The Primary Care Opportunity

Lilly
LAGGER COMPETITORS ARE MIGRATING TOWARD THE PRIMARY CARE CHANNEL WITH DRUGS DRIVEN BY PROFILE IMPROVEMENTS

* 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

Risks of maintaining current position
- Scientific innovation risk
- Market risk – value pools of targeted therapeutic areas large enough to support 1+ blockbuster per year
- Execution risk – successful commercialization of 1+ blockbuster per year

- Geographic risk – significant U.S. focus

Novel mechanism

Profile improvement

* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-80%), 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?
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
HEALTHCARE REFORMS WILL CONTINUE TO REINFORCE
PCP ROLE

Major reform
PCPs act as "gatekeepers" to manage the cost of hospitals and specialists
PCPs are financially incented to control prescription costs
Use of regional, national formularies is expanded
Drug budgets place pressure on pricing and labeling (including their interaction)

Source: McKinsey analysis

PCPs – "gatekeeper" role expands to cover hospital, specialist, and pharmaceutical costs. Pharmaceutic 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

Novel mechanism
- Novel molecule/new mechanism of action
- Current mechanism of action serving a major unmet need
- Examples
  - Mevacor, Redacted, Fosamax, Zyprexa

Profile improvement
- Known or proven mechanism of action with improved
  - Dosage
  - Delivery
  - Side effects
  - Efficacy
  - Other
- Examples
  - Lipitor, Paxil, Biaxin

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

Top 30 products based on worldwide sales – 1998

<table>
<thead>
<tr>
<th>Rank</th>
<th>Product</th>
<th>Company</th>
<th>Sales</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Prilosec/Losec</td>
<td>AZ</td>
<td>3,976</td>
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<tr>
<td>2</td>
<td>Zocor</td>
<td>MSD</td>
<td>3,945</td>
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<td>4</td>
<td>Norvasc</td>
<td>PFE</td>
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<td>Vasotec</td>
<td>MSD</td>
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<td>6</td>
<td>Claritin</td>
<td>SCH</td>
<td>2,300</td>
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<td>7</td>
<td>Lipitor</td>
<td>WL</td>
<td>2,200</td>
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<tr>
<td>8</td>
<td>Zoloft</td>
<td>PFE</td>
<td>1,836</td>
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<td>9</td>
<td>Paxil</td>
<td>SKB</td>
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<td>10</td>
<td>Premarin</td>
<td>AHP</td>
<td>1,650</td>
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<tr>
<td>11</td>
<td>Pravachol</td>
<td>BMS</td>
<td>1,643</td>
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<tr>
<td>12</td>
<td>Augmentin</td>
<td>SKB</td>
<td>1,598</td>
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<td>13</td>
<td>Zyprexa</td>
<td>LLY</td>
<td>1,403</td>
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<td>14</td>
<td>Cipro</td>
<td>BAY</td>
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<td>15</td>
<td>Epogen</td>
<td>AMG</td>
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<td>16</td>
<td>Procrit</td>
<td>JNJ</td>
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<td>17</td>
<td>Prevacid</td>
<td>TAP</td>
<td>1,276</td>
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<td>18</td>
<td>Sandimmune/Neoral</td>
<td>NVR</td>
<td>1,255</td>
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<td>19</td>
<td>Zantac</td>
<td>GLX</td>
<td>1,250</td>
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<td>20</td>
<td>Blaxin</td>
<td>ABT</td>
<td>1,206</td>
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<td>21</td>
<td>Taxol</td>
<td>BMS</td>
<td>1,179</td>
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<td>Rocephin</td>
<td>HLR</td>
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<td>23</td>
<td>Imitrex</td>
<td>GLX</td>
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<td>Zestril</td>
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<td>Neupogen</td>
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<td>Pecd</td>
<td>MSD</td>
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<td>Voltaren-XR</td>
<td>NVR</td>
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<td>28</td>
<td>Cozaar/Hyzaar</td>
<td>MSD</td>
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<td>29</td>
<td>Adalat</td>
<td>BAY</td>
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<td>30</td>
<td>Zithromax</td>
<td>PFE</td>
<td>1,041</td>
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</tbody>
</table>

Profile improvement (~65%)

