



PDP Access Group

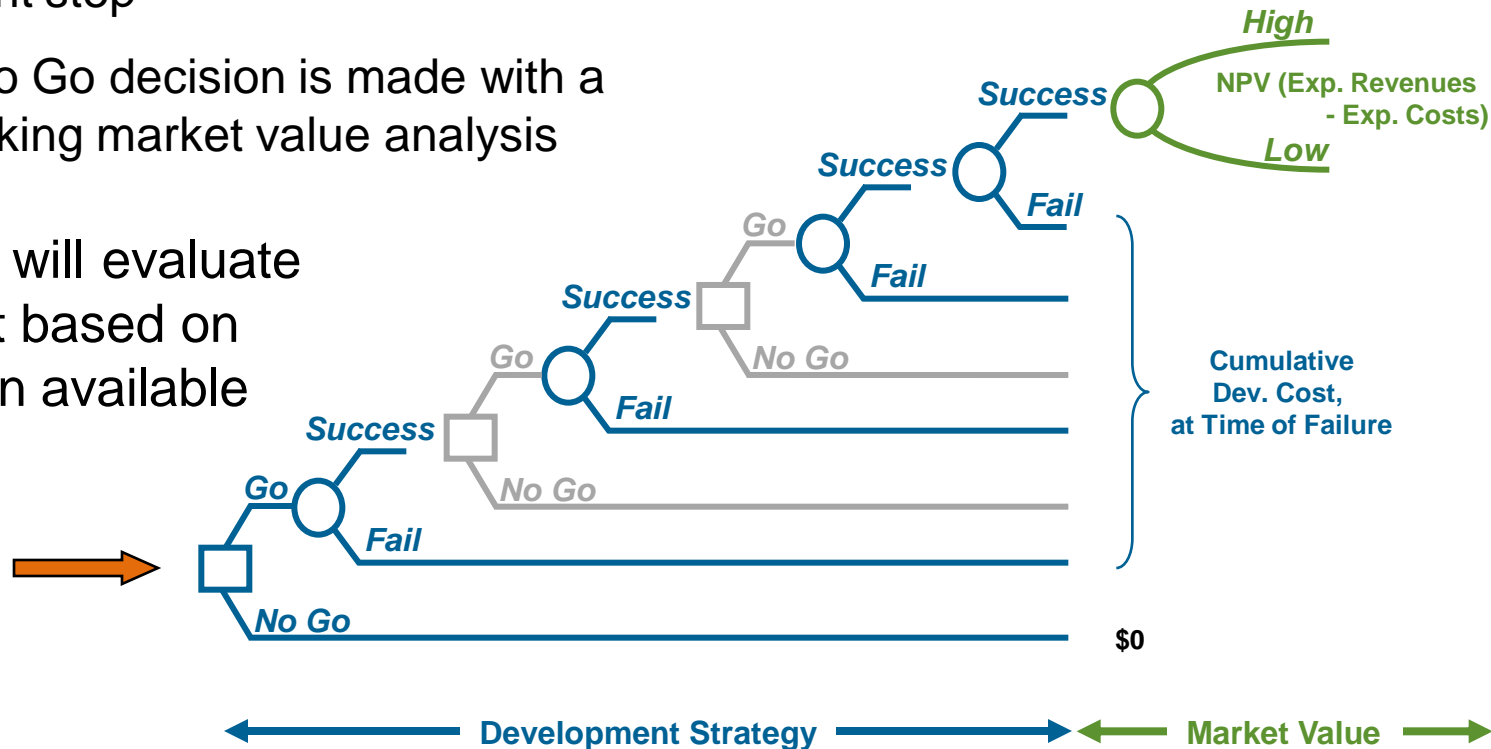
Supplier Pricing Considerations

Applied Strategies
951 Mariners Island Blvd., Suite 400
San Mateo, CA 94404
www.appliedstrategies.com

