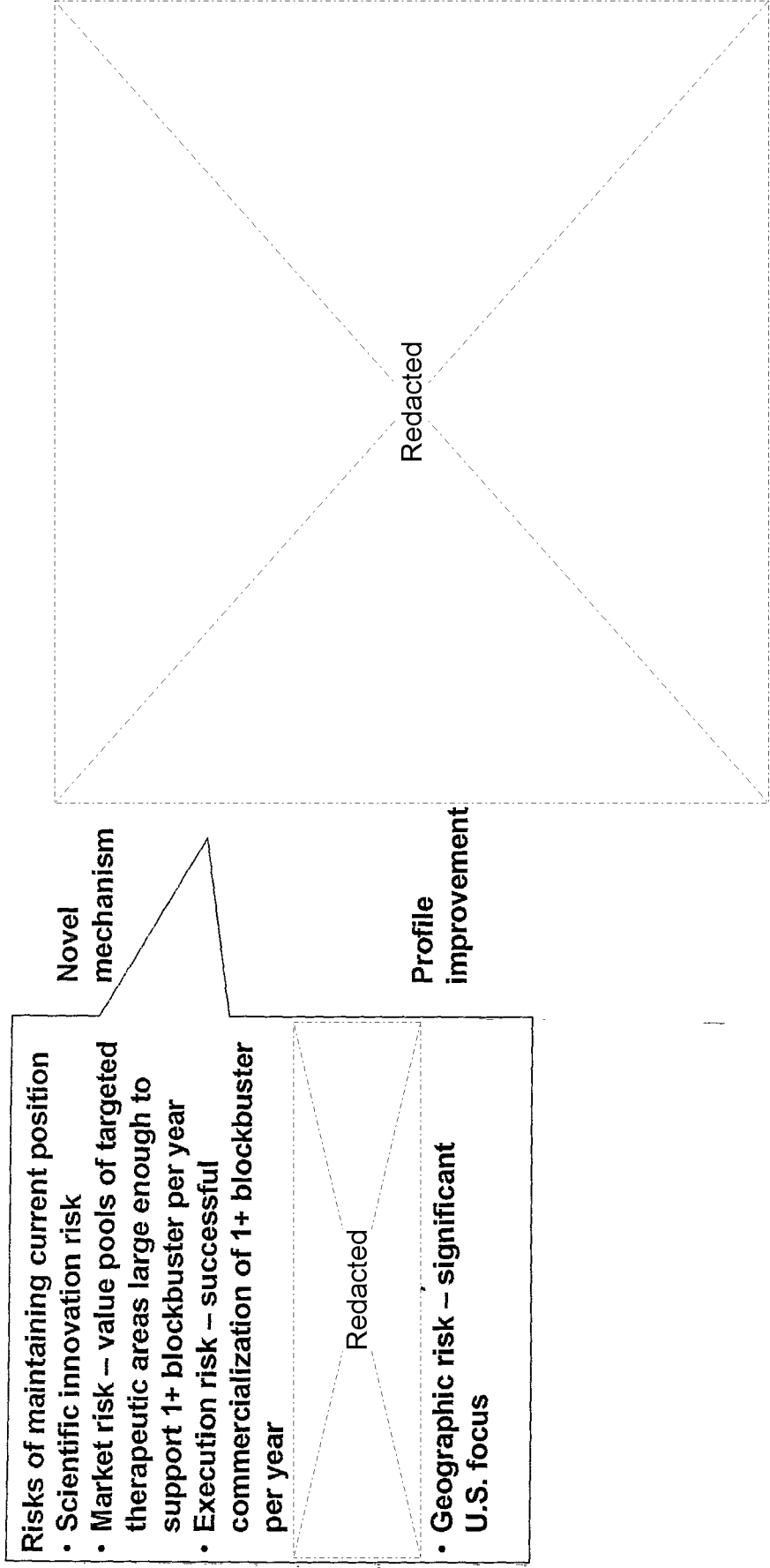
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# LILLY HAS AMBITIOUS CORPORATE OBJECTIVES

EXAMPLES

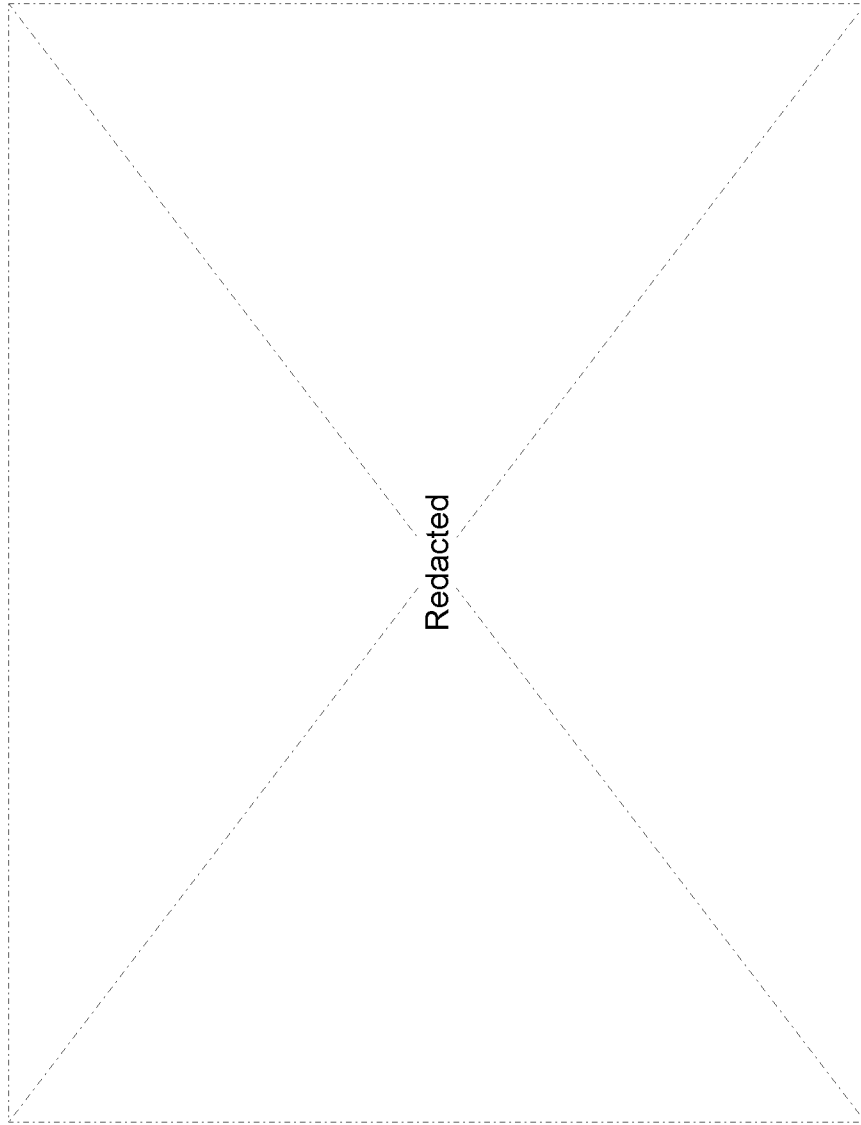
- Consistently outperform industry with scientific innovation
  - Win the war for talent in R&D as well as sales and marketing
  - Continue to increase global presence
- Redacted

# LILLY'S CURRENT POSITION MAY NOT ACCOMPLISH ITS CORPORATE OBJECTIVES



\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)  
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# LILLY MAY CHOOSE TO BALANCE PORTFOLIO TOWARD PRIMARY CARE



Risks of extending toward primary care

- Financial risk – large-scale investment in infrastructure required (e.g., sales force)
- Portfolio risk – insufficient products (internal or licensed) to warrant investment
- Execution risk – sales and marketing capabilities required to compete; may lose focus on specialist categories
- Industry risk – insufficient scale (e.g., sales force) to compete in consolidating industry

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Source: Lehman Brothers; team analysis

## TODAY'S DISCUSSION

- Primary care and Lilly's position
- Performance gap/money "left on the table"
- Fast forward – key questions for 7-year plan

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**Extract full value from current products**

- Which candidate drugs should Lilly choose?
- What are the business plans that extract full PCP value, including
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- How do we augment our portfolio?
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# The Primary Care Opportunity

## **KEY QUESTIONS TO ADDRESS**

- 1. Develop perspective of primary care market and Lilly's position within it**
- 2. Develop potential strategies to maximize Lilly's position in the primary care channel**

## PRIMARY CARE SUMMARY



- Primary care is a large opportunity that is likely to remain important
  - The PCP role is significant in most markets, especially in Europe
  - In the future, the PCP role is likely to only increase based on trends in healthcare reforms and the migration to the PCP channel of several disease states (e.g., depression, cholesterol)
  - Nearly 2/3 of the future value in the industry will be from drugs driven by “marketing” innovation and focused on the primary care channel
  - While the profit margin percentage tends to be somewhat higher for specialty sales forces vs. primary care, successful primary care sales forces represent much larger absolute profits
- Lilly does not outperform its competitors in primary care and is leaving money on the table with current and pipeline products
- Lilly should approach the primary care opportunity in 3 areas