Novel mechanism (~35%)

Channel focus

* 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

Novel mechanism (~35%)

Profile improvement (~65%)

Top 1998 Phase 3 products by NPV

<table>
<thead>
<tr>
<th>Rank</th>
<th>Product</th>
<th>Indication</th>
<th>Company</th>
<th>NPV</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Perprazole</td>
<td>Acid disorders</td>
<td>AZN</td>
<td>3,860</td>
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<tr>
<td>2</td>
<td>Lotronox</td>
<td>Irritable bowel</td>
<td>GW</td>
<td>3,460</td>
</tr>
<tr>
<td>3</td>
<td>Pulmonary insulin*</td>
<td>Diabetes</td>
<td>Pfizer</td>
<td>2,555</td>
</tr>
<tr>
<td>4</td>
<td>Strocin</td>
<td>HIV</td>
<td>Merck</td>
<td>1,890</td>
</tr>
<tr>
<td>5</td>
<td>UFT Oral</td>
<td>Cancer</td>
<td>BMS</td>
<td>1,674</td>
</tr>
<tr>
<td>6</td>
<td>GI198745</td>
<td>Ben. prost. hypertro.</td>
<td>GW</td>
<td>1,645</td>
</tr>
<tr>
<td>7</td>
<td>MK991</td>
<td>Fungal infect.</td>
<td>Pfizer</td>
<td>1,542</td>
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<tr>
<td>8</td>
<td>Igmesine</td>
<td>Depression</td>
<td>W-L</td>
<td>1,355</td>
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<tr>
<td>9</td>
<td>Norastemizole</td>
<td>Allergy</td>
<td>J&amp;J/Searpro</td>
<td>1,345</td>
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<tr>
<td>10</td>
<td>Vorlonazole</td>
<td>Fungal infect.</td>
<td>Pfizer</td>
<td>1,308</td>
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<tr>
<td>11</td>
<td>Pregabalin</td>
<td>Epilepsy/pain</td>
<td>W-L</td>
<td>1,246</td>
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<tr>
<td>12</td>
<td>ZD4522</td>
<td>Cholesterol</td>
<td>AZN</td>
<td>1,188</td>
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<tr>
<td>13</td>
<td>Idoxifene</td>
<td>Osteoporosis</td>
<td>SB</td>
<td>1,157</td>
</tr>
<tr>
<td>14</td>
<td>Symbicort</td>
<td>Asthma</td>
<td>AZN</td>
<td>1,153</td>
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<tr>
<td>15</td>
<td>Droloxitene</td>
<td>Osteoporosis</td>
<td>Pfizer</td>
<td>1,126</td>
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<tr>
<td>16</td>
<td>Tamifla</td>
<td>Influenza</td>
<td>Roche</td>
<td>1,113</td>
</tr>
<tr>
<td>17</td>
<td>Factive</td>
<td>Infection</td>
<td>SB</td>
<td>1,108</td>
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<tr>
<td>18</td>
<td>Omapatrilat</td>
<td>Hypertension</td>
<td>BMS</td>
<td>1,107</td>
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<td>19</td>
<td>HOE901</td>
<td>Diabetes</td>
<td>Aventis</td>
<td>1,100</td>
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<tr>
<td>20</td>
<td>Protonix</td>
<td>Acid disorders</td>
<td>AHP</td>
<td>956</td>
</tr>
<tr>
<td>21</td>
<td>Oxs Turbuhaler</td>
<td>Asthma</td>
<td>AZN</td>
<td>945</td>
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<tr>
<td>22</td>
<td>Darifenacin</td>
<td>Irritable bowel</td>
<td>Pfizer</td>
<td>900</td>
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<tr>
<td>23</td>
<td>Resilir</td>
<td>Chronic constipation</td>
<td>J&amp;J</td>
<td>890</td>
</tr>
<tr>
<td>24</td>
<td>HMR3647</td>
<td>Bacterial infect.</td>
<td>Aventis</td>
<td>857</td>
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</table>