Sandra Wrobel
CEO & Managing Director
May 21, 2014

Investment & Market Value Relationship

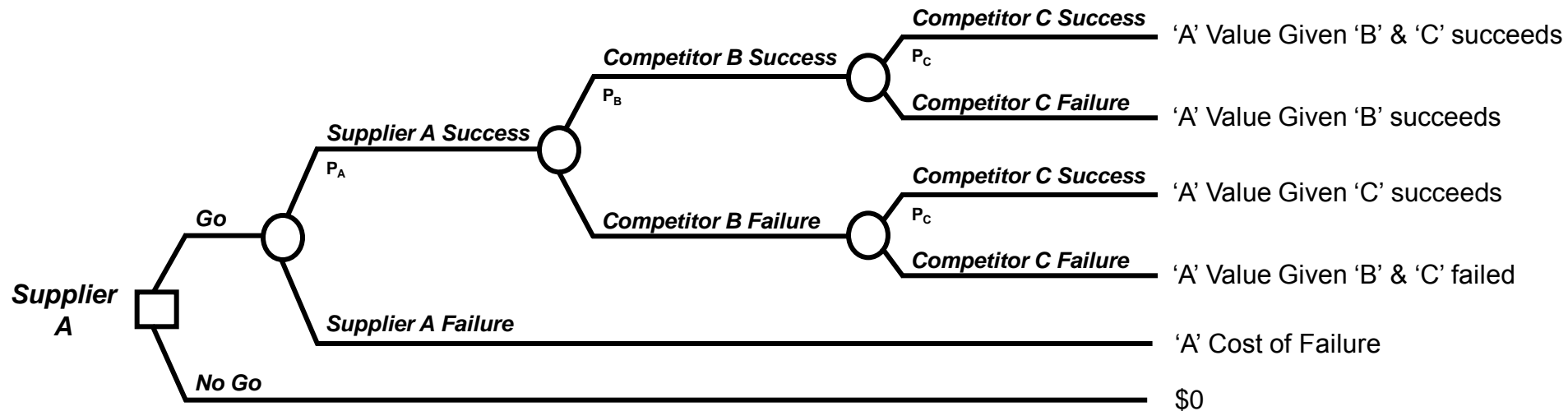
- Suppliers have a well established decision-making process for development investment
 - Suppliers make a Go/No Go decision at each development step
 - Each Go/No Go decision is made with a forward looking market value analysis
- Each supplier will evaluate an investment based on the information available at the time of the current decision



Market Value & Competition Relationship

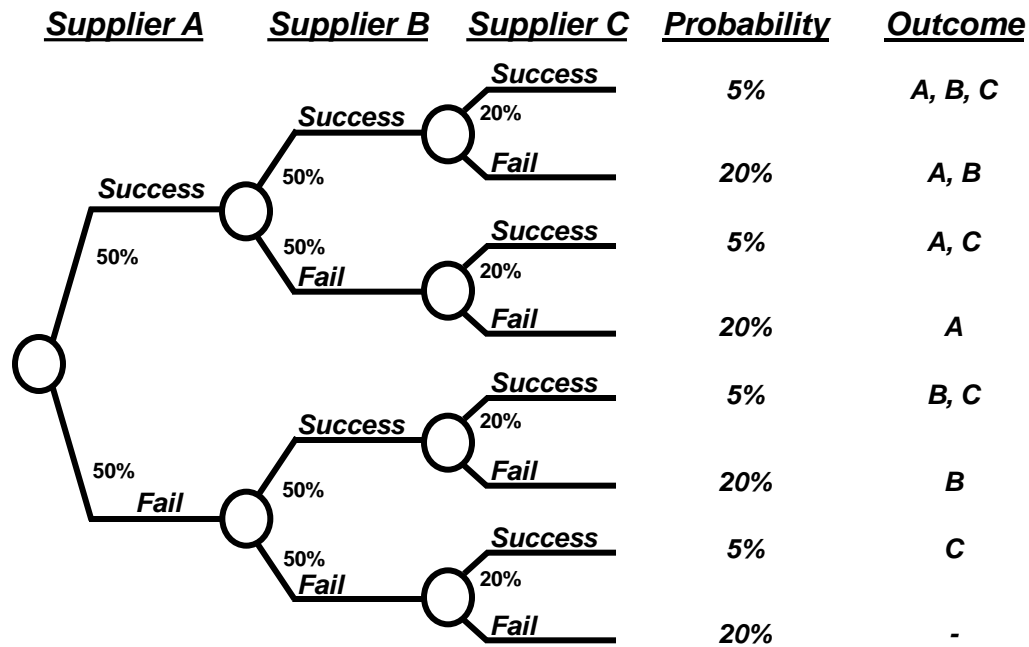
- In addition to their own success or failure, each supplier must account for the possibility of other new suppliers successfully reaching the market, e.g.,

