

< RESEARCH RECAP >

WHAT'S IN THE PIPELINE?

> STRATEGIC COMMUNICATIONS <

Facing negative publicity and investor wariness, pharmaceutical companies need to communicate how investments in R&D will deliver meaningful future growth.



These are worrisome times for pharmaceutical companies and their investors. There are concerns about looming patent expirations for profitable drugs, a difficult regulatory environment and the possibility of price controls. To address those issues, drugmakers must refocus on research and development.

But not R&D as usual, according to the institutional investors who responded to a recent survey conducted by FTI Consulting. Those investors see the need for R&D models to change to address current challenges, but there's no

consensus on what should be different. That gives companies an opportunity to use their research programs to set themselves apart.

Nearly eight in 10 of the investors polled expect pharmaceutical firms to keep R&D spending at or below current levels — but 70% would prefer that companies step up their search for new drugs. At the same time, investors are scrutinizing the return on investment of specific programs and comparing those results with what corporate capital might have returned if it had been put into nonpharmaceutical investments.



In this environment, manufacturers must be able to demonstrate the effectiveness of their R&D models. For some, that will mean greater transparency about R&D goals — explaining, for example, why their aim is to diversify the product pipeline to reduce risk or, conversely, to narrow their focus to enhance efficiency. Other companies will have to provide greater detail about particular products under development to justify the spending. But whatever the particulars, any successful R&D communications strategy will have to refine its pipeline narrative. A research program that queries investors about their views of

a company's R&D efforts — such as what they think pipeline priorities should be and how they assign an investment value to research initiatives — can help management fine-tune its message.

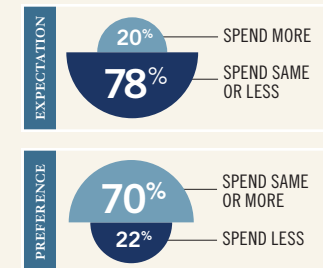
An R&D story that ranges widely across areas of investor concern — the company's drug development milestones; its research partnerships; its licensing agreements and acquisitions; and the key factors it uses to measure success — should present a balanced mix of early-, mid- and late-stage assets to increase investor confidence in the long-term viability of the company's R&D strategy.

A well-informed institutional investor can be a great advocate for a company's R&D story, so it pays to take every opportunity to communicate the pipeline narrative — for example, by holding investor events to showcase the company's scientific vision. A company also might leverage digital tools, such as interactive fact sheets and video content devoted to particular products. ■

MIXED FEELINGS

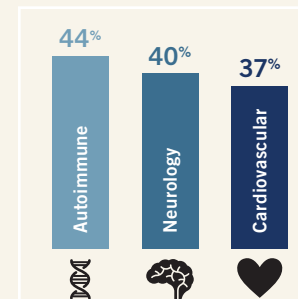
For pharmaceuticals, a recent survey of investor attitudes toward R&D could be useful.

HOW MUCH DO INVESTORS EXPECT/PREFER DRUG COMPANIES TO SPEND ON R&D?

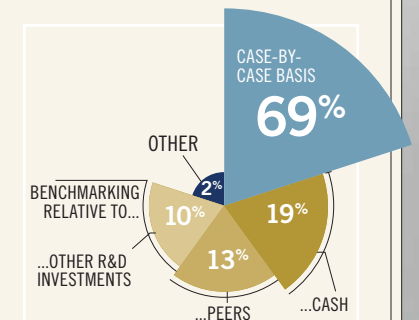


Note: Three percent had no view regarding expectations, and 7% had no view regarding preference. Numbers do not add up to 100% due to rounding.

ATTRACTIVE INVESTMENT OPTIONS



MEASURING RETURN ON R&D



Note: Participants were instructed to select all that apply; as a result, cumulative responses exceed 100%.

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