<table>
<thead>
<tr>
<th>Rank</th>
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<th>Indication</th>
<th>Company</th>
<th>NPV</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>Melatoning Agonist</td>
<td>Sleep disorders</td>
<td>BMS</td>
<td>814</td>
</tr>
<tr>
<td>27</td>
<td>Remyl</td>
<td>Alzheimers</td>
<td>J&amp;J</td>
<td>786</td>
</tr>
<tr>
<td>29</td>
<td>HOE642</td>
<td>Angina</td>
<td>Aventis</td>
<td>744</td>
</tr>
<tr>
<td>30</td>
<td>ABT378</td>
<td>HIV</td>
<td>Abbott</td>
<td>738</td>
</tr>
<tr>
<td>31</td>
<td>COX-2 inhibitor</td>
<td>Arthritis</td>
<td>BMS</td>
<td>712</td>
</tr>
</tbody>
</table>

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%)
LILLY’S CURRENT PRODUCTS FOCUS ON NOVEL MECHANISMS IN SPECIALIST CHANNEL

Channel percent of value

Novel mechanism (~90%)

Profile improvement (~10%)

Channel focus

* Based on percent of prescriptions prescribed by PCPs; specialist (0-20%), transition (20-80%), primary care (60-100%)

Source: Eli Lilly Primary Care Working Team; Lehman Brothers; team analysis
LILLY'S DEVELOPMENT PORTFOLIO IS SPECIALIST-FOCUSED BUT MAY PROVIDE POTENTIAL PCP PLATFORMS

$ Billions – NPV

100% ≈ 11**
Channel percent of value

Novel mechanism (~75%)

Profile improvement (~25%)

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

Channel focus

* 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 Primary Care Working Team; Eli Lilly Product and Program Teams; team analysis
LARGER COMPETITORS ARE MIGRATING TOWARD THE PRIMARY CARE CHANNEL WITH DRUGS DRIVEN BY PROFILE IMPROVEMENTS

PROFILE IMPROVEMENT

Channel focus

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Source: Annual reports; Lehman Brothers; McKinsey Healthcare Practice; team analysis
... HOWEVER, ABSOLUTE PROFIT RESIDES IN PRIMARY CARE CHANNEL GIVEN A WELL-STRUCTURED PORTFOLIO

Revenue per sales force – 1998

$ Millions

<table>
<thead>
<tr>
<th>Sales force</th>
<th>Operating profit</th>
<th>Operating expense¹</th>
<th>PCP/specialty focus</th>
<th>Operating profit margin Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Novartis – Ciba/Novartis</td>
<td>2,166</td>
<td>479</td>
<td>82</td>
<td>51</td>
</tr>
<tr>
<td>SmithKline Beecham⁴</td>
<td>2,635²</td>
<td>479</td>
<td>83</td>
<td>82</td>
</tr>
<tr>
<td>Pfizer⁵</td>
<td>5,264³</td>
<td>870</td>
<td>87</td>
<td>82</td>
</tr>
<tr>
<td>Glaxo Wellcome⁶</td>
<td>4,312</td>
<td>560</td>
<td>87</td>
<td>82</td>
</tr>
<tr>
<td>Pfizer – CV Specialty</td>
<td>473</td>
<td>32</td>
<td>93</td>
<td>93</td>
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<tr>
<td>Specialty</td>
<td>441</td>
<td>1</td>
<td>93</td>
<td>93</td>
</tr>
</tbody>
</table>

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 Priorty (Paxil), Penn Labs (Famvir)
⁵ Includes – Pfizer Labs (Viagra), Roerig Field (Zoloft), Pratt Field (Lipitor), Powars (Zytec), Alta (Zithromax), Steere (Zithromax), Pfizer Contract (Cardura), Visio Rx (Zoloft)
⁶ Includes – Alim & Hamberg (Flonase), Burroughs Wellcome (Coffin), Carenex (Imitrex/Amerge), Glaxo Pharma (Raxar), Innovox Contract (Zvban), PDI Contract (Imitrex/Amerge), Therapeutic Area Specialists (Imitrex/Amerge)
LILLY HAS AMBITIOUS CORPORATE OBJECTIVES

- 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

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- Scientific innovation risk
- Market risk – value pools of targeted therapeutic areas large enough to support 1+ blockbuster per year
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Novel mechanism

Profile improvement

* 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
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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- Primary care and Lilly's position

- Performance gap/money "left on the

- Fast forward – key questions for 7-year plan
FAST FORWARD – KEY QUESTIONS FOR 7-YEAR PLAN

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- Which candidate drugs should Lilly choose?
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  - Overall resource level commitments
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  - What business development opportunities fit with our portfolio?

