Establishing a Clinical Trials Finance Facility

Finance and licensing proposal

October 2008

SecurePharma

Overview
Market Assessment

Traditional equity funding model for pharmaceutical R&D under systemic pressure because of:

- Regulatory & social demands to reduce the costs of drugs
- Patent expirations and generic competition
- Increased pressure on budgets requiring augmented efficiency
- Declining R&D productivity
- Restrictive accounting treatment of R&D costs
- Absence of funding alternatives
- Increased volatility in the equity markets

Pharmas actively seeking alternative funding sources

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Overview
Lessons from the Past

Previous unsuccessful attempts to implement alternative funding solutions have highlighted the need for :

- Innovative approach to risk transfer & diversification
- Availability of reliable stream of low-cost development capital
- Significant management involvement & scrutiny by independent parties
- Buy-in from both the R&D and finance functions within the Pharma
- Transparency to and buy-in from shareholders
- Collaboration between different Pharmas to create industry-wide solution and to spread portfolio development risk

An innovative funding solution that addresses these needs

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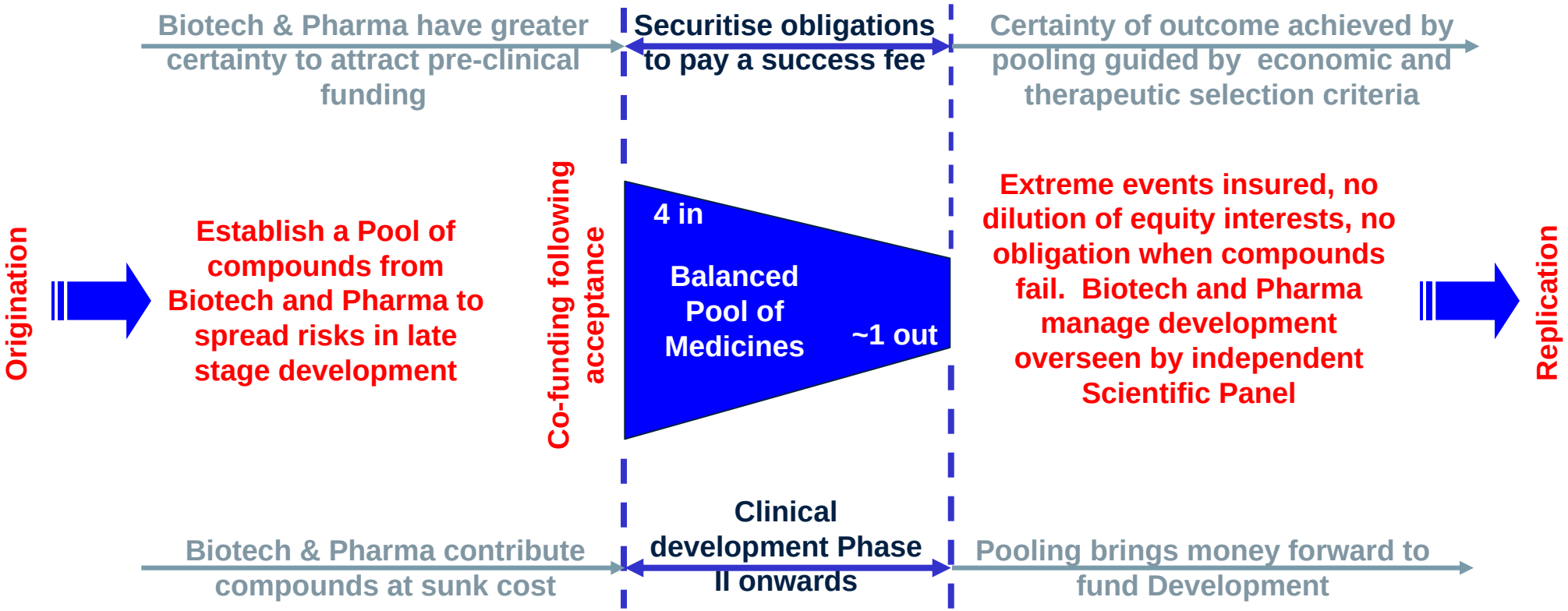
A Structured Finance Facility for Clinical Development



A Reliable Stream of Low-cost Development Capital

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Overview
*Secure*Pharma Solution

Unique funding solution applying structured finance techniques:

- Gives access to new sources of risk capital and liquidity at competitive cost
- Pools compounds from Pharmas (OR Funds) with strong credit ratings into an SPE, independent entity; the pool will support a bond issue that will co-fund development
- Pharmas' R&D costs reduced, as 'spend' is funded by the SPE
- Future revenue streams from successful compounds unaffected
- Pharmas' Intellectual Property is protected

New source of risk capital with diversification achieved through pooling a range of uncorrelated compounds

*Secure*Pharma Solution
Key Features

- Rights to a percentage of revenues from successful compounds transferred to an SPE (independent entity)
- SPE co-funds the clinical development of compounds transferred into the pool
- R&D process executed by Pharma or independent CRO under service contract
- Pharmas' will provide reportage on the progress of development to *Secure*Pharma to transmit to bondholders and rating agencies
- Pharmas' can increases the number of compounds in development