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# HEALTHCARE REFORMS WILL CONTINUE TO REINFORCE PCP ROLE

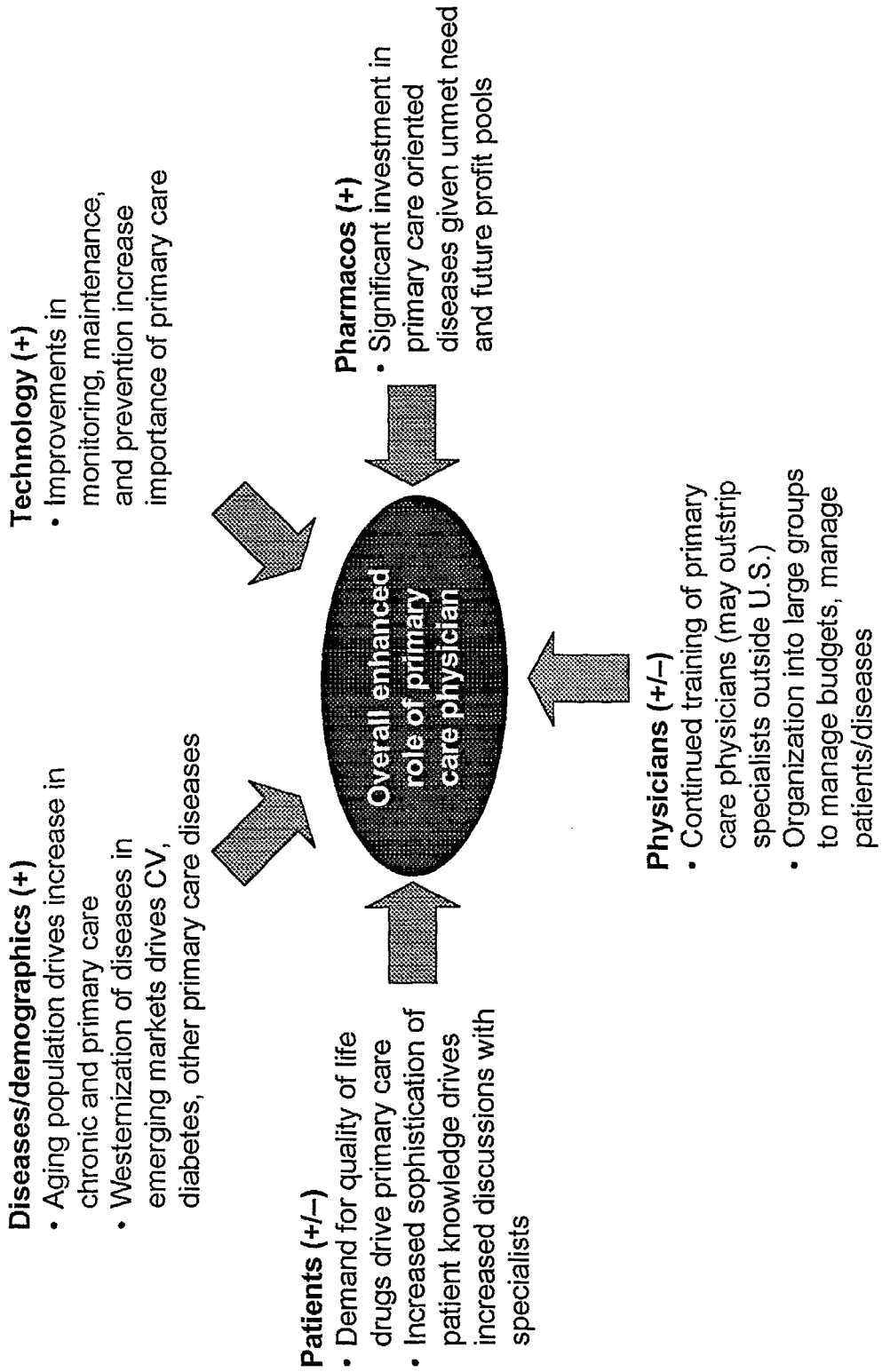
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• PCPs – "gatekeeper" role expands to cover hospital, specialist, and pharmaceutical costs  
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# OTHER TRENDS ENHANCE PCP ROLE



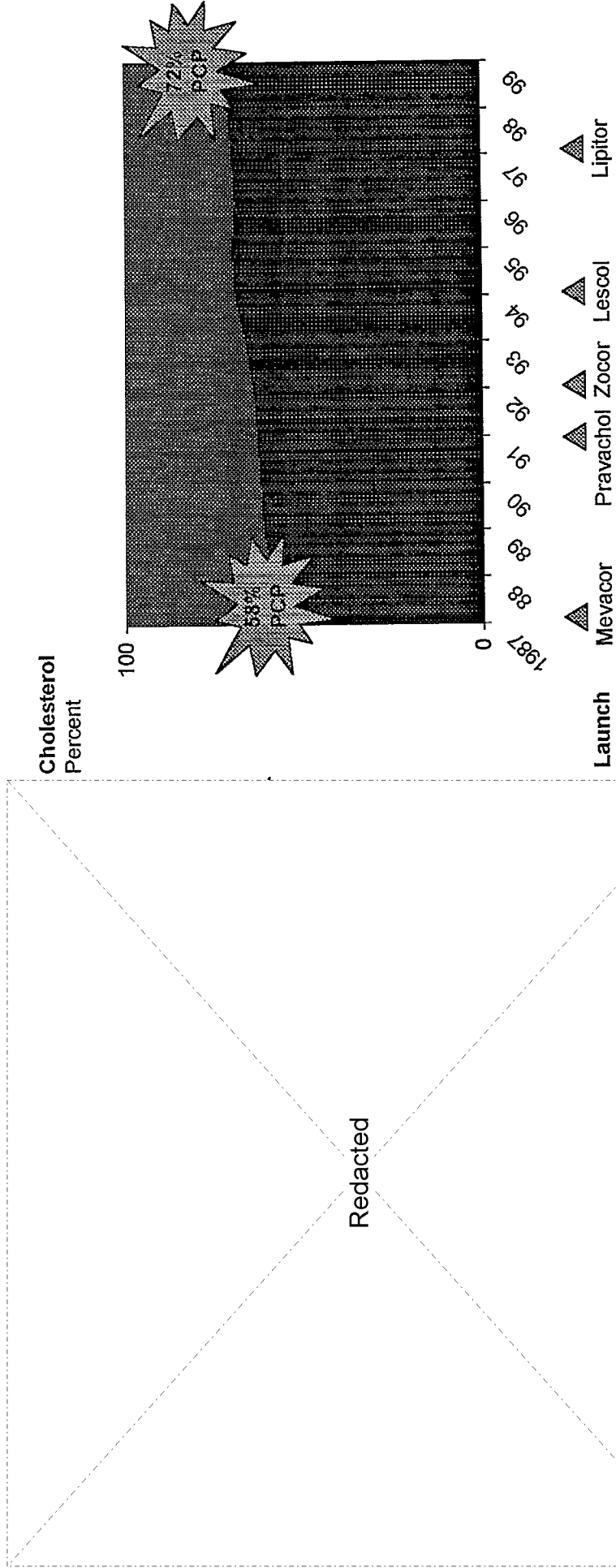
## WHAT IT WOULD TAKE FOR SPECIALIST ROLE TO INCREASE

- Primary care drugs, especially for chronic conditions, will face increasing challenges to obtain formulary approval in the U.S. and Europe
- Pharmaceutical companies will face increasing challenges to obtain pricing and reimbursement for drugs in primary care given multiple off-patent situations and despite improvements in treatment
- Despite currently strict "gate-keeper" models in Europe, European governments invest more money in specialist disease treatments
- Enhanced sophistication of new treatments even within primary care-focused diseases increases need for specialist interventions



# DISEASE TREATMENT MIGRATION ALSO STRENGTHENS PCP ROLE

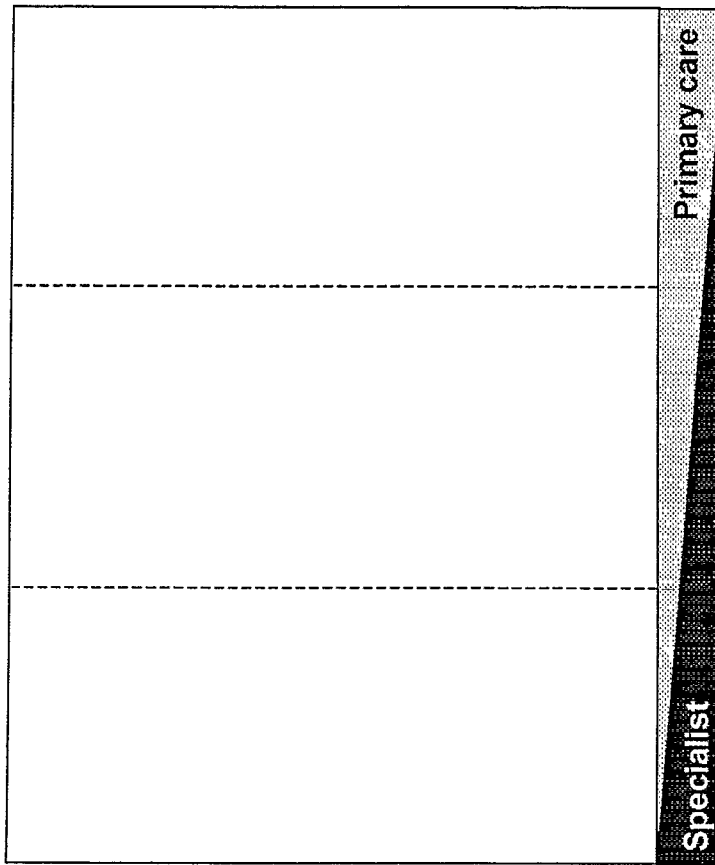
Specialist  
PCP



Redacted

# THE MARKET CAN BE LOOKED AT IN 2 WAYS – CHANNEL AND POSITIONING

Channel



Specialist-focused

Transition

Primary care focused

Positioning

<p><b>Novel mechanism</b></p> <ul style="list-style-type: none"> <li>• Novel molecule/new mechanism of action</li> <li>• Current mechanism of action serving a major unmet need</li> <li>• Examples                     <ul style="list-style-type: none"> <li>– Mevacor, <span style="border: 1px dashed black; padding: 2px;">Redacted</span> Fosamax, Zyprexa</li> </ul> </li> </ul>
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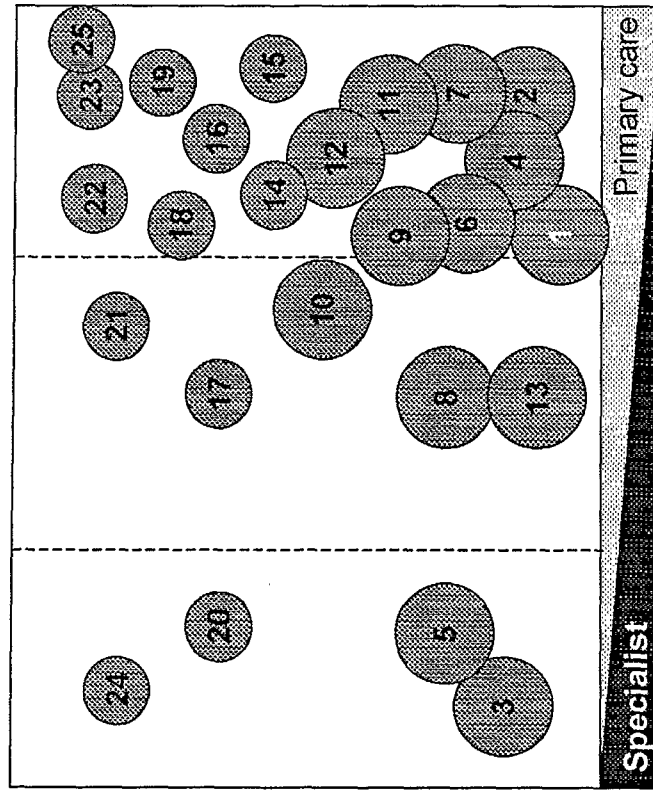
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# MOST UNMET NEEDS ARE ALSO IN PRIMARY CARE