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- What is a representative case study for how Lilly currently operates?
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- What is Lilly’s performance vs. the benchmarks?
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- 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?
Lilly

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
HEALTHCARE REFORMS WILL CONTINUE TO REINFORCE PCP ROLE

<table>
<thead>
<tr>
<th>Major reform</th>
<th>U.K.</th>
<th>Canada</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>U.S.</th>
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<tbody>
<tr>
<td>PCPs act as &quot;gatekeepers&quot; to manage the cost of hospitals and specialists</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
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<tr>
<td>PCPs are financially incented to control prescription costs</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
</tr>
<tr>
<td>Use of regional, national formularies is expanded</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
</tr>
<tr>
<td>Drug budgets place pressure on pricing and labeling (including their interaction)</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
<td>⬤</td>
</tr>
</tbody>
</table>

- 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

Source: McKinsey analysis
OTHER TRENDS ENHANCE PCP ROLE

Diseases/demographics (+)
- Aging population drives increase in chronic and primary care
- Westernization of diseases in emerging markets drives CV, diabetes, other primary care diseases

Technology (+)
- Improvements in monitoring, maintenance, and prevention increase importance of primary care

Patients (+/-)
- Demand for quality of life drugs drive primary care
- Increased sophistication of patient knowledge drives increased discussions with specialists

Pharmacos (+)
- Significant investment in primary care oriented diseases given unmet need and future profit pools

Physicians (+/-)
- Continued training of primary care physicians (may outstrip specialists outside U.S.)
- Organization into large groups to manage budgets, manage patients/diseases

Overall enhanced role of primary care physician
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.
THE MARKET CAN BE LOOKED AT IN 2 WAYS – CHANNEL AND POSITIONING

Channel

Positioning

**Novel mechanism**
- Novel molecule/new mechanism of action
- Current mechanism of action serving a major unmet need
- Examples
  - Mevacor
  - Redacted
  - Fosamax, Zyprexa

**Profile improvement**
- Known or proven mechanism of action with improved
  - Dosage
  - Delivery
  - Side effects
  - Efficacy
  - Other
- Examples
  - Lipitor, Paxil, Biaxin
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

* 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

[Diagram showing channel percent and focus areas]

* 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

Source: Lehman Brothers' team analysis
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%)

Top 30 products based on worldwide sales – 1998

$ Millions

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

Source: IMS; team analysis

Channel focus

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

Specialist-focused* Transition* Primary care-focused*
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

* 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

Operating profit margin
Percent

Sales force
Novartis – Ciba, Novartis
PCP

PCP/specialty focus
Redacted

No. reps
1,100

Sales mix
HCT 22
Lotrel 41
Lescol 7
Lotensin 30

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 $875 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 (Pamvir)
5 Includes – Pfizer Labs (Viagra), Roerig Field (Zoloft), Pratt Field (Lipitor), Powers (Zytec), Alta (Zithromax), Steere (Zithromax), Pfizer Contract (Cardura), Visio Rx (Zoloft)
6 Includes – Allen & Hamburgs (Fbnase), Burroughs Wellcome (Cellcept), Cerexin (Imitrex/Amerge), Glaxo Pharma (Raxar), Innovex Contract (Zyban), PDI Contract (Imitrex/Amerge), Therapeutic Area Specialists (Imitrex/Amerge)

Redacted

0.41

0.90

1.01

1.34

1.54

1.21

1.10

3.38

3.15

$200K

$200K

$200K

$200K

$230K

$200K

$200K

$200K

$230K

Preliminary

Operating profit

Operating expense

Specialist channel earns higher operating margins than PCP channel.
... HOWEVER, ABSOLUTE PROFIT RESIDES IN PRIMARY CARE CHANNEL GIVEN A WELL-STRUCTURED PORTFOLIO