Pharmas manage the development process

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*Secure*Pharma Solution
Structured Funding

- *Secure*Pharma will arrange to finance the clinical trial process via a rated debt issue in the capital markets, applying well established structured finance techniques
- Total amount raised will be the total projected and risk adjusted development cost for the period that compounds are expected to remain in the pool, co-funded by the Pharma
- Bondholders will be paid out from SPE's rights to a percentage of revenue from successful compounds
- Risk of no successes (the equity risk) will be shared with risk capital providers, insurers and bond investors

Use of well established Structured Finance techniques

*Secure*Pharma Solution
Ongoing Management of Compounds

- Clinical trial process management is performed by the Pharmas based on a development schedule agreed at outset with independent Scientific Panel
- Pharmas will commit to the pool compounds that are in clinical development from late Phase I, Phase II onwards
- *Secure*Pharma, through a panel of independent specialists, will select compounds, based on agreed criteria
- Panel will monitor the pool on behalf of the investors, ensuring that pre-agreed cost and time budgets are met
- Once compound is deemed to have 'failed', it will attract no further funding from the SPE

Disciplined development process

*Secure*Pharma Solution
License Payments

- Pharma agrees to make payment of a percentage of revenue to the SPE for each compound that gains approval to market formulated as a success fee.
- The percentage of revenue is formulaic based on a number of factors, including anticipated total cost expended on each compound's development and the cost of 'failed' compounds in the pool
- Success fees provide cash for redemption of bonds and return for other risk capital providers
- Pharma will pay no fee in the unlikely event that none of its compounds succeeds other than the amount of its co-funding

Pharma likely to pay only for successful compounds

Benefits to Pharma OR Fund Managers

- Financial
- Development
- Portfolio management
- Strategic

Benefits across the board

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Benefits to Pharma
Financial

- New source of funding
- Pharma's net R&D expenses reduced for those compounds transferred to the SPE
- Allows more compounds to be developed without increased R&D expenditure, giving "More Shots on Goal"
- SPE takes no share of future revenue streams
- Certainty of funding at outset of development cycle

New long term source of funding at competitive price

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Benefits to Pharma
Financial (cont'd)

- Pharma will only pay a licence fee for successful compounds
- Fees can become payable up to two years after each approval to market, matching cash outflow with revenues
- Licence fees likely to be capitalised and amortised over the appropriate revenue earning period
- No effect on gearing

Immediate potential beneficial impact on P&L

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Benefits to Pharma
Development

- World-class development facilities can expand the number of compounds they take to market
- Development risk is shared across the pool and with risk capital providers
- Increased ability to adjust and manage risk exposure of R&D operation
- Third party input to cost and time budgets can reinforce a disciplined development environment

Strengthens control over R&D process

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Benefits to Pharma
Portfolio management

- Ability to fund part of resource intensive core programs
- Opportunity to change development operations
  - Internal execution of content rich programs
  - Outsourced execution of process rich programs
- Opportunity to use own resources for innovative but less predictable programs – leverage core competencies
- Funding continuity for core programs even in M&A situations
- Avoidance of budget driven stop-go decisions on strategically important programs

Increased portfolio management capability

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Benefits to Pharma
Strategic

- Collaboration with fully-funded strategic partner
- Refocuses on research-driven profile of R&D organization, improving the allocation of internal and outsourced activities
- Outsourcing part of core activities will free up time and resources for new strategic initiatives such as:
  - joint ventures between big Pharmas and small Pharmas
  - in-licensing
  - acquisitions