- Disease states**
1. Obesity
  2. Macular degeneration
  3. Lung cancer
  4. Inflammatory pain
  5. Ventricular arrhythmia
  6. Essential hypertension
  7. Smoking cessation
  8. Chronic sinusitis
  9. Migraine prophylaxis
  10. Peripheral vascular disease
  11. Hearing impairment
  12. Chronic hepatitis
  13. Alzheimer's disease
  14. Allergic rhinitis
  15. Asthma
  16. Breast cancer prevention
  17. Major depression
  18. Osteoarthritis
  19. Diabetes type 2
  20. Colorectal cancer
  21. Memory impairment
  22. Esophageal reflux
  23. Hyperlipidemia
  24. Breast cancer treatment
  25. Osteoporosis

Larger

Smaller



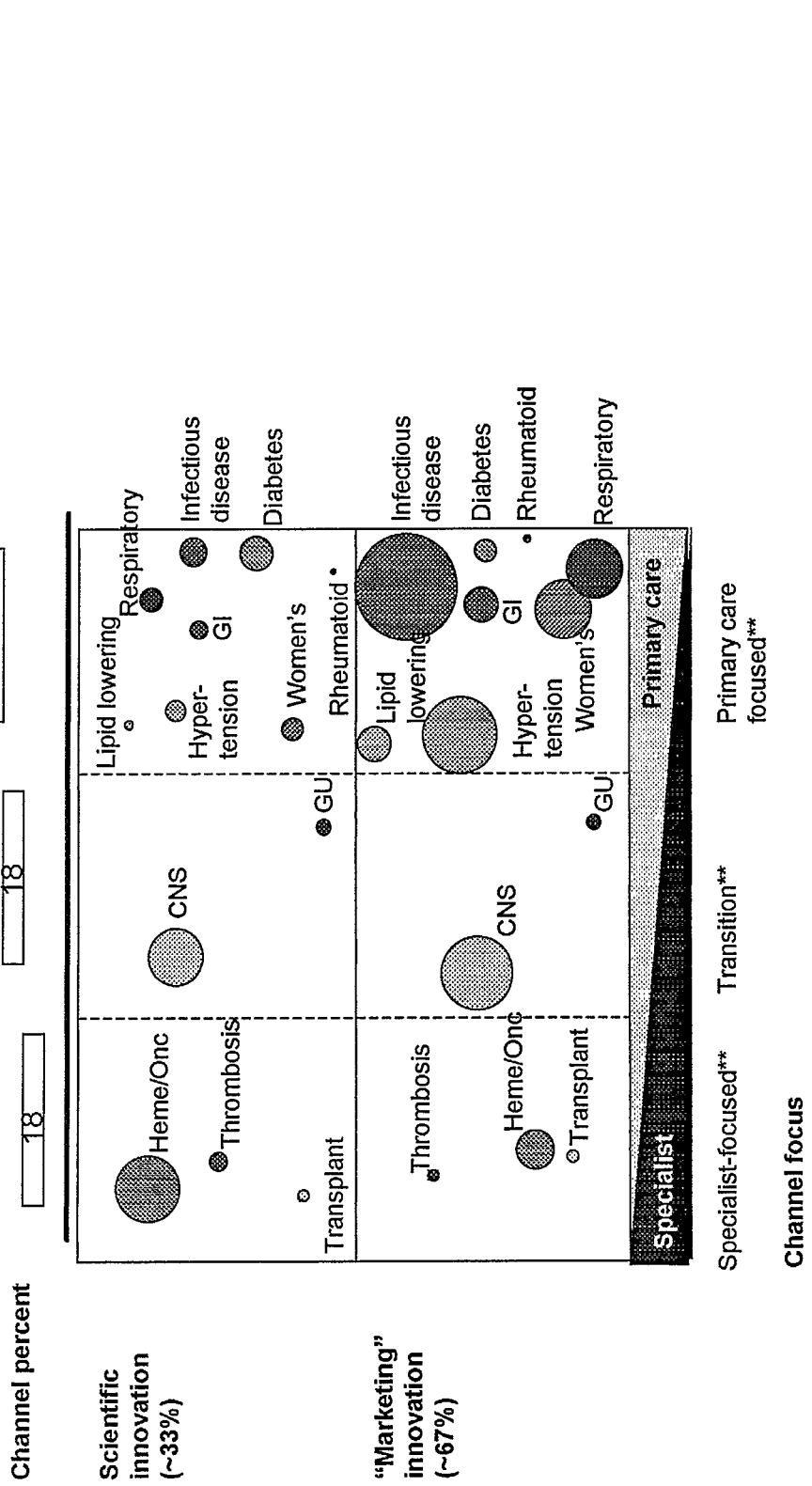
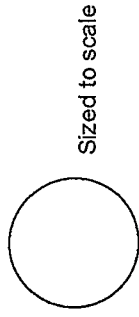
Specialist-  
focused\*      Transition\*      Primary care  
focused\*

**Channel focus**

\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)  
Source: Lilly Project Future

# NEARLY 2/3 OF FUTURE VALUE IN THE INDUSTRY WILL BE DRIVEN BY "MARKETING" INNOVATION AND FOCUSED IN THE PRIMARY CHANNEL

\$ Billions – NPV



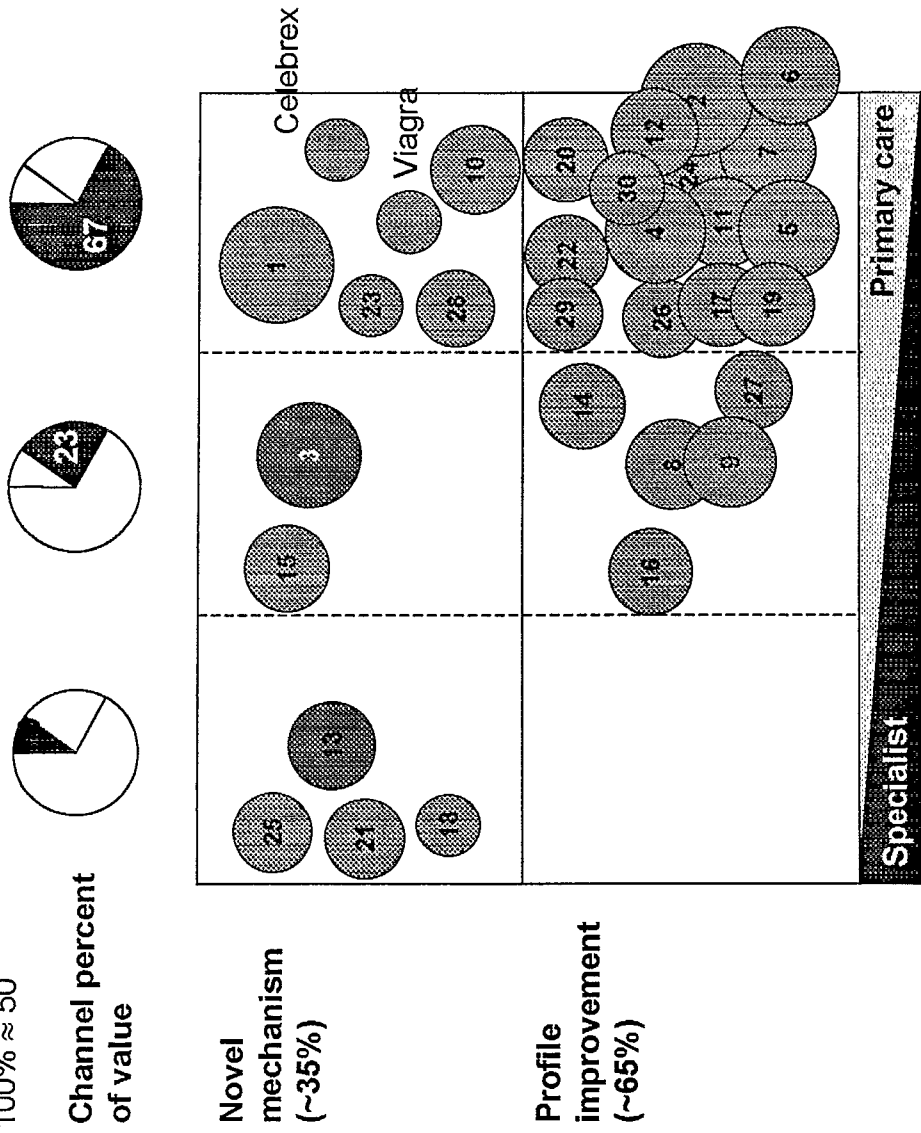
\* Please see appendix for list of innovative drugs; only major therapeutic classes analyzed (NPV greater than \$20 billion)  
 \*\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)  
 Note: Above analysis is based on predicting distribution of value across degree of innovation based on historical experience  
 Sourced: Lehman Brothers team analysis

# BLOCKBUSTER DRUGS TEND TO BE DRIVEN BY PROFILE IMPROVEMENTS AND FOCUSED IN PRIMARY CARE CHANNEL



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7.	Lipitor	WL	2,200
8.	Zolof	PFE	1,836
9.	Paxil	SKB	1,757
10.	Premarin	AHP	1,650
11.	Pravachol	BMS	1,643
12.	Augmentin	SKB	1,598
13.	Zyprexa	LLY	1,403
14.	Cipro	BAY	1,380
15.	Epogen	AMG	1,363
16.	Procrit	JNJ	1,350
17.	Prevacid	TAP	1,276
18.	Sandimmune/Neoral	NVR	1,255
19.	Zantac	GLX	1,250
20.	Biaxin	ABT	1,206
21.	Taxol	BMS	1,179
22.	Rocephin	HLR	1,157
23.	Imitrex	GLX	1,122
24.	Zestril	AZ	1,120
25.	Neupogen	AMG	1,110
26.	Pepcid	MSD	1,083
27.	Voltaren-XR	NVR	1,060
28.	Cozaar/Hyzaar	MSD	1,045
29.	Adalat	BAY	1,041
30.	Zithromax	PFE	1,041