Revenue per sales force – 1998
$ Millions

Operating profit margin
Percent
Sales force
PCP/specialty focus

<table>
<thead>
<tr>
<th>Novartis - Ciba/Novartis</th>
<th>SmithKline Beecham¹⁴</th>
<th>Pfizer²⁵</th>
<th>Glaxo Wellcome²⁶</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCP</td>
<td>51</td>
<td>82</td>
<td>83</td>
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</tbody>
</table>

Redacted

<table>
<thead>
<tr>
<th>Operating profit</th>
<th>Operating expense¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,264³</td>
<td>4,312</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2,635²</th>
<th>4,394</th>
<th>3,762</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,156</td>
<td>479</td>
<td>560</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>473</th>
<th>32</th>
<th>441</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Redacted</td>
<td></td>
</tr>
</tbody>
</table>

Absolute profit is significantly higher in PCP channel than in specialty channel.

---

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)
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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
  - Without a strong primary care dimension, Lilly may suboptimize the value it captures from the pipeline
- Lilly should approach the primary care opportunity in 3 areas
LARGER COMPETITORS ARE MIGRATING TOWARD THE PRIMARY CARE CHANNEL WITH DRUGS DRIVEN BY PROFILE IMPROVEMENTS

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"

<table>
<thead>
<tr>
<th>PCP focus</th>
<th>PCP-focused (&gt;20% of sales)</th>
<th>NonPCP-focused (&gt;20% sales)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cardiovascular</td>
<td>Infectious diseases</td>
</tr>
<tr>
<td>Merck</td>
<td>89</td>
<td>✓</td>
</tr>
<tr>
<td>Pfizer</td>
<td>63</td>
<td>✓</td>
</tr>
<tr>
<td>SKB</td>
<td>58</td>
<td>✓</td>
</tr>
<tr>
<td>Warner</td>
<td>56</td>
<td>✓</td>
</tr>
<tr>
<td>Lambert</td>
<td>56</td>
<td>✓</td>
</tr>
<tr>
<td>BMS</td>
<td>53</td>
<td>✓</td>
</tr>
<tr>
<td>Glaxo</td>
<td>43</td>
<td>✓</td>
</tr>
<tr>
<td>Novartis</td>
<td>32</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: Annual reports; Lehman report
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

- 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

Risks of maintaining current position
- Scientific innovation risk
- Market risk – value pools of targeted therapeutic areas large enough to support 1+ blockbuster per year
- Execution risk – successful commercialization of 1+ blockbuster per year

* Geographic risk – significant U.S. focus

Novel mechanism

Profile improvement

Redacted

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

Source: Lehman Brothers; team analysis

56
LILLY MAY CHOOSE TO BALANCE PORTFOLIO TOWARD PRIMARY CARE

Redacted

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

- 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
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- What are benchmarks for the capabilities and processes that ensure
  market-linked product development and assessment?
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- How will we measure progress?

- 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 – EXTRACTING FULL VALUE FROM CURRENT PRODUCTS

<table>
<thead>
<tr>
<th>Issue</th>
<th>Analyses</th>
<th>Activities</th>
<th>End products</th>
<th>Responsibility/ champion</th>
</tr>
</thead>
</table>
| • Extract full value of current products | • Case studies (choose 1 or 2 among the following)  
  - Current product (e.g., Zyprexa)  
  - R&D product  
  - Business development opportunity (e.g., Celebrex) | • Survey and build on internal market research  
• Qualitative and quantitative benchmarking of SOV, DTC, DTP vs. competitive products  
• Profile competitor approaches in terms of  
  - Indications  
  - Profiles  
  - Positioning  
• Analyze potential new indications and their market opportunities  
• Obtain Advisory Panel input on potential new indications | • Confirmation of the opportunity  
• Targeted market research (including initial MD interviews/ focus groups)  
• Segmentation of physicians and patients  
• Tactical recommendations for the next 1-2 years on:  
  - Marketing approaches (DTC, DTP)  
  - Sales force, share of voice  
• Clinical trials implications | • Gerhard Mayr,  
Gino Santini, Burt Van den Burg  
John Lechleiter  
T.A. leader |
# POTENTIAL ACTIONS TO EXPLOIT PCP POTENTIAL FOR ZYPREXA

