LINKING STRATEGIC PLANNING TO PORTFOLIO MANAGEMENT

SRI 7th Rx & Biotech Portfolio Management Conference

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Agenda

- Allergan’s Approach to Portfolio Management & Strategic Planning
  - Sydney Edwards, PhD/MBA
  - Director, Project/Portfolio Management, Allergan

- Applying Analytic Tools to Portfolio Management & Strategic Planning
  - Dan Smith, MBA
  - Principal, Enrich Consulting
Allergan’s Approach to Portfolio Management and Strategic Planning
Allergan – Who We Are

- Allergan, Inc., with headquarters in Irvine, California, is a global specialty pharmaceutical company that develops and commercializes innovative products for the eye care, neuromodulator, skin care and other specialty markets

- 2004 Sales - $2.2 Billion; Market Capitalization - $14 Billion

- Best known product: Botulinum toxin type A - Botox®

- R&D Philosophy
  To discover and develop innovative new products to address unmet medical needs in specialty markets:
  1. Strong Internal Discovery
  2. In-licensing to fill pipeline gaps

- Sponsor
  - Steven Johnson, VP Project Management & Portfolio Management
The Allergan Approach is Focused on 5 Critical Success Factors

1. A disciplined process for linking Strategic Planning with Portfolio Management

2. Senior Management support for a multidisciplinary Portfolio Mgmt Group

3. Respected process for data collection, validation and vetting

4. Confront reality - Ask the tough questions that affect the company’s future

5. Dynamic process that supports year-round decision making; not a one-off

Focus the company's resources on the "right" drugs to develop and launch
1. A Disciplined Process for Linking Strategic Planning with R&D Portfolio Mgmt

**Priority Setting**
- Corporate Strategy & Available R&D$

**Portfolio Analysis**

**Portfolio Adjustment**

**Strategic Priority Assignment**

**Tier 1 vs Tier 2 Projects**

**Global Development Plans**
- Priority based OC$ Budgeting
- Departmental Headcount Allocation

**Project Execution**
- Clinical & Non-clinical activities
- Variance Analysis (Milestones, Cost)

**Project Budgets**
- Sales, Cost, Risk Forecasting
- Clinical Plans & Results
- Therapeutic Area Priorities

**Strategic Project Planning**
- Project Benefits, Risk Cost Assessment
2. Senior Management Support

**Senior Management Support**

- Charge the Portfolio Management Group to support
  - Data integrity, fair process
  - Meaningful analyses
  - Recommendations

- Analyses for budget & resource allocation

- Analyses useful to Executive Mgmt

- Linkage with Executive Committee decisions

- Linkage with the Strategic Plan

- Linkage with Business Development

**Portfolio Management Group**

- Head of Portfolio Management

- Core Group + representation from:
  - Marketing
  - Manufacturing
  - R&D (Clinical, Project Management)
  - Finance
  - Business Development

- Respected by the organization

- Free of bias

- Rely on subject matter experts as needed

- Use outside facilitators to minimize bias
3. Respected and Reasonable Process for Data Collection

**R&D Outside Cost & Headcount**

- **July** Memo OC$, FTEs
- **July** Kickoff Meeting with R&D
- **Aug** Final updates of forecasts submitted to PM

**Data Validation**

- **Aug** R&D cost data validation TAHs, PM, Dept mgs (OC$, FTEs for ’05-’07)

**Portfolio Prioritization**

- **Aug** NPV Data Validation TAHs, GM, PM (NPV, POS, COGS)

**Strat Planning**

- **Sept** Budget/Portfolio Review Meeting
- **Nov** Executive Committee approves 2006 R&D Budget

**Sales, PSM**

- **June** Kickoff Meeting with Global Marketing
- **July** Due date for all Sales data submitted to Project Managers
- **Aug** Sales Data Validation Meeting w Strategic Marketing & Therapeutic Heads
Summary vs. Detailed R&D Cost data

Outside Costs

- CRO Costs
- Clinical costs
- Tox Cost
- Milestones

TOTAL OC$

Product Development Cost

- Annual Cost
- Milestone Cost
- Thru Approval Cost

FTE cost

- Clinical FTEs
- Tox FTEs
- Mfg FTEs
- Regulatory FTEs

TOTAL FTE$

X FTE rate
Summary vs. Detailed Sales Forecasts

Market

Population
- Growth Rate
- Epidemiology
- Symptomatic
- Diagnosed

Potential Patients

Drug Treated

Patients on Drug

Product Sales
- Competition
- Share
- Adoption
- Cannibalization

Conversion

NPV and/or IRR

Development Cost
- Promotional Cost
- Cost of Goods
- Capital Expenditures
- Discount Rate

Sales Forecast
- Reimbursement
- Price

Volume Forecast
- Dosing
- Compliance
- Persistence
4. Confront Reality - Ask Tough Questions that Affect the Company's Future

Key questions for the portfolio prioritization meeting:

- Strategic & operational targets

- What are the major gaps:
  - Sales?
  - Budget?
  - Pipeline/molecules?
  - Headcount/resources?
  - Can we Execute against the plan?