Specialist-focused\*      Transition\*      Primary care focused\*

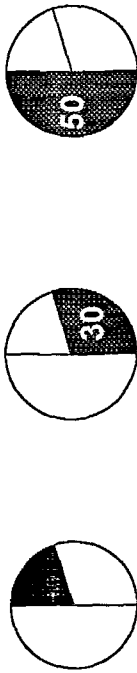
\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)  
Source: IMS; team analysis

# INDUSTRY PIPELINE DRUGS ARE ALSO LARGELY DRIVEN BY PROFILE IMPROVEMENTS AND CLUSTER IN PCP CHANNEL

\$ Billions - NPV

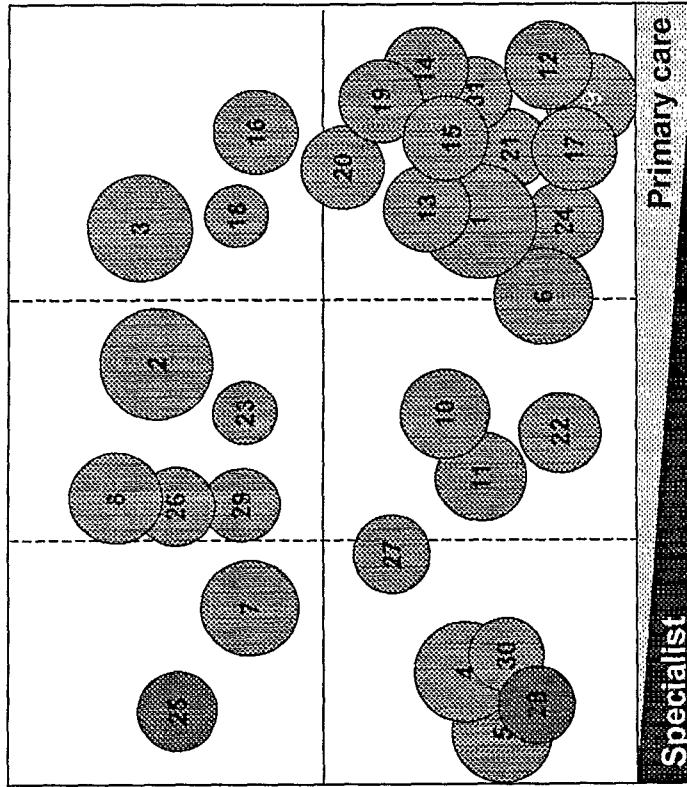
100% ≈ 41

Channel percent of value



Top 1998 Phase 3 products by NPV \$ Millions

Rank	Product	Indication	Company	NPV
1	Perprazole	Acid disorders	AZN	3,860
2	Lotronox	Irritable bowel	GW	3,460
3	Pulmonary insulin*	Diabetes	Pfizer	2,555
4	Strocin	HIV	Merck	1,890
5	UFT Oral	Cancer	BMS	1,674
6	GI198745	Ben. prost. hypertro.	GW	1,645
7	MK991	Fungal infect.	Pfizer	1,542
8	Igmesine	Depression	W-L	1,355
9	Norastemizole	Allergy	J&J/Sepracor	1,345
10	Voriconazole	Fungal infect.	Pfizer	1,308
11	Pregabalin	Epilepsy/pain	W-L	1,246
12	ZD4522	Cholesterol	AZN	1,188
13	Idoxifene	Osteoporosis	SB	1,157
14	Symbicort	Asthma	AZN	1,153
15	Droloxitene	Osteoporosis	Pfizer	1,126
16	Tamiflu	Influenza	Roche	1,113
17	Factive	Infection	SB	1,108
18	Omapatrilat	Hypertension	BMS	1,107
19	HOE901	Diabetes	Aventis	1,100
20	Protonix	Acid disorders	AHP	966
21	Oxis Turbuhaler	Asthma	AZN	945
22	Darifenacin	Irritable bowel	Pfizer	900
23	Resilor	Chronic constipation	J&J	890
24	HMR3647	Bacterial infect.	Aventis	857
26	Melatonergic Agonist	Sleep disorders	BMS	814
27	Reminyl	Alzheimers	J&J	788
29	HOE642	Angina	Aventis	744
30	ABT378	HIV	Abbott	738
31	COX-2 inhibitor	Arthritis	BMS	712



Specialist-focused\*\*      Transition\*\*      Primary care focused\*\*

Channel focus

\* Significant innovation in drug delivery

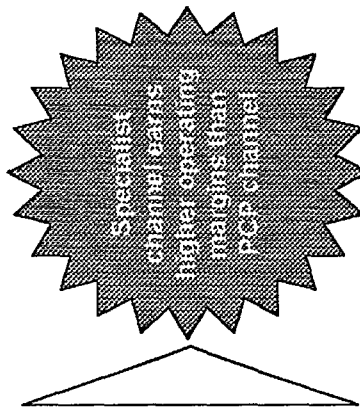
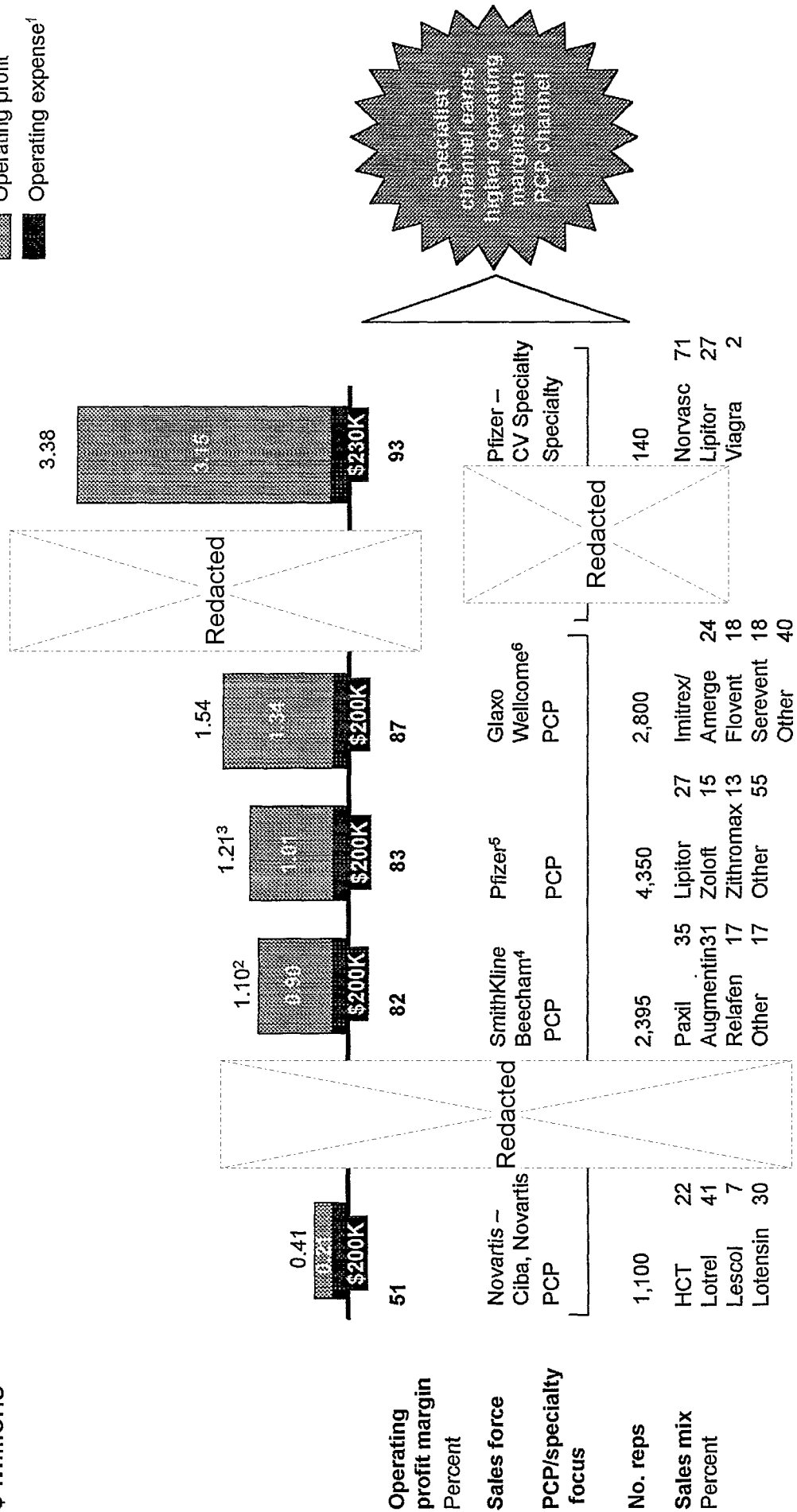
\*\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)