<table>
<thead>
<tr>
<th>Areas</th>
<th>Current actions being taken</th>
<th>Additional ideas</th>
</tr>
</thead>
</table>
| Clinical profile | • Schizophrenia and related psychoses for Europe  
• Remarkably safe (no abuse potential, no constipation, no increased risk of falling) and well-tolerated/agreeable (no cardiovascular side effects)  
• Developing indications for bipolar disease  
• Working towards a dementia label | • What could be other more primary care focused indications or uses of Zyprexa (e.g., behavioral disorders in the elderly, migraine)? |
| Positioning      | • Positioning Zyprexa for schizophrenia, bipolar disorder, and elderly dementia             | • What outcomes-related trials could improve Zyprexa's positioning (e.g., reducing caregiver burden, avoiding need for nursing home care)?  
• How might Zyprexa improve its differentiation from its competitors (e.g., far fewer CV side effects than Risperdal)? |
| Marketing        | • DTP  
• Developing market-specific understanding of patient flows in Europe                     | • How can Lilly improve physician segmentation (e.g., geriatricians, physicians who work in nursing homes)?  
• 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)? |
| Sales force      | • Developing LTC sales force  | • What additional resources may be required (e.g., to target local and corporate medical directors of nursing homes)?  
• How might an increased retail sales force focus on Zyprexa sales? |

Source: Zyprexa Product Team; Lilly interviews; team analysis
FAST FORWARD – KEY QUESTIONS FOR 7-YEAR PLAN

- 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 existing portfolio?
  - What business development opportunities fit with our strategy?

- 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?

- 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 – ENSURING MARKET-LINKED PRODUCT DEVELOPMENT/ASSESSMENT

<table>
<thead>
<tr>
<th>Issue</th>
<th>Analyses</th>
<th>Activities</th>
<th>End products</th>
<th>Responsibility/ champion</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ensure market-linked product development/ assessment (e.g., Infectious Disease joint effort between LRL and Product Teams)</td>
<td>• Beginning at the conclusion of lead optimization/ candidate selection, describe Lilly’s current processes. • Capabilities • Infrastructure • Develop descriptive performance review framework in order to assess quality, quantity, timing, and nature of market-driven input into Lilly decision-making processes. • Benchmark Lilly approach vs. competitors utilizing common descriptive performance framework. • Conduct business development diagnostic. • Understand incentives used to reinforce behavior.</td>
<td>• Internal interviews • High-level external interviews • Interview current/potential partners about Lilly development process.</td>
<td>• Assessment of Lilly’s processes, capabilities infrastructure through common descriptive performance framework. • Organizational implications including changes required in processes, People capabilities, experiences, background, tenure, Incentives, measures, Responsibilities.</td>
<td>• John Lechleiter • Bryce Carmine</td>
</tr>
</tbody>
</table>
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
# PROGRAM TEAM

## Issue area

### Marketing background/experience/tenure

<table>
<thead>
<tr>
<th>Average</th>
<th>Good</th>
<th>Excellent</th>
</tr>
</thead>
</table>
| **GLOBAL MARKETING**
- New product planning
  - Tenure in industry
  - Experience in therapeutic area
  - Business experience
  - Background
  - Length of time in position
  - Resources dedicated 18 months prior to product decision
  - Resources dedicated 6 months prior to product decision
- Market research
  - Contribution
  - <25% market researcher
  - 50% market researcher
  - 100% market researcher
| <2 years
  - 1 business plan development
  - Limited line exposure
  - Marketing
  - <12 months
  - Associate (25%)
  - Associate (100%)
  - <25% junior person
  - Dedicated to 4 or more products
  - Same from 1-2 affiliates
  - 2-3 people across R&D pipeline
| 2-9 years
  - Major initiative in therapeutic area
  - Marketing
  - 12-36 months
  - Associate (50%)
  - Manager (50%) plus Associate (100%)
  - 25-50% of seasoned marketing person (not necessarily in therapeutic area)
  - Dedicated to 2-3 projects
  - Same from 1-2 affiliates
  - 1-2 people across R&D pipeline
| >10 years
  - Product marketing for major brand in therapeutic area
  - 2-3 years in line position (e.g., sales and marketing in affiliate)
  - M.D. and marketing
  - For life of product
  - Associate (100%)
  - Director (25%) Manager (50%), and Associate (100%)
### PROGRAM TEAM (CONTINUED)