Potential Market Scenarios



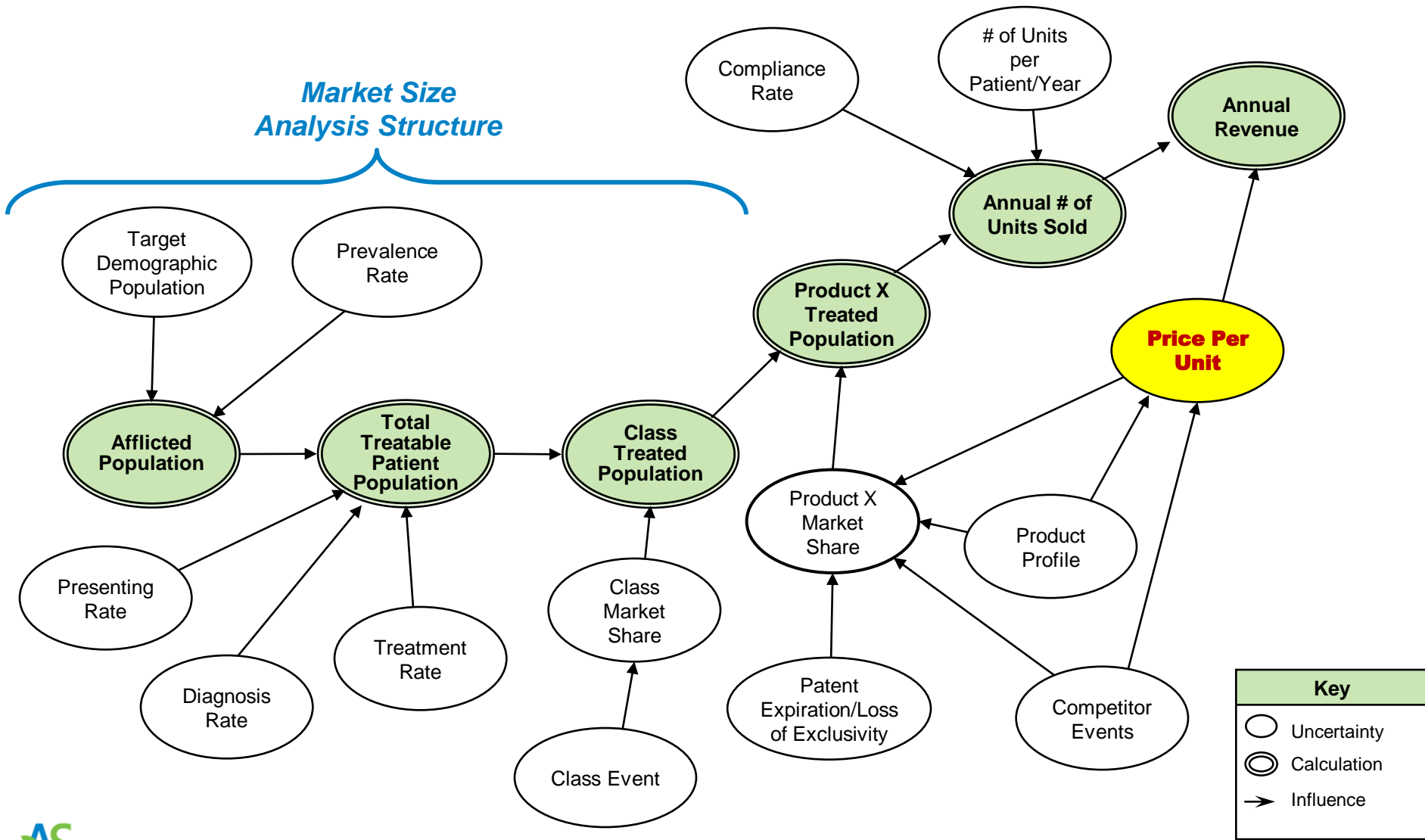
Pricing Strategy

- A supplier must set prices to ensure the product is competitive in the marketplace and able to provide an acceptable return on investment given the uncertainty in potential market outcomes