# SPECIALTY SALES FORCE MARGIN CAN BE HIGHER...

Average revenue per sales rep – 1998  
\$ Millions

PRELIMINARY

Operating profit  
Operating expense<sup>1</sup>

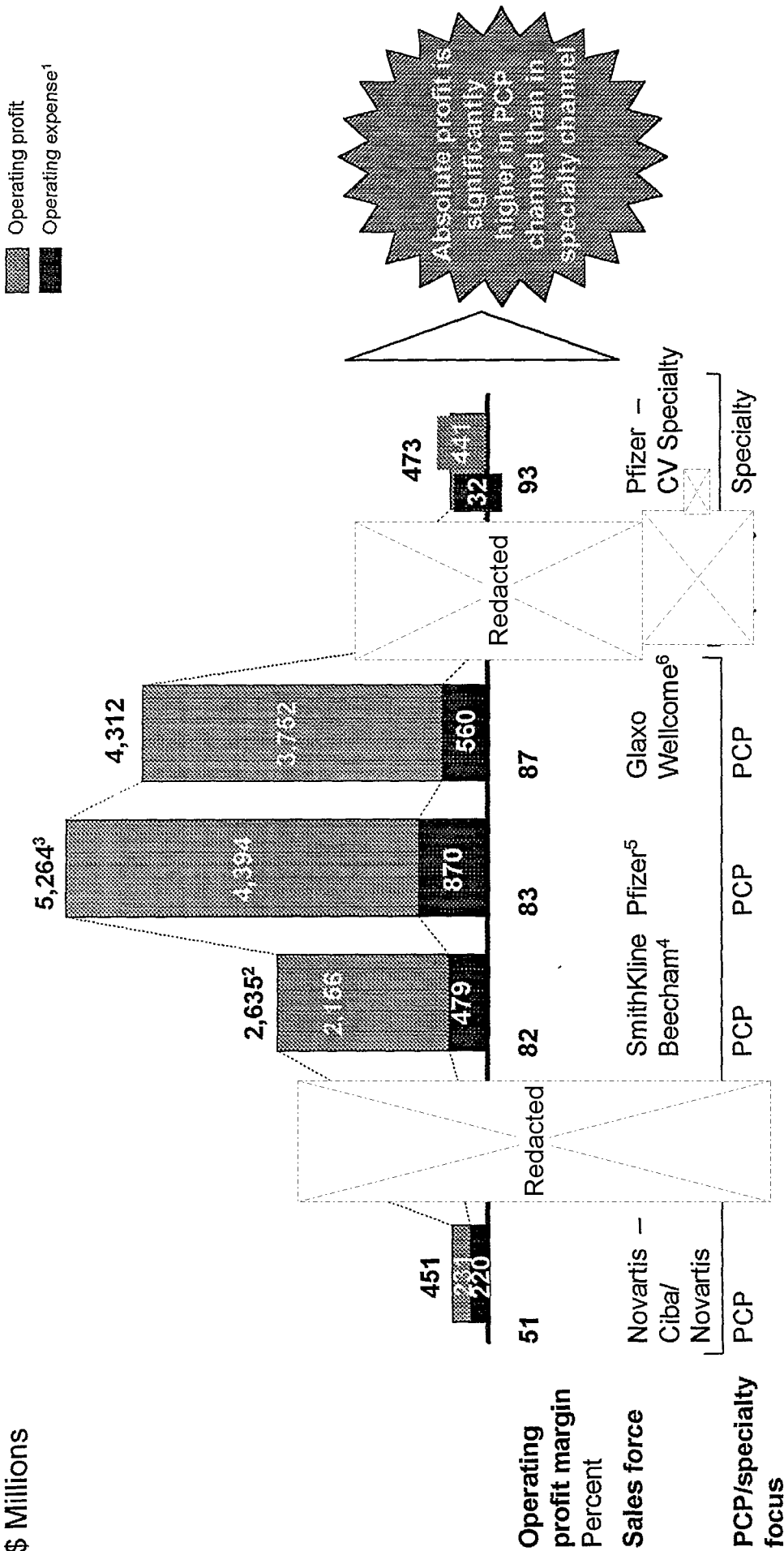


1 Estimated at approximately \$200,000 per PCP rep and \$230,000 per specialty rep; includes direct and indirect costs  
 2 Avandia sales based on 1999 U.S. estimate of \$200 million  
 3 Excludes Aftcept; Celebrex sales based on '99 U.S. estimate of \$675 million  
 4 Includes the following sales forces (with 1st details); SmithKline & French (Paxil), Beecham (Avandia), SmithKline Beecham Pharmaceuticals (Avandia), SmithKline Beecham Priority (Paxil), Penn Labs (Famvir)  
 5 Includes – Pfizer Labs (Viagra), Roerig Field (Zolof), Pratt Field (Lipitor), Powers (Zyrtec), Alta (Zithromax), Steere (Zithromax), Pfizer Contract (Cardura), Visio Rx (Zolof)  
 6 Includes – Allen & Hamburgs (Fionase), Burroughs Wellcome (Cefin), Cerenex (Imitrex/Amerge), Glaxo Pharma (Raxar), Innovex Contract (Zyban), PDI Contract (imitrex/Amerde), Therapeutic Area Specialists (imitrex/Amerde).



# ... HOWEVER, ABSOLUTE PROFIT RESIDES IN PRIMARY CARE CHANNEL GIVEN A WELL-STRUCTURED PORTFOLIO

Revenue per sales force – 1998  
\$ Millions



1 Estimated at approximately \$200,000 per PCP rep and \$230,000 per specialty rep; includes direct and indirect costs  
 2 Avandia sales based on 1999 U.S. estimate of \$200 million  
 3 Excludes Aricept; Celebrex sales based on '99 U.S. estimate of \$675 million  
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 6 Includes – Allen & Harburgs (Flonase), Burroughs Wellcome (Ceftin), Cerenex (Imitrex/Amerge), Glaxo Pharma (Raxar), Innovex Contract (Zyban), PDI Contract (Imitrex/Amerge), Therapeutic Area Specialists (Imitrex/Amerge)

# PRIMARY CARE SUMMARY



- Primary care is a large opportunity that is likely to remain important
- Lilly does not outperform its competitors in primary care and is leaving money on the table with current and pipeline products
  - Lilly’s portfolio balance emphasizes scientific innovation and the specialist channel and its early pipeline reinforces this direction
  - Several key competitors are migrating to the primary care opportunity
  - By not aggressively pursuing the primary care market, Lilly has not maximized the value of its current assets ( [REDACTED] )
  - Without a strong primary care dimension, Lilly may suboptimize the value it captures from the pipeline ( [REDACTED] )
- Lilly should approach the primary care opportunity in 3 areas

ZY 7119 781

Redacted




ZY 7119 782

Redacted

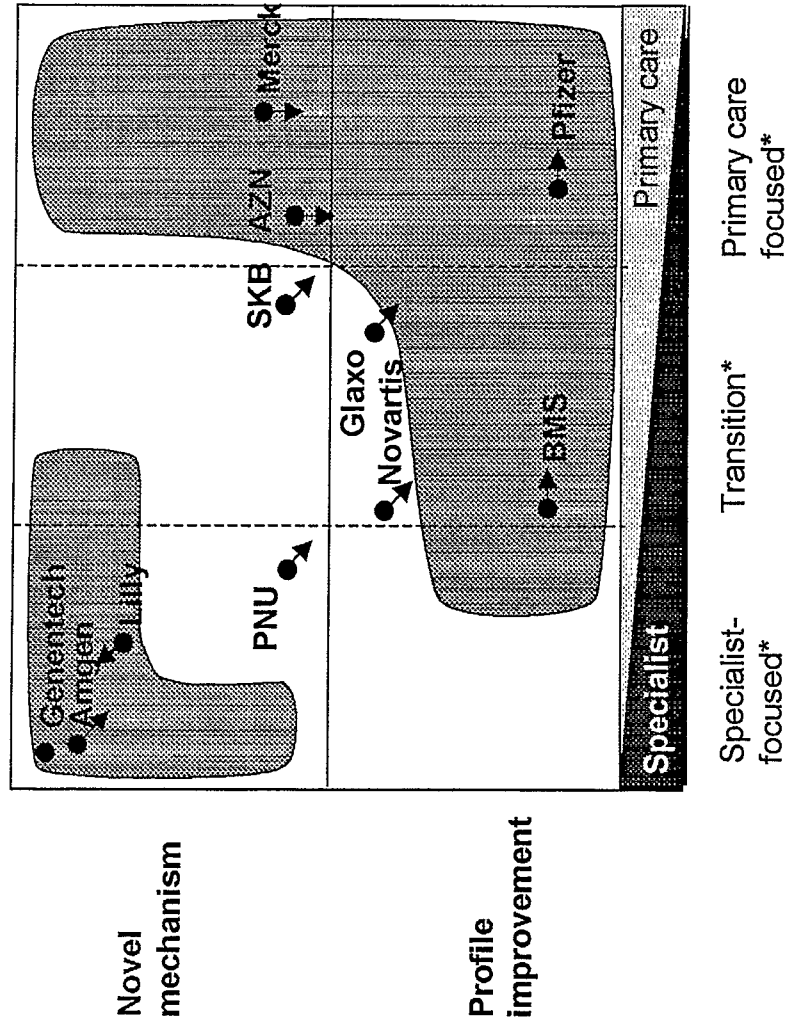
ZY 7119 783

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# LARGER COMPETITORS ARE MIGRATING TOWARD THE PRIMARY CARE CHANNEL WITH DRUGS DRIVEN BY PROFILE IMPROVEMENTS