Benign funding for strategic action

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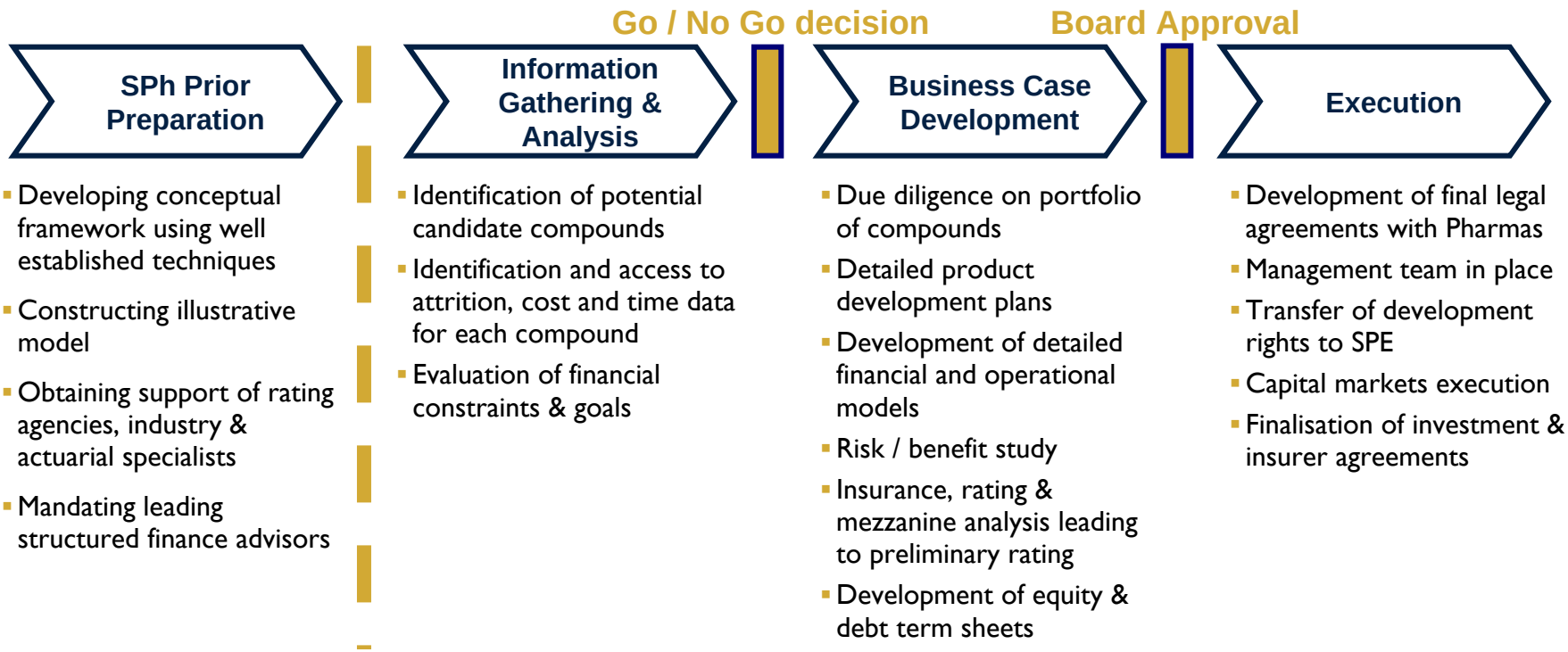
Transaction Process
Consulting Approach



Preparing for a new source of risk funding

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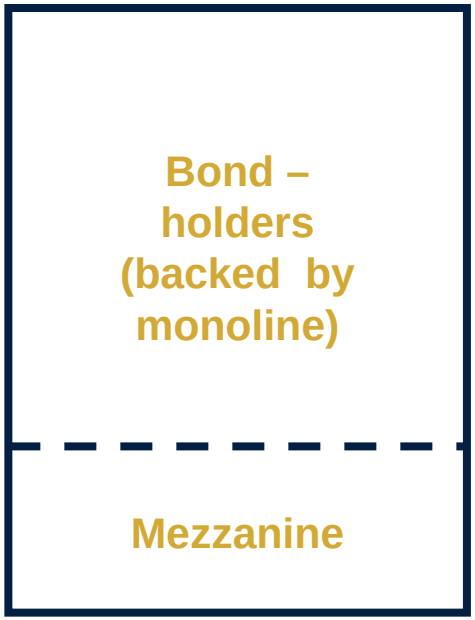
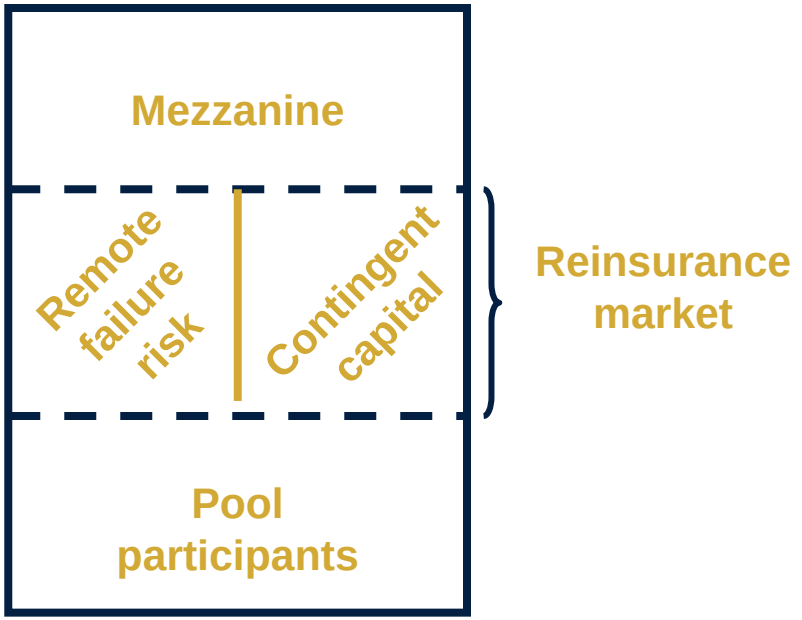
Transaction Process
Funding & Risk Sharing

Funding



‘Equity’ Risk Sharing



Indicative cost of capital 9-12%

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Transaction Process
Risk Factors

Successful outcome is dependent upon ability to

- Aggregate around 24 to 30 suitable target compounds
- Win support of Pharma's financial management as well as R&D and In-Licensing functions
- Attract and agree suitable terms with risk capital providers
- Satisfy rating agencies' requirements
- No adverse reaction from accounting and analyst communities

A Strong Proposition to all Parties

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