**Issue area**

**Marketing input from affiliates**

<table>
<thead>
<tr>
<th>GLOBAL MARKETING</th>
<th>Average</th>
<th>Good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>New product planning</td>
<td>• Positioning developed for U.S. market with some specialist input</td>
<td>• Product positioning developed for U.S. and outside U.S. markets, based on input of specialists and some PCPs</td>
<td>• Multiple positioning for different physician/patient segments in U.S. and outside U.S. markets, leveraging heavy input of both PCPs and specialists</td>
</tr>
<tr>
<td>• Phase 2 trial input</td>
<td>• Designs clinical trials based on molecule’s fit with marketing handles specific to pursued indication</td>
<td>• Designs clinical trials around potential opportunities to enhance package within specified disease state</td>
<td>• Designs clinical trials to maximize value of molecule given its mechanism of action</td>
</tr>
</tbody>
</table>

**Market research**

| • Market segmentation  | • Segments market based on secondary market research, with limited primary research input from marketing teams | • Segments market based on secondary and some physician-focused primary research                         | • Segments market based on robust primary research focused on consumers as well as physicians |
| • Forecasting          | • Uses a variety of frameworks to estimate the value of existing markets with current therapies | • Uses a standardized forecasting model for about 50% of all valuations, occasionally applying best practices in forecasting | • Systematically uses a rigorous, forward-looking model to evaluate all molecules |

**U.S. AFFILIATE**

**Opportunity analysis**

| • Issue identification | • Reinforces and may challenge product team’s identification of issues   | • Contributes potential additional “deal breakers”                                                             | • Rapid identification and testing with market research of potential positive and negative issues |
|                       | • Product positioning                                                  | • Contributes potential “deal breakers”                                                                        | • Contributes marketing handles that are included for Phase 2 clinical trials |

**EUROPEAN, INTERCON AFFILIATES**

| • Product positioning | • Understands program team’s potential product positioning; limited contribution | • Contributes potential “deal breakers”                                                                        | • Contributes marketing handles for European Phase 2 clinical trials |
|                       |                                                                                 |                                                                   | • Develops specific formulation/positioning for Intercon |

**ILLUSTRATIVE**
## PRODUCT TEAM

<table>
<thead>
<tr>
<th>Issue area</th>
<th>Average</th>
<th>Good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>GLOBAL MARKETING</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand management/</td>
<td>&lt;2 years</td>
<td>2-9 years</td>
<td>&gt;10 years</td>
</tr>
<tr>
<td>marketing plans</td>
<td>1 business plan development</td>
<td>Major initiative in therapeutic area</td>
<td>Product marketing for major brand in therapeutic area</td>
</tr>
<tr>
<td>Tenure in industry</td>
<td>Limited line exposure</td>
<td></td>
<td>2-3 years in line position (e.g., sales and marketing in affiliate)</td>
</tr>
<tr>
<td>Experience in therapeutic area</td>
<td></td>
<td></td>
<td>M.D. and marketing</td>
</tr>
<tr>
<td>Business experience</td>
<td></td>
<td></td>
<td>For life of product</td>
</tr>
<tr>
<td>Background</td>
<td>Marketing</td>
<td>Marketing</td>
<td>Specialists and PCPs in U.S. and Europe</td>
</tr>
<tr>
<td>Length of time in position</td>
<td>&lt;12 months</td>
<td>12-36 months</td>
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<tr>
<td>Advisory group</td>
<td>Specialists in the field in U.S.</td>
<td>Specialists in the field in U.S. and Europe</td>
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<tr>
<td><strong>Market research</strong></td>
<td>&lt;25% market researcher</td>
<td>50% market researcher</td>
<td>100% market researcher</td>
</tr>
<tr>
<td><strong>U.S. AFFILIATE</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>MARKETING</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Opportunity analysis</td>
<td>&lt;25% junior person</td>
<td>25-50% of seasoned marketing person (not necessarily in therapeutic area)</td>
<td>50% of seasoned marketing person from therapeutic area</td>
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<tr>
<td>Contribution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dedication/ responsibility</td>
<td>Dedicated to 4 or more products</td>
<td>Dedicated to 2-3 projects</td>
<td>Dedicated to 1 project</td>
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<tr>
<td><strong>EUROPEAN, INTERCON</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFFILIATES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution</td>
<td>Same from 1-2 affiliates</td>
<td>Same from 1-2 affiliates</td>
<td>Same from 2-3 largest affiliates</td>
</tr>
<tr>
<td>Dedication</td>
<td>2-3 people across R&amp;D pipeline</td>
<td>1-2 people across R&amp;D pipeline</td>
<td>2-3 staff per therapeutic area or 1 per product opportunity</td>
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</tbody>
</table>
**PRODUCT TEAM (CONTINUED)**