-  Profit pool
-  Current portfolio focus
-  Pipeline focus

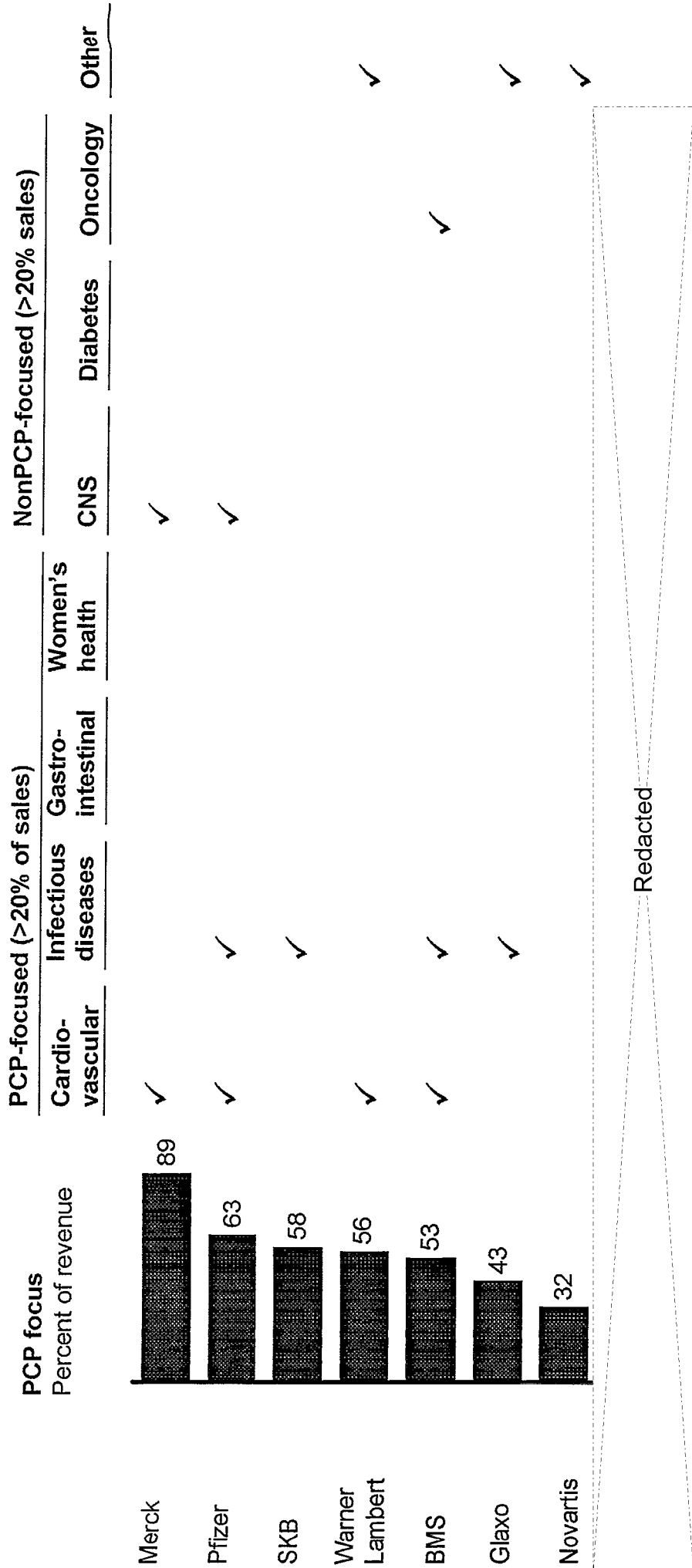
DIRECTIONAL



**Channel focus**

\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)  
 Source: Annual reports; Lehman Brothers; McKinsey Healthcare Practice; team analysis

# MANY COMPETITORS HAVE SIGNIFICANT PRIMARY CARE “ANCHORS”



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ZY 7119 786

Redacted



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Redacted

ZY 7119 788

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ZY 7119 789

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ZY 7119 790

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ZY 7119 792

Redacted

## PRIMARY CARE SUMMARY

- Primary care is a large opportunity that is likely to remain important
- Lilly does not outperform its competitors in primary care and is leaving money on the table with current and pipeline products
- Lilly should approach the primary care opportunity in 3 areas
  - Lilly faces a strategic choice as to where in the market it wants to play, balancing scientific vs. marketing innovation risk, balancing sufficiently large profit pools, and balancing primary care and specialty
  - Extract full value from current products
  - Ensure a market-linked product development/assessment process
  - Assess the risk/reward profile of its fundamental portfolio strategy as it relates to primary care and specialist, scientific and “marketing” innovation



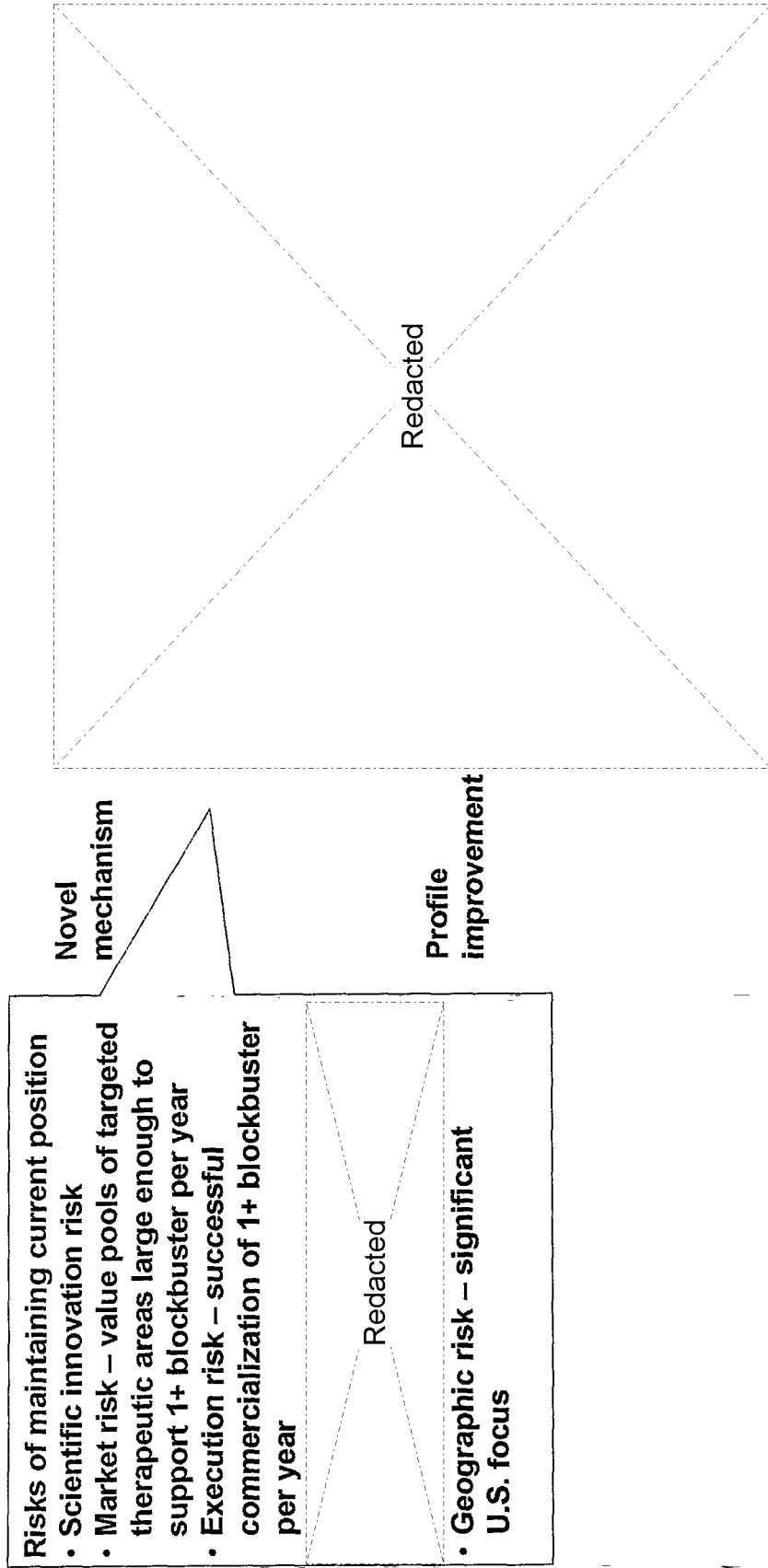
# LILLY HAS AMBITIOUS CORPORATE OBJECTIVES

EXAMPLES

- Consistently outperform industry with scientific innovation
  - Win the war for talent in R&D as well as sales and marketing
  - Continue to increase global presence
- Redacted

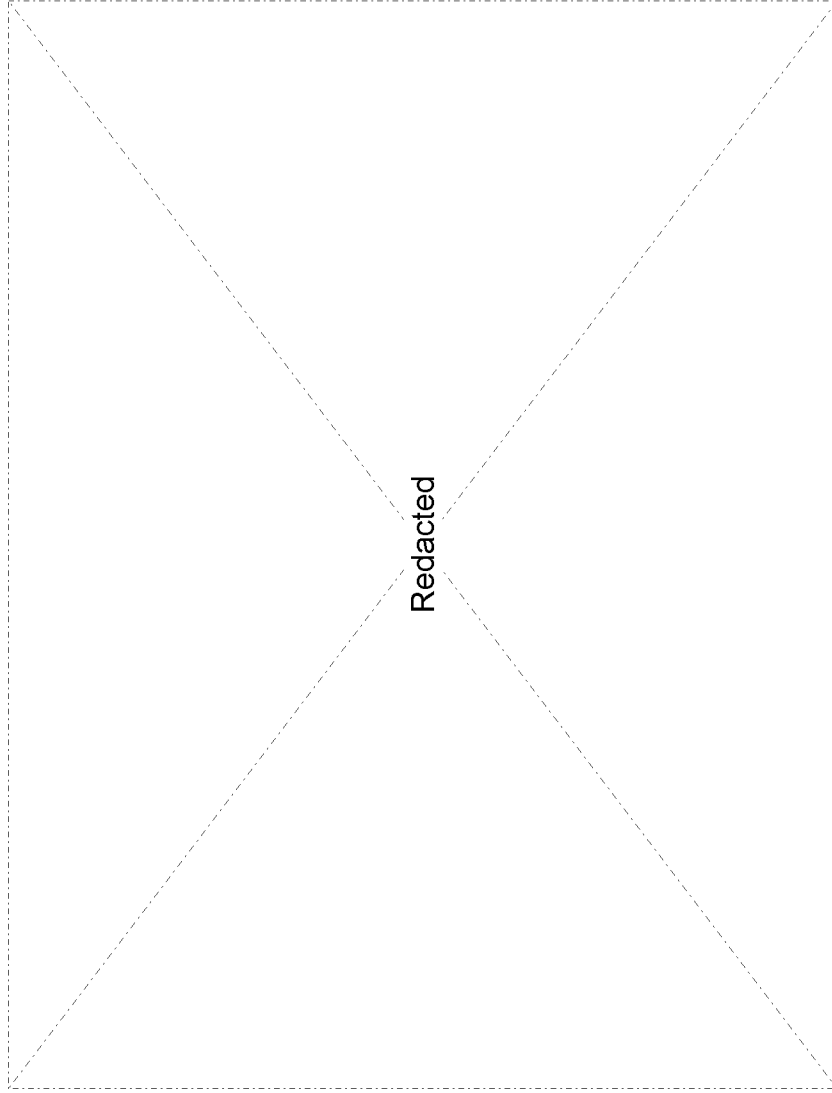


# LILLY'S CURRENT POSITION MAY NOT ACCOMPLISH ITS CORPORATE OBJECTIVES



\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)  
 Source: Lehman Brothers; team analysis

# LILLY MAY CHOOSE TO BALANCE PORTFOLIO TOWARD PRIMARY CARE



Risks of extending toward primary care

- Financial risk – large-scale investment in infrastructure required (e.g., sales force)
- Portfolio risk – insufficient products (internal or licensed) to warrant investment
- Execution risk – sales and marketing capabilities required to compete; may lose focus on specialist categories
- Industry risk – insufficient scale (e.g., sales force) to compete in consolidating industry

\* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-60%), primary care (60-100%)  
Source: Lehman Brothers; team analysis

# FAST FORWARD – KEY QUESTIONS FOR 7-YEAR PLAN

**Extract full value from current products**

- Which candidate drugs should Lilly choose?
- What are the business plans that extract full PCP value, including
  - Clinical profile and its development
  - Product positioning
  - Marketing approaches
  - Overall resource level commitments
  - Projected sales and profit impact
- How do we augment our portfolio?
  - What business development opportunities fit with our strategy?