- Criteria for resource allocation decisions
  - Available R&D $
  - Long term growth aspirations
  - Investment in existing vs new areas

Key analyses to establish spending priorities across portfolio:

- Number of projects by phase
- % of spend on Innovative products
- % of spend on line extensions
- Order of priority for spending
- OC$ and headcount gaps
- "Bang for the buck" / efficient frontier
- "Must-do" projects vs "nice to dos"
5. Link with Other Planning Processes – Specifically Strategic Planning

- Analyses for R&D budget & headcount allocation
- Analyses useful to Executive Management for decision making
- Link with Executive Committee decisions
- Consistency with the R&D Strategic Plan and Corporate Strat Plan
- Comparison of In-licensing candidates to the established portfolio
The Ultimate Goal is Growth Through Launch of Innovative Drugs

- The Strategic Portfolio Management process
  - Primary objective: For R&D to communicate a clear and credible message for executing development projects to corporate management, employees, customers and the investment community.

![Revenue by Project vs. Target](image)
Applying Analytic Tools to Portfolio Management and Strategic Planning
Enrich Consulting – Who We Are

- Enrich works with clients to implement Strategic Portfolio Management Solutions
  - Enrich Portfolio System (EPS): Web-based, enterprise tool for project valuation and portfolio management

- Client engagements
  - Work closely with clients to develop appropriate process & analytics
  - Customize software installation accordingly

- Practice areas
  - Life Sciences
  - High Tech
Enrich Worked with Allergan to Implement its Strategic Portfolio Management System

At Allergan, the Strategic Portfolio Management System Informs:

- Portfolio Prioritization
- Strategic Planning
- Annual budget process
- In-licensing/Business Development
- Ad-hoc requests from R&D Senior Management

Overview

- Web-based system with permissions-based access
- Single repository for project data with history & audit trail
- Real-time portfolio updating
- Valuation and portfolio analytics customized to fit Allergan's needs
- Flexible analyses can be configured on the fly to support ad-hoc
The Enrich Strategic Portfolio System at Allergan

**Portfolio Analysis:**
- Multiple methods for forecasting project cost and sales
- Full "NPV Sheet" financial analysis for each project
- Linkage with operational systems and Excel for auto data transfer
- Produce classic portfolio reports
- Supports multiple types of portfolio and "what-if" analyses based on a single data set

**Strategic Planning:**
- Single platform that minimizes multiple Excel spreadsheets
- Automatically pulls latest development project information from portfolio analysis
- Layers in early-stage candidates from Research & In-licensing; also layers in corporate overhead
- Compares cross-company forecast for cost, revenue, and launches against targets
Excel – The Most Common "Portfolio Tool"

- Frequently used as a “database”; inputs and outputs are indistinguishable
- Difficult to manage multiple Excel workbooks and roll-up data
- Roll-ups are time-consuming, and last-minute data changes do not easily flow through to supporting reports and analyses
At Allergan, the EPS Collects Data and Values Projects

- Marketing team reps and R&D team reps enter project forecasts
- Consistent valuation methodologies, metrics used across projects
- "Toggles" allow certain fields to be captured differently for different types of projects
**Project Reports Used at Meetings to Review Project Variance and Valuations**

**NPV Sheet**

By default, the NPV (Mean) Sheet is displayed. To view a different scenario, select the NPV view from the pull-down menu below and click the 'Update' button. The NPV is calculated through 10 years post-launch.

**Shortcut:** Choose NPV View [Mean] 

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<td>Gross Profit</td>
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<td>133</td>
<td>195</td>
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<td>318</td>
<td>302.5</td>
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<td>Promotion (3%)</td>
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<td>Selling (3%)</td>
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Portfolio / Strategic Plan Analyses

- Variety of analyses used at portfolio level to inform strategic processes
- Analysis by TA, strategic tier, development stage
Summary
Summary

- Allergan initially focused on creating a disciplined and respected portfolio management process that is used year-round; not just a one-off exercise.

- Once established, has Portfolio Management formed the basis for other strategic processes:
  - Data: Additional data "layered-in" to create R&D Strategic Plan
  - Timing: The two processes have complimentary schedules
  - Continuous improvement: More informed discussions across Commercial and R&D on development and launch of innovative drugs

- Harmonizing Portfolio Management and Strategic Planning has made both more robust and strengthened executive decision-making.

- Next Steps: To align R&D Portfolio Management with day-to-day project execution, Allergan R&D is currently working on an initiative to link the Enrich Portfolio System with its Operational Project/ Financial Management System and processes.