<table>
<thead>
<tr>
<th>Issue area</th>
<th>Marketing input from affiliates</th>
<th>Average</th>
<th>Good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>GLOBAL MARKETING</td>
<td>Brand management/ marketing plans</td>
<td>• TBD</td>
<td>• TBD</td>
<td>• TBD</td>
</tr>
<tr>
<td></td>
<td>Product positioning</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Phase 3 trial input</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Branding</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>DTC/DTP/PTP</td>
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<tr>
<td>Market research</td>
<td>• TBD</td>
<td>• TBD</td>
<td>• TBD</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Market segmentation</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Competitive intelligence</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. AFFILIATE</td>
<td>• Issue identification</td>
<td>• Reinforces product teams identification of issues and may challenge</td>
<td>• Contributes potential additional “deal breakers”</td>
<td>• Rapid identification and testing with market research of potential positive and negative issues</td>
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<tr>
<td></td>
<td>• Product positioning</td>
<td>• Understands program team’s potential product positioning, limited contribution</td>
<td>• Contributes potential “deal breakers”</td>
<td>• Contributes marketing handles that are included for Phase 3 clinical trials</td>
</tr>
<tr>
<td>EUROPEAN, INTERCON AFFILIATES</td>
<td>• Understands program team’s potential product positioning; limited contribution</td>
<td>• Contributes potential “deal breakers”</td>
<td></td>
<td>• Contributes marketing handles for European Phase 3 clinical trials</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Develops specific formulation/ positioning for Intercon</td>
</tr>
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</table>
FAST FORWARD – KEY QUESTIONS FOR 7-YEAR PLAN

- 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?

- 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?

- 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

<table>
<thead>
<tr>
<th>Issue</th>
<th>Analyses</th>
<th>Activities</th>
<th>End products</th>
<th>Responsibility/ champion</th>
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</thead>
<tbody>
<tr>
<td>• Assess fundamental portfolio strategy</td>
<td>• Assess current portfolio strategy across multiple dimensions</td>
<td>• Detailed internal interviews with LRL</td>
<td>• Description of Lilly portfolio in terms of potential size of market profit pools and scientific feasibility</td>
<td>• Sidney Taurel</td>
</tr>
<tr>
<td></td>
<td>- Size of unmet need/potential market profit pools (including quality of life drugs, value of profile improvements)</td>
<td>• External high-level interviews</td>
<td>• Assessment of potential of portfolio to meet Lilly's objectives</td>
<td>• Gus Watanabe</td>
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<tr>
<td></td>
<td>- Scientific feasibility given Lilly's knowledge of diseases</td>
<td></td>
<td>• Recommendations as to prioritization improvements for discovery, development, and licensing</td>
<td>• John Lechleiter</td>
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<tr>
<td></td>
<td>• Describe competitor portfolio strategies</td>
<td></td>
<td></td>
<td>• Gerhard Mayr</td>
</tr>
<tr>
<td></td>
<td>• Prioritize discovery, development, and licensing efforts in core, exploration, and opportunistic areas</td>
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## NONHOSPITAL MIX BY COUNTRY

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<td>Canada</td>
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<td>74</td>
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<td>Mexico</td>
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<td>n/a</td>
<td>n/a</td>
<td>8</td>
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</tbody>
</table>

* Includes osteopathic medicine, which was 8% in 1999

** Estimate

Source: Pharmaceutical Market World Review, IMS
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."