**Ensure market-linked product development/assessment**

- What is a representative case study for how Lilly currently operates?
- What are benchmarks for the capabilities and processes that ensure market-linked product development and assessment?
- What is Lilly's performance vs. the benchmarks?
- What areas require change or improvement?
- What is the implementation plan to make the changes?
- How will we measure progress?

**Assess portfolio strategy**

- What are the total value pools based on current products and unmet needs?
- How should the profit pools be prioritized based upon Lilly's current technical capabilities and those that it may be able to acquire?
- What are the economics of each target area?
- What is the assessment of Lilly's ability to achieve its objectives given its current portfolio?

# FAST FORWARD – KEY QUESTIONS FOR 7-YEAR PLAN



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# NEXT STEPS – EXTRACTING FULL VALUE FROM CURRENT PRODUCTS

Issue	Analyses	Activities	End products	Responsibility/ champion
<ul style="list-style-type: none"> <li>• Extract full value of current products</li> </ul>	<ul style="list-style-type: none"> <li>• Case studies (choose 1 or 2 among the following)                             <ul style="list-style-type: none"> <li>- Current product (e.g., Zyprexa, )</li> <li>- R&amp;D product </li> <li>- Business development opportunity (e.g., Celebrex)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Survey and build on internal market research</li> <li>• Qualitative and quantitative benchmarking of SOV, DTC, DTP vs. competitive products</li> <li>• Profile competitor approaches in terms of                             <ul style="list-style-type: none"> <li>- Indications</li> <li>- Profiles</li> <li>- Positioning</li> </ul> </li> <li>• Analyze potential new indications and their market opportunities</li> <li>• Obtain Advisory Panel input on potential new indications</li> </ul>	<ul style="list-style-type: none"> <li>• Confirmation of the opportunity</li> <li>• Targeted market research (including initial MD interviews/ focus groups)</li> <li>• Segmentation of physicians and patients</li> <li>• Tactical recommendations for the next 1-2 years on:                             <ul style="list-style-type: none"> <li>- Marketing approaches (DTC, DTP)</li> <li>- Sales force, share of voice</li> </ul> </li> <li>• Clinical trials implications</li> </ul>	<ul style="list-style-type: none"> <li>• Gerhard Mayr, Gino Santini, Burt Van den Burg</li> <li>• John Lechleiter</li> <li>• T.A. leader</li> </ul>

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# POTENTIAL ACTIONS TO EXPLOIT PCP POTENTIAL FOR ZYPREXA

EXAMPLE

Areas	Current actions being taken	Additional ideas
<b>Clinical profile</b>	<ul style="list-style-type: none"> <li>• Schizophrenia and related psychoses for Europe</li> <li>• Remarkably safe (no abuse potential, no constipation, no increased risk of falling) and well-tolerated/agreeable (no cardiovascular side effects)</li> <li>• Developing indications for bipolar disease</li> <li>• Working towards a dementia label</li> </ul>	<ul style="list-style-type: none"> <li>• What could be other more primary care focused indications or uses of Zyprexa (e.g., behavioral disorders in the elderly, migraine)?</li> </ul>
<b>Positioning</b>	<ul style="list-style-type: none"> <li>• Positioning Zyprexa for schizophrenia, bipolar disorder, and elderly dementia</li> </ul>	<ul style="list-style-type: none"> <li>• What outcomes-related trials could improve Zyprexa's positioning (e.g., reducing caregiver burden, avoiding need for nursing home care)?</li> <li>• How might Zyprexa improve its differentiation from its competitors (e.g., far fewer CV side effects than Risperdal)?</li> </ul>
<b>Marketing</b>		
• DTP	<ul style="list-style-type: none"> <li>• Developing market-specific understanding of patient flows in Europe</li> </ul>	<ul style="list-style-type: none"> <li>• How can Lilly improve physician segmentation (e.g., geriatricians, physicians who work in nursing homes)?</li> </ul>
• DTC		<ul style="list-style-type: none"> <li>• Given additional resources, what might an enhanced DTC campaign look like (e.g., AARP-sponsored symposium on caring for elderly, other partnerships with advocacy groups, ad campaign targeting caregivers)?</li> </ul>
<b>Sales force</b>	<ul style="list-style-type: none"> <li>• Developing LTC sales force</li> </ul>	<ul style="list-style-type: none"> <li>• What additional resources may be required (e.g., to target local and corporate medical directors of nursing homes)?</li> <li>• How might an increased retail sales force focus on Zyprexa sales [Redacted]?</li> </ul>

Source: Zyprexa Product Team; Lilly interviews; team analysis



ZY 7119 803

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ZY 7119 804

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# FAST FORWARD – KEY QUESTIONS FOR 7-YEAR PLAN

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## NEXT STEPS – ENSURING MARKET-LINKED PRODUCT DEVELOPMENT/ASSESSMENT

Issue	Analyses	Activities	End products	Responsibility/ champion
<ul style="list-style-type: none"> <li>• Ensure market-linked product development/assessment (e.g., Infectious Disease joint effort between LRL and Product Teams)</li> </ul>	<ul style="list-style-type: none"> <li>• Beginning at the conclusion of lead optimization/ candidate selection, describe Lilly's current               <ul style="list-style-type: none"> <li>- Processes</li> <li>- Capabilities</li> <li>- Infrastructure</li> </ul> </li> <li>• Develop descriptive performance review framework in order to assess quality, quantity, timing, and nature of market-driven input into Lilly decision-making processes</li> <li>• Benchmark Lilly approach vs. competitors utilizing common descriptive performance framework</li> <li>• Conduct business development diagnostic</li> <li>• Understand incentives used to reinforce behavior</li> </ul>	<ul style="list-style-type: none"> <li>• Internal interviews</li> <li>• High-level external interviews</li> <li>• Interview current/ potential partners about Lilly development process</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of Lilly's processes, capabilities infrastructure through common descriptive performance framework</li> <li>• Organizational implications including changes required in               <ul style="list-style-type: none"> <li>- Processes</li> <li>- People capabilities, experiences, background, tenure</li> <li>- Incentives, measures</li> <li>- Responsibilities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• John Lechleiter</li> <li>• Bryce Carmine</li> </ul>

# MARKET-LINKED PRODUCT DEVELOPMENT/ASSESSMENT -- WHAT WILL BE REQUIRED?



**Key questions**

**Do we have enough of the right people?**

- Are they doing the right things?
- At the right time? (e.g., program team vs. product team)
- With the right incentives?

Lilly should conduct self diagnostic/performance assessment in several key areas

- Program team vs. product team
  - Marketing background/experience/tenure
  - Marketing input from affiliates

ILLUSTRATIVE

# PROGRAM TEAM

Issue area	Average	Good	Excellent
<b>Marketing background/ experience/tenure</b>			
<b>GLOBAL MARKETING</b>			
<b>New product planning</b>			
• Tenure in industry	• <2 years	• 2-9 years	• >10 years
• Experience in therapeutic area	• 1 business plan development	• Major initiative in therapeutic area	• Product marketing for major brand in therapeutic area
• Business experience	• Limited line exposure		• 2-3 years in line position (e.g., sales and marketing in affiliate)
• Background	• Marketing	• Marketing	• M.D. and marketing
• Length of time in position	• <12 months	• 12-36 months	• For life of product
• Resources dedicated 18 months prior to product decision	• Associate (25%)	• Associate (50%)	• Associate (100%)
• Resources dedicated 10 months prior to product decision	• Associate (100%)	• Manager (50%) plus Associate (100%)	• Director (25%) Manager (100%), and Associate (100%)
<b>Market research</b>			
• Contribution	• <25% market researcher	• 50% market researcher	• 100% market researcher
<b>U.S. AFFILIATE MARKETING</b>			
<b>Opportunity analysis</b>			
• Contribution	• <25% junior person	• 25-50% of seasoned marketing person (not necessarily in therapeutic area)	• 50% of seasoned marketing person from therapeutic area
• Dedication/ responsibility	• Dedicated to 4 or more products	• Dedicated to 2-3 projects	• Dedicated to 1 project
<b>EUROPEAN, INTERCON AFFILIATES</b>			
• Contribution	• Same from 1-2 affiliates	• Same from 1-2 affiliates	• Same from 2-3 largest affiliates
• Dedication	• 2-3 people across R&D pipeline	• 1-2 people across R&D pipeline	• 2-3 staff per therapeutic area or 1 per product opportunity