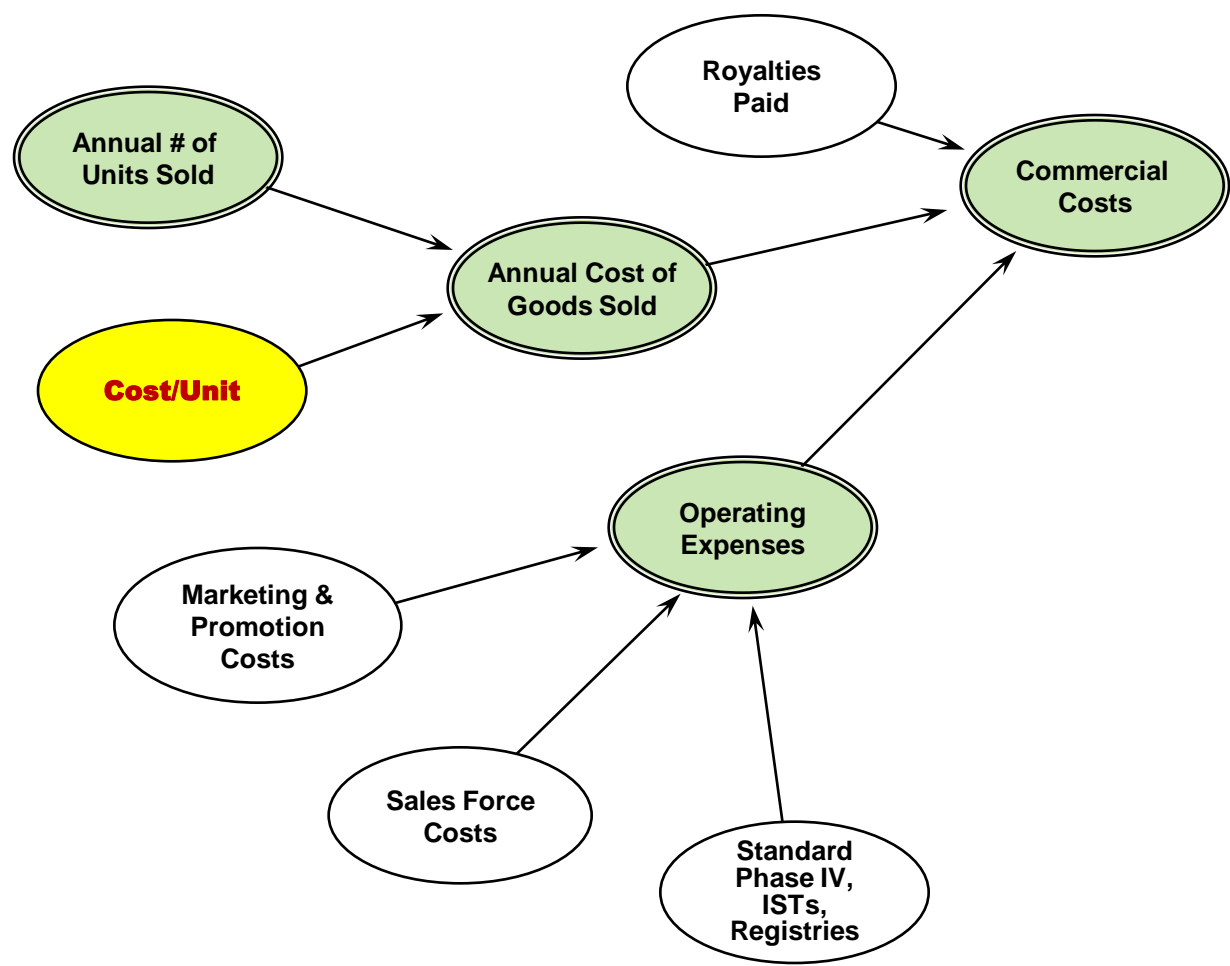


The pricing strategy must take into account the uncertainty associated with multiple potential supplier outcomes

Market Value Structure



Market Cost Structure



Key	
○	Uncertainty
⊖	Calculation
→	Influence

Investment Cash Flow Statement

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Market: US																				
Product Revenue	163	188	215	226	248	388	500	486	490	495	500	505	489	451	412	394	398	402	406	410
ITMN Sales	163	188	215	226	248	388	500	486	490	495	500	505	489	451	412	394	398	402	406	410
Royalties Received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	163	188	215	226	248	388	500	486	490	495	500	505	489	451	412	394	398	402	406	410
COGS	16	18	21	22	24	38	49	47	48	48	49	49	48	44	40	38	39	39	40	40
Royalties Paid	18	21	23	24	27	41	53	51	52	52	53	53	51	48	44	42	42	43	43	43
Total Cost of Sales	34	39	44	46	51	79	101	98	99	100	101	102	99	91	84	80	81	82	83	83
Gross Margin	129	149	171	179	197	309	399	387	391	395	399	403	390	360	328	314	317	321	324	327
Marketing	13	13	13	13	24	29	30	30	30	30	30	28	23	20	18	17	17	17	18	18
Sales Force	12	12	12	12	15	15	16	16	16	16	16	13	7	4	4	4	4	4	4	4
Std Phase IV and ISTs	-	-	-	-	0	5	5	5	5	5	5	1	1	1	1	1	1	1	1	1
Total Marketing Cost	25	25	25	25	40	48	51	51	51	51	51	42	31	25	23	22	22	22	23	23
Commercial Cash Flows	104	124	146	154	158	261	349	337	341	345	348	361	359	335	306	292	295	298	301	304
Change in Working Cap.	-	4	4	2	3	21	17	(2)	1	1	1	1	(2)	(6)	(6)	(3)	1	1	1	1
Net US Commercial Cash Flows	104	120	142	153	154	240	332	339	340	344	348	360	361	341	311	295	295	298	301	304
Market: EU																				
Product Revenue	0	1	2	2	3	3	63	210	258	260	263	265	268	271	274	276	267	247	225	216
ITMN Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Royalties Received	-	-	-	-	-	-	8	41	52	52	53	54	54	55	55	56	54	49	45	42
Total Revenue	-	-	-	-	-	-	8	41	52	52	53	54	54	55	55	56	54	49	45	42
COGS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Royalties Paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cost of Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Margin	-	-	-	-	-	-	8	41	52	52	53	54	54	55	55	56	54	49	45	42
Marketing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales Force	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Std Phase IV and ISTs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Marketing Cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial Cash Flows	-	-	-	-	-	-	8	41	52	52	53	54	54	55	55	56	54	49	45	42
Change in Working Cap.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net EU Commercial Cash Flows	-	-	-	-	-	-	8	41	52	52	53	54	54	55	55	56	54	49	45	42
Worldwide Revenue	163	188	215	226	248	388	509	527	542	548	553	559	543	506	468	450	452	452	451	453
Worldwide Comm. CF.	104	120	142	153	154	240	340	380	392	396	401	414	416	396	367	351	349	347	345	346
Development Cost	7	13	12	13	7	1	0	-	-	-	-	-	-	-	-	-	-	-	-	-
Worldwide Cash Flows	97	108	130	140	147	239	340	380	392	396	401	414	416	396	367	351	349	347	345	346
NPV of Worldwide Cash Flows	1,828																			

Return on Investment Components

- The supplier's return on investment is a function of:

Revenues [(*treated population x market share x price*) + *royalties received*]

Less COGS

Less Royalties Paid

Less Marketing Costs

Less Sales Costs

Less Post-Marketing Study Costs

Less Changes in Working Capital

Less R&D Costs

Project Cash Flow

NPV of Project Cash Flows (i.e., return on investment)

- Therefore, a supplier must recover their return on a significant amount of investment before considering pricing reflective of COGS + % minor return

Pricing Negotiation Considerations

- When negotiating pricing with a supplier, it will be helpful to be aware of whether or not they have:
 - Already recouped their R&D investment
 - Significant cost accounted for enabling potential price reductions
 - Been operating at full plant utilization
 - Increasing capacity to full utilization by serving low income markets can benefit all sales by lowering COGS
 - Received any “push” funding for R&D
 - Reduces need for return on R&D
 - Received any funding for capacity development
 - Reduces need for return on capital investment portion of COGS