**PROGRAM TEAM (CONTINUED)**

ILLUSTRATIVE

Issue area	Average	Good	Excellent
<b>Marketing input from affiliates</b>	<ul style="list-style-type: none"> <li>Product positioning developed for U.S. market with some specialist input</li> </ul>	<ul style="list-style-type: none"> <li>Product positioning developed for U.S. and outside U.S. markets, based on input of specialists and some PCPs</li> </ul>	<ul style="list-style-type: none"> <li>Multiple positioning for different physician/patient segments in U.S. and outside U.S. markets, leveraging heavy input of both PCPs and specialists</li> </ul>
<b>GLOBAL MARKETING</b>			
<b>New product planning</b>			
<ul style="list-style-type: none"> <li>Positioning</li> </ul>	<ul style="list-style-type: none"> <li>Designs clinical trials based on molecule's fit with marketing handles specific to pursued indication</li> </ul>	<ul style="list-style-type: none"> <li>Designs clinical trials around potential opportunities to enhance package within specified disease state</li> </ul>	<ul style="list-style-type: none"> <li>Designs clinical trials to maximize value of molecule given its mechanism of action</li> </ul>
<ul style="list-style-type: none"> <li>Phase 2 trial input</li> </ul>	<ul style="list-style-type: none"> <li>Segments market based on secondary market research, with limited primary research input from marketing teams</li> </ul>	<ul style="list-style-type: none"> <li>Segments market based on secondary and some physician-focused primary research</li> </ul>	<ul style="list-style-type: none"> <li>Segments market based on robust primary research focused on consumers as well as physicians</li> </ul>
<b>Market research</b>			
<ul style="list-style-type: none"> <li>Market segmentation</li> </ul>	<ul style="list-style-type: none"> <li>Uses a variety of frameworks to estimate the value of existing markets with current therapies</li> </ul>	<ul style="list-style-type: none"> <li>Uses a standardized forecasting model for about 50% of all valuations, occasionally applying best practices in forecasting</li> </ul>	<ul style="list-style-type: none"> <li>Systematically uses a rigorous, forward-looking model to evaluate all molecules</li> </ul>
<ul style="list-style-type: none"> <li>Forecasting</li> </ul>			
<b>U.S. AFFILIATE</b>			
<b>Opportunity analysis</b>			
<ul style="list-style-type: none"> <li>Issue identification</li> </ul>	<ul style="list-style-type: none"> <li>Reinforces and may challenge product team's identification of issues</li> </ul>	<ul style="list-style-type: none"> <li>Contributes potential additional "deal breakers"</li> </ul>	<ul style="list-style-type: none"> <li>Rapid identification and testing with market research of potential positive and negative issues</li> </ul>
<ul style="list-style-type: none"> <li>Product positioning</li> </ul>	<ul style="list-style-type: none"> <li>Understands program team's potential product positioning, limited contribution</li> </ul>	<ul style="list-style-type: none"> <li>Contributes potential "deal breakers"</li> </ul>	<ul style="list-style-type: none"> <li>Contributes marketing handles that are included for Phase 2 clinical trials</li> </ul>
<b>EUROPEAN, INTERCON AFFILIATES</b>			
<ul style="list-style-type: none"> <li>Product positioning</li> </ul>	<ul style="list-style-type: none"> <li>Understands program team's potential product positioning; limited contribution</li> </ul>	<ul style="list-style-type: none"> <li>Contributes potential "deal breakers"</li> </ul>	<ul style="list-style-type: none"> <li>Contributes marketing handles for European Phase 2 clinical trials</li> <li>Develops specific formulation/positioning for Intercon</li> </ul>

# PRODUCT TEAM

ILLUSTRATIVE

Issue area	Average	Good	Excellent
<b>Marketing background/ experience/tenure</b>			
<b>GLOBAL MARKETING</b>			
<b>Brand management/ marketing plans</b>			
<ul style="list-style-type: none"> <li>• Tenure in industry</li> <li>• Experience in therapeutic area</li> <li>• Business experience</li> </ul>	<ul style="list-style-type: none"> <li>• &lt;2 years</li> <li>• 1 business plan development</li> <li>• Limited line exposure</li> </ul>	<ul style="list-style-type: none"> <li>• 2-9 years</li> <li>• Major initiative in therapeutic area</li> </ul>	<ul style="list-style-type: none"> <li>• &gt;10 years</li> <li>• Product marketing for major brand in therapeutic area</li> <li>• 2-3 years in line position (e.g., sales and marketing in affiliate)</li> <li>• M.D. and marketing</li> <li>• For life of product</li> <li>• Specialists and PCPs in U.S. and Europe</li> </ul>
<b>Background</b>	<ul style="list-style-type: none"> <li>• &lt;12 months</li> <li>• Specialists in the field in U.S.</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing</li> <li>• 12-36 months</li> <li>• Specialists in the field in U.S. and Europe</li> </ul>	
<b>Length of time in position</b>			
<b>Advisory group</b>			
	<ul style="list-style-type: none"> <li>• &lt;25% market researcher</li> </ul>	<ul style="list-style-type: none"> <li>• 50% market researcher</li> </ul>	<ul style="list-style-type: none"> <li>• 100% market researcher</li> </ul>
<b>Market research</b>			
<ul style="list-style-type: none"> <li>• Contribution</li> </ul>			
<b>U.S. AFFILIATE MARKETING</b>			
<b>Opportunity analysis</b>	<ul style="list-style-type: none"> <li>• &lt;25% junior person</li> </ul>	<ul style="list-style-type: none"> <li>• 25-50% of seasoned marketing person (not necessarily in therapeutic area)</li> <li>• Dedicated to 2-3 projects</li> </ul>	<ul style="list-style-type: none"> <li>• 50% of seasoned marketing person from therapeutic area</li> <li>• Dedicated to 1 project</li> </ul>
<ul style="list-style-type: none"> <li>• Contribution</li> </ul>	<ul style="list-style-type: none"> <li>• Dedicated to 4 or more products</li> </ul>		
<b>Dedication/ responsibility</b>			
	<ul style="list-style-type: none"> <li>• Same from 1-2 affiliates</li> <li>• 2-3 people across R&amp;D pipeline</li> </ul>	<ul style="list-style-type: none"> <li>• Same from 1-2 affiliates</li> <li>• 1-2 people across R&amp;D pipeline</li> </ul>	<ul style="list-style-type: none"> <li>• Same from 2-3 largest affiliates</li> <li>• 2-3 staff per therapeutic area or 1 per product opportunity</li> </ul>
<b>EUROPEAN, INTERCON AFFILIATES</b>			
<ul style="list-style-type: none"> <li>• Contribution</li> <li>• Dedication</li> </ul>			



ILLUSTRATIVE

**PRODUCT TEAM (CONTINUED)**

Issue area	Average	Good	Excellent
Marketing input from affiliates			
<b>GLOBAL MARKETING</b>			
Brand management/marketing plans	• TBD	• TBD	• TBD
• Product positioning			
• Phase 3 trial input			
• Branding			
• DTC/DTP/PTP			
Market research	• TBD	• TBD	• TBD
• Market segmentation			
• Competitive intelligence			
<b>U.S. AFFILIATE</b>			
• Issue identification	• Reinforces product teams identification of issues and may challenge	• Contributes potential additional "deal breakers"	• Rapid identification and testing with market research of potential positive and negative issues
• Product positioning	• Understands program team's potential product positioning, limited contribution	• Contributes potential "deal breakers"	• Contributes marketing handles that are included for Phase 3 clinical trials
<b>EUROPEAN, INTERCON AFFILIATES</b>	• Understands program team's potential product positioning; limited contribution	• Contributes potential "deal breakers"	• Contributes marketing handles for European Phase 3 clinical trials • Develops specific formulation/positioning for Intercon

# FAST FORWARD – KEY QUESTIONS FOR 7-YEAR PLAN

Extract full value from current products

- Which candidate drugs should Lilly choose?
- What are the business plans that extract full PCP value, including
  - Clinical profile and its development
  - Product positioning
  - Marketing approaches
  - Overall resource level commitments
  - Projected sales and profit impact
- How do we augment our portfolio?
  - What business development opportunities fit with our strategy?

Ensure market-linked product development/assessment

- What is a representative case study for how Lilly currently operates?
- What are benchmarks for the capabilities and processes that ensure market-linked product development and assessment?
- What is Lilly's performance vs. the benchmarks?
- What areas require change or improvement?
- What is the implementation plan to make the changes?
- How will we measure progress?

Assess portfolio strategy



- What are the total value pools based on current products and unmet needs?
- How should the profit pools be prioritized based upon Lilly's current technical capabilities and those that it may be able to acquire?
- What are the economics of each target area?
- What is the assessment of Lilly's ability to achieve its objectives given its current portfolio?

## NEXT STEPS – ASSESSING PORTFOLIO STRATEGY

Issue	Analyses	Activities	End products	Responsibility/ champion
<ul style="list-style-type: none"> <li>Assess fundamental portfolio strategy</li> </ul>	<ul style="list-style-type: none"> <li>Assess current portfolio strategy across multiple dimensions                             <ul style="list-style-type: none"> <li>Size of unmet need/potential market profit pools (including quality of life drugs, value of profile improvements)</li> <li>Scientific feasibility given Lilly's knowledge of diseases</li> </ul> </li> <li>Describe competitor portfolio strategies</li> <li>Prioritize discovery, development, and licensing efforts in core, exploration, and opportunistic areas</li> </ul>	<ul style="list-style-type: none"> <li>Detailed internal interviews with LRL</li> <li>External high-level interviews</li> </ul>	<ul style="list-style-type: none"> <li>Description of Lilly portfolio in terms of potential size of market profit pools and scientific feasibility</li> <li>Assessment of potential of portfolio to meet Lilly's objectives</li> <li>Recommendations as to prioritization improvements for discovery, development, and licensing</li> </ul>	<ul style="list-style-type: none"> <li>Sidney Taurel</li> <li>Gus Watanabe</li> <li>John Lechleiter</li> <li>Gerhard Mayr</li> </ul>

# Appendix B

## NONHOSPITAL MIX BY COUNTRY

PCP breakdown by specialty		Percent of pharmaceutical sales occurring in hospitals								
Country	1999	Total	FP/GP	IM	OB/GYN	PED	83	88	93	98
U.S.	65*		21	18	6	12	18	15	13	12
Japan	62			51	4	8	n/a	n/a	n/a	20**
Germany	89		56	19	6	8	18	17	17	18
France	89		83	n/a	3	3	12	13	12	12
Italy	85		77		3	5	13	13	13	13
U.K.	~95		n/a	n/a	n/a	n/a	n/a	16	16	16
Brazil	67		32		14	21	n/a	n/a	n/a	20
Canada	91		74	11	2	4	n/a	14	15	12
Mexico	78		52	6	8	12	n/a	n/a	n/a	8

\* Includes osteopathic medicine, which was 8% in 1999

\*\* Estimate

Source: Pharmaceutical Market World Review; IMS

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## QUOTES INDICATE WIDE VARIANCE AS TO APPROPRIATE BALANCE FOR PORTFOLIO

### Primary vs. Specialty care

- "It is unclear whether we could or should migrate from our current position to one with a greater primary care focus."
- "Primary care is a good business opportunity. The margins are sufficiently attractive."
- "We should invest more heavily in the primary care channel. If our pipeline does not provide products, then we should license them."
- "To be global, we need primary care products."

### Target significant profit pools

- "Is there enough money in Lilly's traditional specialist focus to sustain our growth aspirations?"
- "(Primary care) is where the dollars will be. You need to be there if you want to access future sales"

### Novel mechanism vs. profile improvement

- "Have we got the right profile to weather the innovation risk and still meet our goals?"
- "Given the choice, I would be more comfortable taking more scientific risk rather than marketing risk."
- "Could we have even created a Lipitor or Celebrex if it were licensed to us?"
- "A good sales force can sell even incremental improvements into the primary care channel."
- "We don't do primary care drugs because LRL has a more powerful means to articulate its case."